Financing Opportunities in Rural Communities

A Central Appalachian Webinar Series

Building Community Facilities

September 14, 2010

APPALACHIA FORUMS

FEDERAL RESERVE BANK OF CLEVELAND FOURTH DISTRICT

THE FEDERAL RESERVE BANK OF RICHMOND
RICHMOND ▪ BALTIMORE ▪ CHARLOTTE

FEDERAL RESERVE BANK of ATLANTA

ARC APPALACHIAN REGIONAL COMMISSION

Introductions

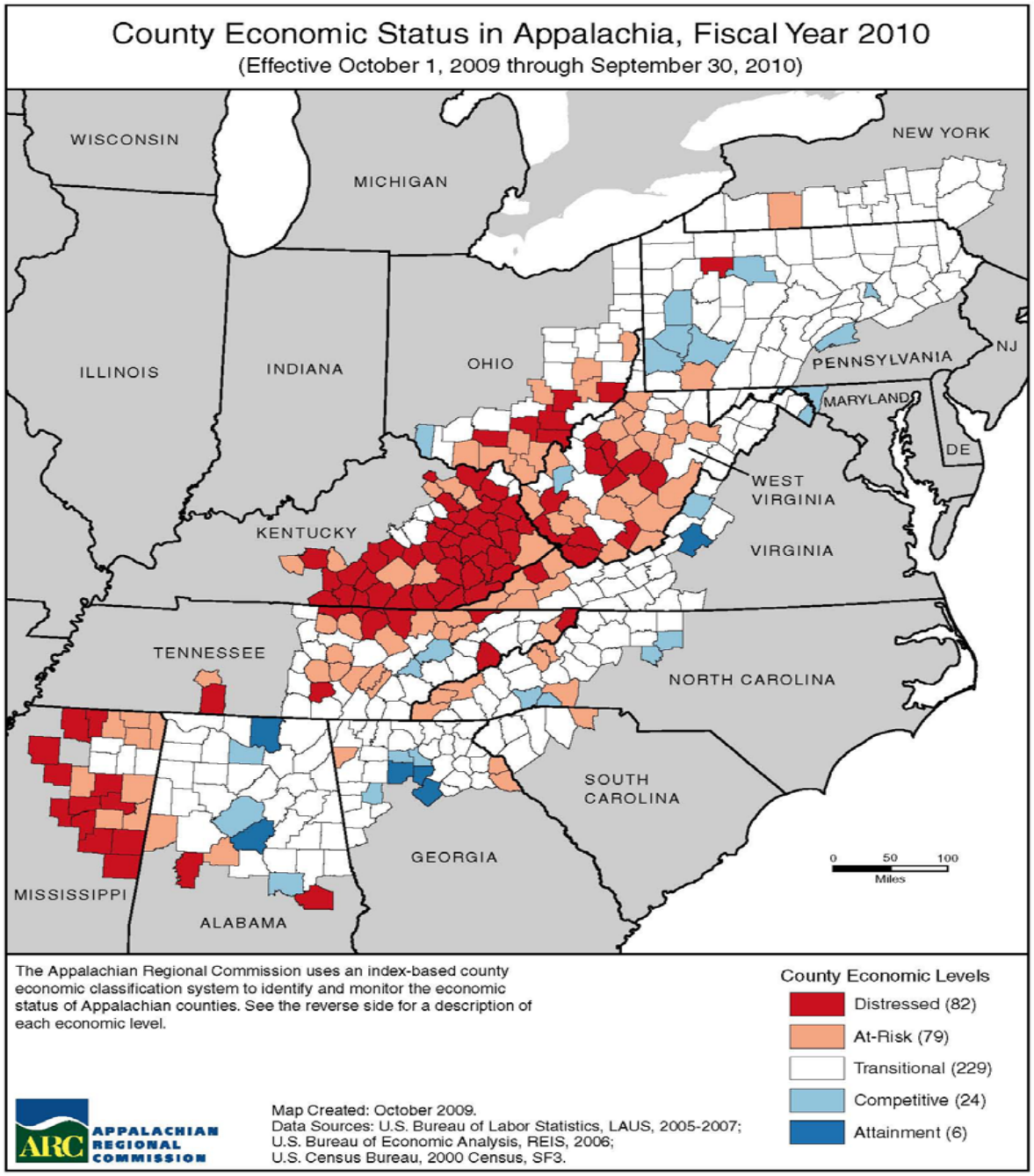
- **Courtney Mailey**, Federal Reserve Bank of Richmond
- **Ray Daffner**, Entrepreneurship Initiative Manager, Appalachia Regional Commission
- **Larry Malone**, Director of Economic Development Financing Strategies, Kauffman & Canoles, LLC
- **Bill Skeen**, Chief Credit Officer, Community Capital Bank of Virginia
- **Craig Kilgore**, Executive Director, Holston Medical Group
- **Jessica LeVeen Farr**, Federal Reserve Bank of Atlanta

