20+ years as rural health consultant and investment banker

$1 Billion in total rural health projects

Serving as a USDA Guaranteed Lender
The ‘market’ for rural health infrastructure

Provider types and counts

› 1,800 +/- hospitals
  › Critical Access Hospitals ~ 1,353
  › Sole Community Hospitals ~ 450
  › Rural Emergency Hospitals (new)
› 5,100 +/- primary care clinics
  › Federally Qualified Health Centers ~ 750 (rural only)
  › Rural Health Clinics ~ 4,400

Capital needs

› Hospitals
  › Outpatient and diagnostic space
  › Infection control
  › Fire and life safety
› Primary care clinics
  › Care coordination
  › Population health management
  › Health and wellness
Market Research

Capital is necessary to adapt to industry shifts
Balance investments in technology and space
Shift from inpatient to outpatient care
Shift to value-based payments incentives
Shift to population-based care models

CAH facilities designed and built for 1950s-style healthcare need $7.2 billion in capital
Flex program research from over a decade ago over a decade quantified need for $4.5 billion (2005)
$7.2 billion after adjustment for construction inflation
Equates to $5.3 million per CAH

Capital investments help reverse outmigration of patients to larger, urban centers
Research indicates bypass more likely from privately insured patients
New facilities shown to improve patient retention, especially for outpatient services
Patient-centered medical home

Planning complexity makes securing capital difficult
Small "margin of error" in rural health
Challenges in connecting facility investment to market needs, feasibility, and a committed financing source
Competing high priority needs for leadership
7 Steps for Highly Successful Facility Investments in Rural Health

1. Identify the service area population
2. Identify the service area population
3. Identify health care needs for the population
4. Program spaces to serve the community’s health care needs
5. Validate program space costs fit within conceptual debt capacity
6. Examine financial feasibility and business plan
7. Ensure pledged collateral is in excess of total debt

Financing Commitment Secured
USDA Commitment to Healthcare

- The USDA Community Facilities program is funded with over $3 Billion in loans annually.
  - Funding has grown 10x over the past decade.
- Healthcare loans are the largest category of outstanding CF projects, representing half of the total loan portfolio.

### Community Facilities (CF) Outstanding Loans*

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding Healthcare Commitments</td>
<td>$5,406,105,088</td>
</tr>
<tr>
<td>Total USDA CF Loan Portfolio</td>
<td>$10,899,224,100</td>
</tr>
<tr>
<td>Healthcare Percentage of Total</td>
<td>49.6%</td>
</tr>
</tbody>
</table>

*FY 2019 Data as presented by USDA at the AHA Rural Leadership Conference on 2/2/20.
Cost escalation: Healthcare construction

- 2012-2020: 2.8% growth per year
- 2021-2022: 21% growth
Cost escalation: 30-year treasury rate

2022
58% increase YTD
Takeaways

- Rural healthcare appears to be in a deep capital hole
- And the hole is getting deeper with the combined impact of higher construction costs and higher interest rates
- Getting out of the hole requires a reliable, timely process for placing capital in rural communities given the market realities

Recommendations for the Resource Council

- Lead efforts to update research on rural health infrastructure needs
- Promote best practices in securing financing
  - Rural health leaders
  - Capital sources
  - Policymakers