

Major Insurers, Not-For-Profits Launch Unique NMTC-based Healthcare Initiative

By Steve Pickle, Impact Community Capital LLC, and Jeff Brenner, NCB Development Corporation

The San Ysidro Health Center, a leading provider of quality healthcare for low-income residents in South San Diego, is the first community-based healthcare provider to receive financing under Healthy California, an innovative new markets tax credit (NMTC)-based program that is making as much as \$50 million in low-interest loans available to community healthcare facilities across California.

Impact Community Capital LLC, a consortium of major insurance companies, and NCB Development Corporation (NCBDC) jointly created Healthy California to offer fixed-rate, low-interest loans to community clinics in qualifying census tracts that would otherwise have difficulty obtaining conventional financing for facility development or expansion.

The initial loan under the program provides the San Ysidro Health Center (SYHC) with \$4 million to acquire a site that, until recently, it has been leasing. The site acquisition will also allow SYHC to consolidate its business operations, freeing up space and resources for further clinic expansion. By offering rates that are substantially lower than those available otherwise, this innovative financing program also saves SYHC critical and scarce dollars.

"This exciting new program will be a major shot in the arm for community-based healthcare providers that deliver essential front-line medical care to California's poor and under-served communities," said Edward Martinez, CEO of SYHC. "There is an urgent need for this kind of financial support to meet the ever-growing demand for services. Our hope is that Healthy California will demonstrate to other institutional investors [that] there is an important role for them to play in financing community-based healthcare and still meet their fiduciary obligations," Martinez said.

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NMTC WATCH

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entities (CDEs) to make qualified low-income community investments within the Gulf Opportunity Zone; to qualify for the credits, CDEs must have as a significant mission the recovery and redevelopment of the Gulf Opportunity Zone. On November 15, Sen. Chuck Grassley, R-Iowa, introduced a modified draft of the "Tax Relief Act of 2005" that would extend the NMTC through 2008. The Joint Committee on Taxation (JCT) on November 14 released a description of Grassley's modification to the bill. The additional proposal would provide \$3.5 billion NMTCs for 2008. The proposal also requires that the Treasury Secretary prescribe regulations to ensure that non-metropolitan counties receive a proportional allocation of qualified equity investments (QEIs). As the *NMTC Monthly Report* went to press, the Senate Finance Committee had approved the legislation and sent it to the Senate floor for consideration.

NMTC BRIEFS

Reps. Gwen Moore, D-Wis., and Harold Rogers, R-Ky. last month introduced H.R. 4303 to amend the Small Business Investment Act of 1958 to reauthorize and expand the New Markets Venture Capital Program. Upon introduction, the measure was referred to the House Committee on Small

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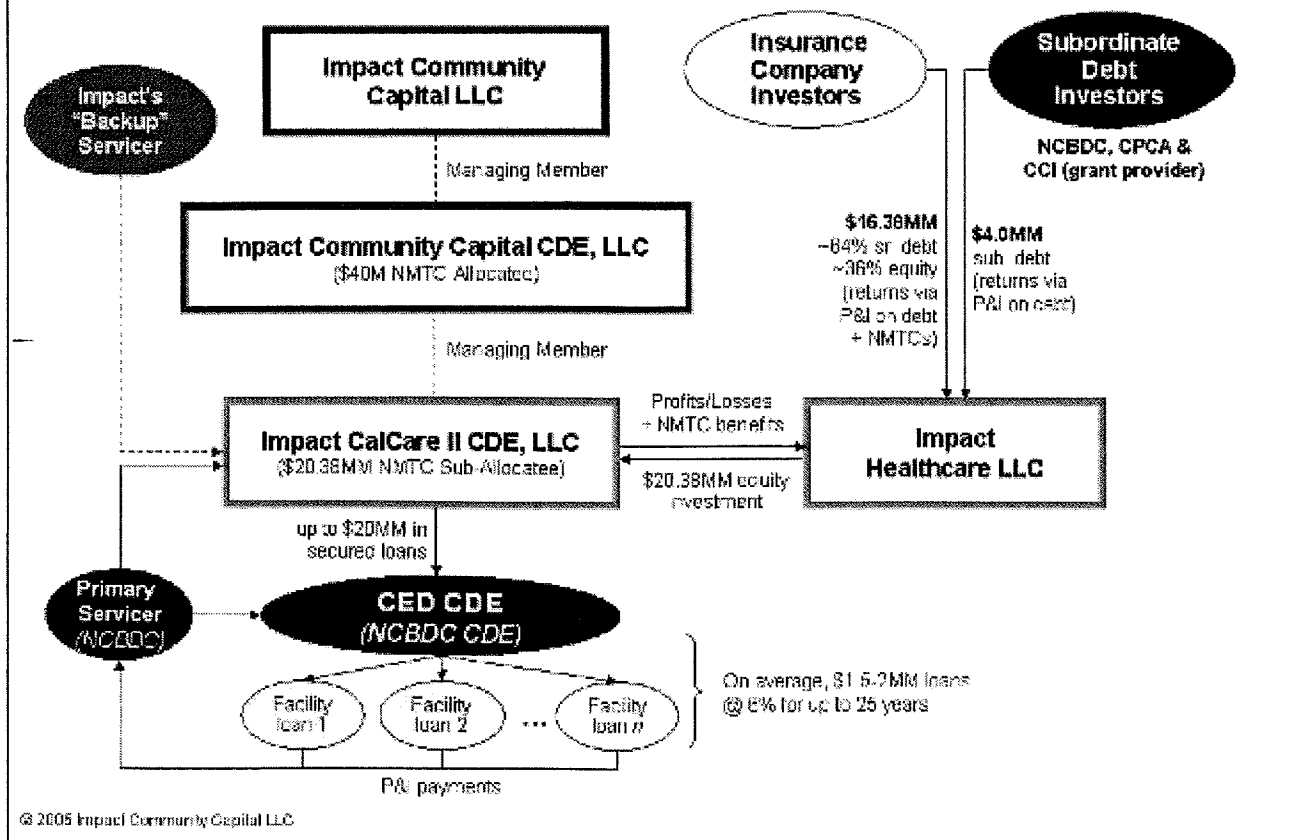
To make Healthy California possible, Impact and NCBDC have partnered with the California Primary Care Association (CPCA), a non-profit association of community clinics and health centers, and the Community Clinics Initiative (CCI), a collaboration between The Tides Family of Organizations and The California Endowment. Impact's investors will provide the bulk of the capital using a leveraged NMTC structure that aggregates debt and equity monies in Impact Healthcare LLC. NCBDC, CPCA and CCI will provide additional subordinate debt to Impact Healthcare LLC. The NMTC qualifying equity investment (QEI) will be made via Impact CalCare II CDE and will pass through NCBDC's Community Economic Development CDE to the underlying clinics, all of which are qualifying active low-income community businesses (QALICBs). NCBDC will perform loan servicing with backup servicing provided by Pacific Life, Impact's rated master servicer. The figure below illustrates the