Overview

- Overview
- Introductions and Opening Remarks
- J. Bryston Winegar, MD Medical Center
  - Background
  - Deal Structure
  - Project Development
  - After notes
- Preview: Improving Energy Infrastructure
- Wrap-up

Appalachian Regional Commission

ARC's mission is to be a strategic partner and advocate for sustainable community and economic development in Appalachia.



- 13 states
- 420 counties
- 205,000 sq. miles
- 25 million people

Importance of Community Facilities

- *Health Care*
- *Schools*
- *Eldercare and Childcare*
- *Libraries*
- *Arts Facilities*
- *Social Services*
- *Municipal Facilities*
- *Public Safety*

New Market Tax Credit Program

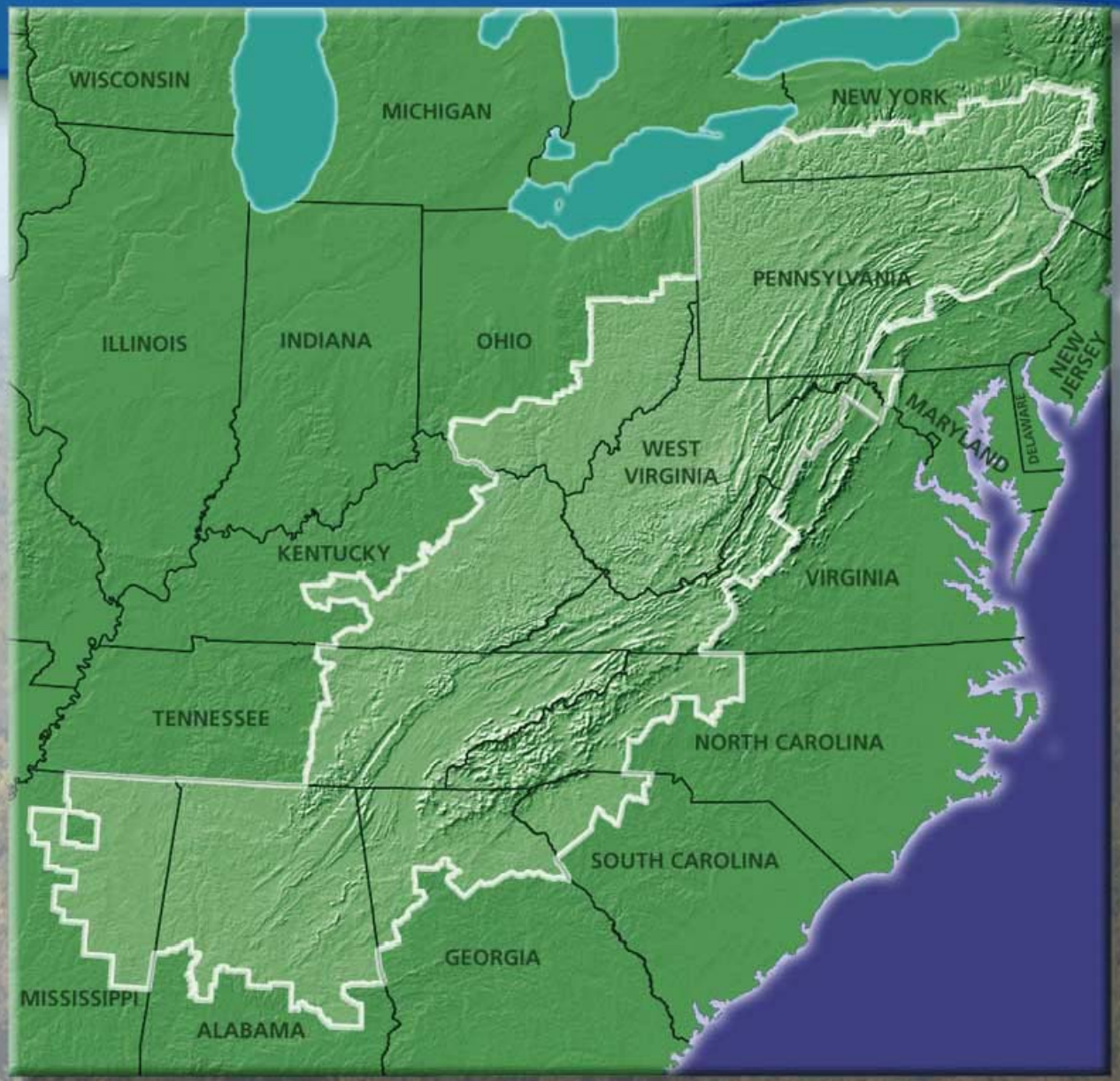
- **$26 Billion in tax credit allocation provided since 2001**
- **Tax Credits of 39% are provided to investors**
- **Investments made in Low Income Communities (LIC)**
- **45% of Appalachia in eligible LICs**
- **Investments have flexible features such as: below market interest rates, extended amortization, lower origination fees, etc.**

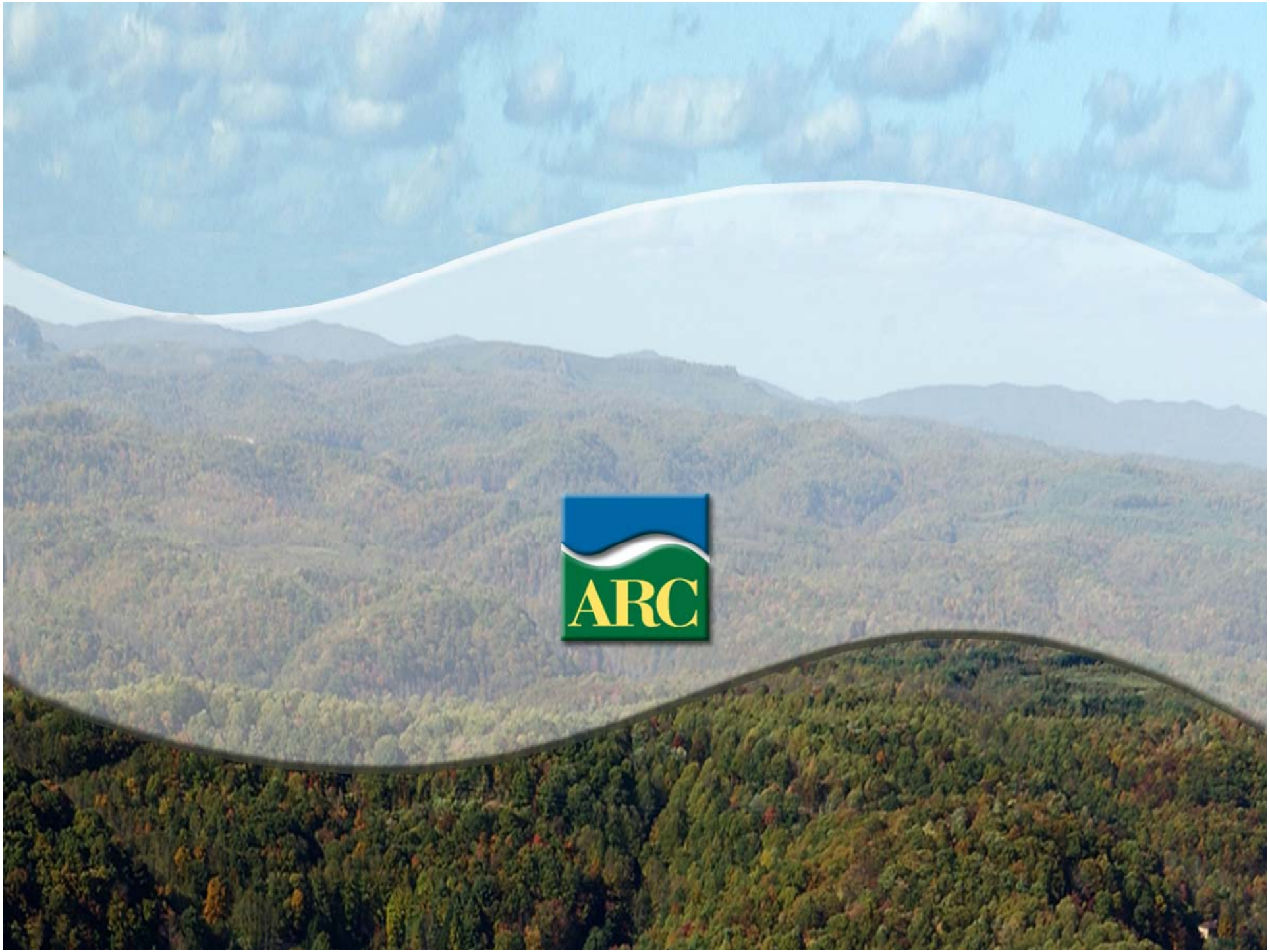
New Markets Tax Credit Program

Through FY 2007, New Markets funds disbursed $9 billion in investments to nearly 2,000 businesses.

- **82% of investments were located in metropolitan areas, which received 91% of total financings by $.**
- **Nearly 350 transactions were to businesses located in non-metropolitan areas.**
- **Average NTMC transaction size $4.5 million.**
- **Average total deal size, from all funding sources, was $18 million.**