Healthy California investment structure.

Impact investors in Healthy California are: Allstate Insurance Company, Farmers Insurance Companies, Metropolitan Life Insurance Company, Nationwide Mutual Insurance Companies, Pacific Life Insurance Company, SAFECO Insurance, State Farm Insurance Companies and 21st Century Insurance Company.

Healthy California investors have collectively committed an initial \$20 million to finance between 10 and 15 community healthcare clinics across the state over the next two years. The typical loan amount for the program is expected to be \$1.5 million to \$2 million. These clinics will provide comprehensive primary and preventative healthcare services, be community-based with community boards, and will be accessible to everyone. The program participants are committed to raising an additional \$30 million of capital for

Figure 1. Impact Healthy California Structure



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NMTC BRIEFS

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Business. The text of H.R. 4303 can be found online at www.newmarketscredits.com.

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Advantage Capital Partners announced the re-opening of its 909 Poydras St. office in New Orleans last month. Since evacuating for Hurricane Katrina nearly two months ago, most of the private equity firm's 13 downtown employees have been working from Advantage's St. Louis office, where they were able to maintain communications with Advantage's Louisiana portfolio companies and provide counsel and other assistance as needed. Advantage's small business lending unit, BizCapital, was able to resume serving small business customers after only a short hiatus to its office in Metairie, La. Four employees work in that office. Advantage participates in the New Markets Tax Credit (NMTC) program, which is expected to help finance rebuilding efforts in the Gulf States. In September, the Treasury Department said it will give additional consideration to applicants for the current \$3.5 billion round of authorizations that commit to target their investment activities to counties affected by the hurricane.

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Georgia Department of Community Affairs (DCA) commissioner Mike Beatty joined Ocilla mayor Lamar Royal,

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program expansion once the initial phase is complete.

"The alliance between insurance company institutional investors, national nonprofit community development institutions like NCBDC and community-based health clinics is a first," said Jeff Brenner of NCBDC. "Because community-based health clinics rely on public and foundation funds and operate on thin margins, they have a difficult time accessing conventional financing for new construction and expansion," he said. "Together, the *Healthy California* partners leveraged their capital and skills in a way that may provide a model for the rest of the nation."

Carmela Castellano-Garcia, CEO of CPCA, said Healthy California will put insurance industry investments to work providing needed financial support to primary healthcare clinics and clinic networks that provide affordable medical services to low-income communities and meet the linguistic and cultural needs of California's diverse population.

"Healthy California represents a vital link between institutional investors who want to help California communities and the men and woman in those communities who are delivering basic healthcare to see that communities remain healthy and vibrant," said Castellano-Garcia.

Funding from CCI helped to make up some of the subordinate financing that was a part of the leveraged loan structure. "As grantmakers exclusively to community clinics, it is an exciting opportunity to use our financial resources to expand lending opportunities that will be joined with our direct grants to expand access to care in underserved communities," said Kathy Lim Ko, CCI program director.

Dan Sheehy, president and CEO of Impact Community Capital, said Healthy California is further evidence that insurers who invest in communities through Impact are committed to developing new and innovative ways to put their dollars to work benefiting communities. Sheehy said the program is structured to meet insurer investor financial obligations by making use of the federal New Markets Tax Credit program.◆

Steve Pickle is vice president and managing director of New Initiatives for Impact Community Capital LLC. He oversees Impact's NMTC-based funds for community facilities and has more than 10 years experience in structuring and analyzing tax credit-based investments and in consulting to Fortune 500 companies on innovative management and investment strategies.

Jeff Brenner has 20 years experience in the financial services industry, the last 12 with NCBDC. During this time, he has led NCBDC in the use of credit enhancements to create loan pools, that give borrowers access to long-term fixed-rate capital normally not available to nonprofit organizations. These efforts have generated access to more than \$100 million of new capital for NCBDC's programs and customers.