Appalachian Region

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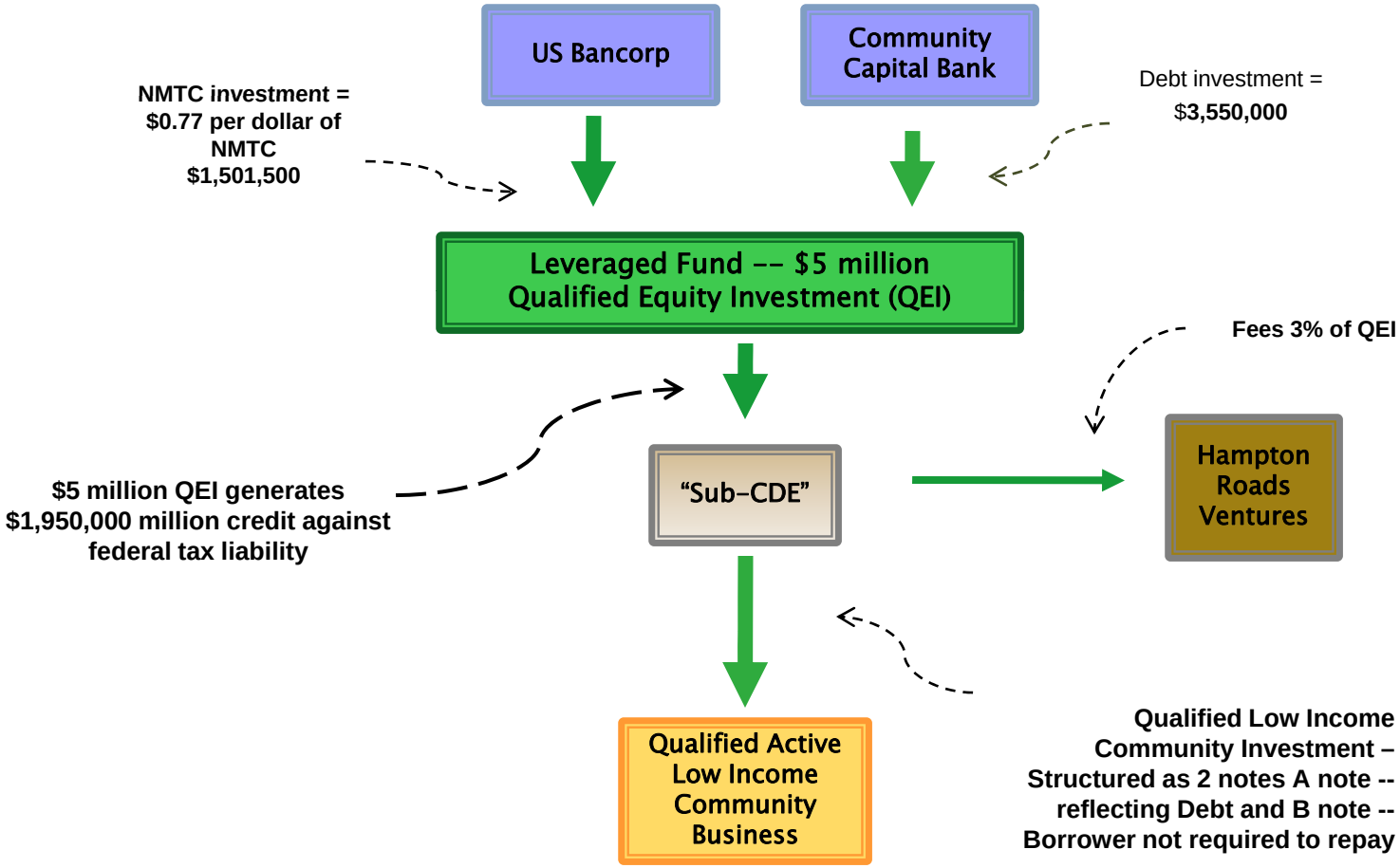
Overview of New Markets Tax Credits and Key Players

Larry Malone, Director of Economic Development and Financing Strategies
Kauffman and Canoles, LLC

New Market Tax Credit

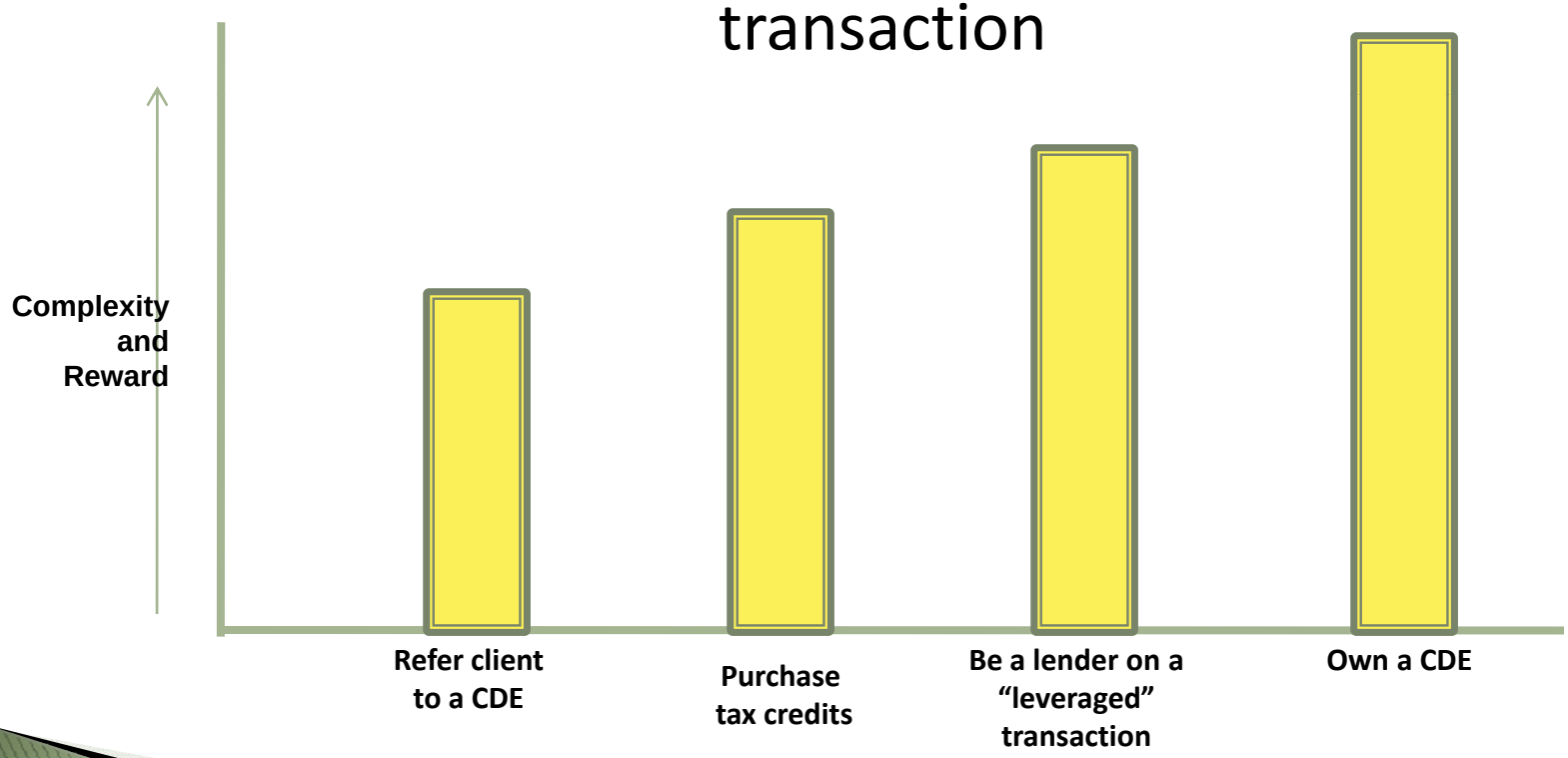
- NMTC program created by the Community Renewal and Tax Relief Act of 2000
  - Title I, subtitle C, section 121
- Create a nationwide network of specialized, privately owned financial corporations.
  - Approx. 2,200 CDEs
  - Approx. 200 organizations have received direct NMTC allocations
- Channel $20 billion of private investment capital to economically distressed areas.

Community Bank as a lender in a "leveraged" transaction



Four possible roles

Four possible roles for a community bank in a NMTC transaction



Financing in Rural Communities

J. Bryston Winegar, MD, Medical Center

Duffield, Virginia

William E. Skeen, Chief Credit Officer
Virginia Community Capital, Inc.
Community Capital Bank of Virginia

VCC Virginia Community Capital *let's do more, together*

HMG HOLSTON MEDICAL GROUP

The Need and Opportunity

"Holston Medical Group recognized the underserved medical needs of this rural community and the opportunity to enhance their delivery of services to individuals and families, who traditionally had to travel some 30 minutes to one hour to receive the level of medical care usually available in more urban settings."

Craig M. Kilgore
Executive Director
Holston Medical Group

VCC Virginia Community Capital let's do more, together

HMG HOLSTON MEDICAL GROUP

The Underwriting and Funding Challenges

- Size of the Financing Need, $5 million.

- Special Use Facility, with limited secondary marketability.

- Scott County is a rural economy with an aging population and a limited economic base.

- As of the 2000 census, the population was 23,403, the median household income was $27,339 and the median family income was $33,163.

- About 13.00% of families and 16.80% of the population were below the poverty line, including 20.10% of those under age 18 and 20.50% of those age 65 or over.

- Both the VCC and the borrower were new to utilizing New Markets Tax Credit Financing, presenting a steep learning curve. The NMTC allocator had to fund the equity investment by December 31, 2008!

- The general economic conditions during 2008 were in a steep decline with banks retrenching, downsizing their commercial real estate portfolios and in no mood to lend, making it difficult to find financing partners.

VCC Virginia Community Capital let's do more, together

The Solutions *(or what made it happen!)*

- **NMTC Guidance from Kaufman and Canoles Consulting.**

- **Utilizing the deep experience of the NMTC allocator, Hampton Roads Ventures, their staff and legal team.**

- **Having a sophisticated developer/borrower in Holston Medical Group…their ability to quickly learn NMTC financing nuisances and respond on a timely basis.**

- **Holston Medical Group's regional expertise as a leading medical services provider and pioneer in rural medical service delivery.**

- **Utilizing OnePartner Investments as a participant for the leveraged loan in lieu of a traditional bank.**

- **The future equity provided by the NMTC structure delivered $1.3 million, softening the underwriting impact of a specialized facility.**

J. Bryston Winegar, MD, Medical Center Project

Duffield, Virginia

Craig Kilgore, Executive Director

Holston Medical Group

Duffield Area Overview

Nearest city with pop. 50,000+:

Johnson City, TN (35.5 miles , pop. 55,469).

Nearest city with pop. 200,000+:

Lexington-Fayette, KY (130.0 miles , pop. 260,512).

Nearest city with pop. 1,000,000+:

Chicago, IL (440.0 miles , pop. 2,896,016).

Hospitals/medical centers near Duffield:

- LEE REGIONAL MEDICAL CENTER (about 14 miles; PENNINGTON GAP, VA)
- WELMONT LONESOME PINE HOSPITAL (about 15 miles; BIG STONE GAP, VA)
- NORTON COMMUNITY HOSPITAL (about 18 miles; NORTON, VA)

Duffield compared to Virginia state average:

- Median household income below state average.
- Median age significantly above state average.
- House age above state average.
- Number of college students below state average.
- Percentage of population with a bachelor's degree or higher significantly below state average.

****Information from City-Data.com**

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Needs Identified

- ✓ Low to moderate income area
- ✓ Severe cases of diabetes and obesity
- ✓ High average age of population
- ✓ Proximity of quality healthcare services available impacts health of the overall community (avg. 35 miles)
  - Poor health outcomes due to patient non-compliance (miss follow up appointments due to travel distance)

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Needs Identified

- ✓ Current facility was in need of updates/renovations

- ✓ The need for additional providers was identified

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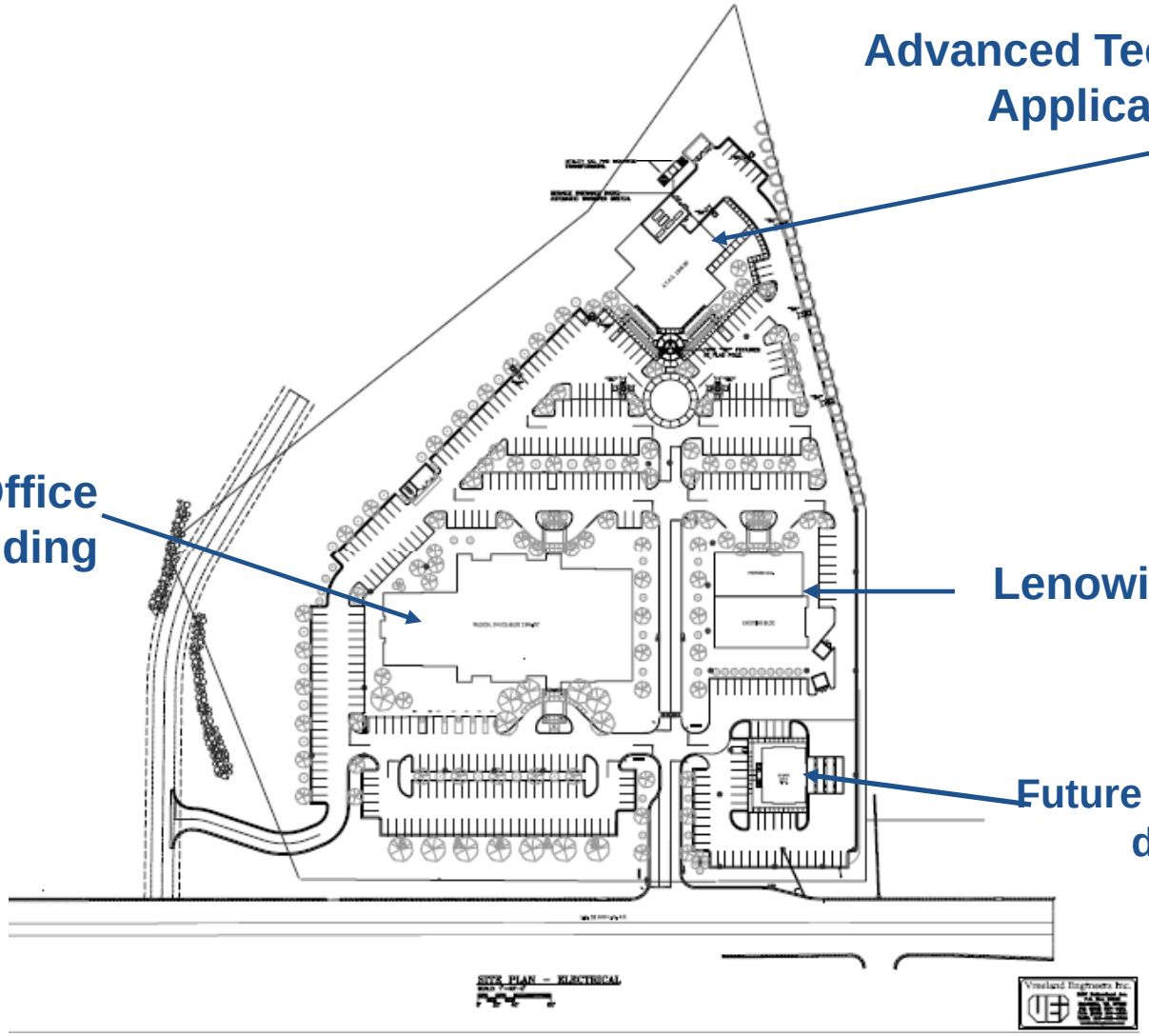
Site Plan



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Overview of the Project

J. Bryston Winegar, M.D., Medical Center

- ✓ Opened August 17, 2009
- ✓ Total investment of approx. $7.9M
- ✓ 33,210 square feet
- ✓ Offering the community access to:
  - Primary Care
  - Obstetrics & Gynecology
  - Rehabilitation & Physical Therapy
  - Health & Wellness Center
- ✓ Continuity of Care thru the use of Electronic Health Records
- ✓ Job creation with average annual salary of $60,000

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J. Bryston Winegar, MD, Medical Center

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NMTC Financing Enabled us to:

- Provide affordable access to quality healthcare services
- Expand on medical services available to the community
  - Access not only to Primary Care but also Specialty Care medical services
  - Access to Physical Therapy and Rehabilitative Services
  - Access to a Wellness Center for improved health and wellness initiatives
- Provide new jobs
  - Opportunity for higher paying full time jobs with benefits

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Wrap-Up

- Thanks to all
- For a copy of this presentation go to: www.richmondfed.org/conferences_and_events/community_development/2010/financing_opps_rural_communities_webinar_bldg_community_facilities_20100914.cfm
- Next Webinar in the Series
  - October 21, 2010 at 10 a.m.
  - Improving Energy Infrastructure: *Financing Energy Improvements and New Energy Entrepreneurs*
  - Register online at www.clevelandfed.org/Community_Development/events/Rural_Community_Webinars

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