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DATE: May 12, 1997 Document Title: Loan Guarantee Program
for Facility Projects

TO: Community Health Centers
Migrant Health Centers
Health Care for the Homeless Grantees
Health Services for Residents of Public Housing Grantees
Primary Care Associations
Primary Care Offices

This document describes the BPHC Facility Loan Guarantee Program application process through which Health Centers may obtain a loan guarantee for the financing of medical facility construction, renovation, and modernization.

Historically, Centers have had difficulty in finding affordable lending rates, and have experienced delays in finding any available financing. These factors have resulted in significant increases in the cost of many capital projects.

Therefore, it is our desire through this loan guarantee program to significantly lower these barriers and allow for the provision of low cost capital for the facility projects of Centers.

If you have any questions regarding program eligibility or the application process described in this policy information notice, please contact your project officer at your HRSA Field Office, or Joe Fitzmaurice at BPHC Central Office on 301-594-4313.

/s/

Marilyn H. Gaston, M.D.
Assistant Surgeon General
Director

POLICY INFORMATION NOTICE 97-20

DATE: May 12, 1997

LOAN GUARANTEE PROGRAM FOR HEALTH CENTER FACILITY PROJECTS

FISCAL YEAR 1997

U. S. Department of Health and Human Services
Health Resources and Services Administration
Bureau of Primary Health Care

Facility Loan Guarantee Program PIN
Table of Contents

- I. Introduction
 - II. Eligibility
 - III. Use of Funds
 - IV. Evaluation Criteria for Applicants
 - V. Application Review Process Summary
 - VI. Facility Guarantee Program Parameters and Related Conditions
 - VII. Use of Section 330 Operational Grant Funds
 - VIII. Assistance with Application Preparation
- Attachment A: Application and Pre-application for the BPHC
Facility Loan Guarantee Program

I. Introduction

Congress, through the fiscal year (FY) 1997 Appropriation, has authorized the provision of loan guarantees under part A of title XVI of the Public Health Service Act. These guarantees are made available: "for loans made by non-Federal lenders for the construction, renovation, and modernization of medical facilities owned and operated by health centers...". This program will be limited to providing loan guarantees of no more than 80 percent of the loan principal amount. Related provisions pertaining to this limited risk will be addressed later in the PIN.

The overall goal of this Federal Loan Guarantee Program (LGP) is to assist Health Centers in accessing lower cost capital for medical facility improvements.

The Bureau would like to acknowledge the Memorandum of Understanding that currently exists with the Department of Agriculture's Rural Economic and Community Development program. This relationship has been very beneficial for the Bureau in obtaining low interest loans and loan guarantees for rural CHCs. Since it is not our intent to compete with the programs of RECD, we will continue to encourage eligible rural Centers to pursue the RECD program instead of the Bureau's LGP.

II. Eligibility

Only health centers funded under the Health Centers Consolidation Act of 1996 are eligible to receive loan guarantees through the Program.

III. Use of Funds

As stated in the FY 1997 appropriation, loan guarantees may be extended "for loans made by non-Federal lenders for the construction, renovation, and modernization of medical facilities that are owned and operated" by section 330 health centers.

Eligible costs associated with such projects include land and building purchases, renovation and new construction costs, equipment and "fit out" costs, refinancing existing debt, capitalizable pre-development costs, financing and consultant fees (but not health center staff costs), capitalized interest during construction and limited working capital during a start-up

phase. While land and equipment purchases are eligible costs, they will be allowed only as part of a construction, renovation, or modernization project. Leasehold improvements are ineligible under this Program. Also, these guarantees are not eligible for use with tax-exempt bonds.

IV. Evaluation Criteria for Applicants

Eligible applicants will be evaluated for selection according to how well they meet the following criteria.

1. Community Need and Support

The application should provide sufficient information as to how this project will address the deficiencies in the area's health care delivery system. It should also document which community partners have committed to assist the project, both financially and in-kind.

2. Health Center Viability

The health center's historical and projected financial operations will be evaluated to determine the center's ability to repay the loan, and to operate successfully in the future.

3. Project Viability

A determination will be made as to the adequacy and reasonableness of the project budget, the existence of sufficient equity resources to undertake the project and the existence of an acceptable term sheet from a lender willing to make the loan.

4. Organizational Capacity

The applicant should display a level of managerial competence sufficient to complete a successful project. Appropriate levels of staffing for the organization are also an important issue under this criteria. HRSA will review each center's organizational effectiveness and efficiency using the performance measures from the Prevention, Problem Identification and Resolution (PPIR) process (PIN 96-17), if available, the organization's most recent Primary Care Effectiveness Review, grant reviews, and other program assessment tools as applicable.

5. Effectiveness in Responding to the Health Care Marketplace

The project should respond to the changes in the composition and needs of the health center's patient population, the changing dynamics of its competitive environment, and changes in its funding environment. The center is expected to be actively involved in networking.

First, this means that if, relative to the environment of the health center (e.g., local, State), there is a developing or operational managed care network (i.e., either an entity which negotiates managed care contracts or a health insurance organization) with the intent of ensuring that health centers thrive and underserved patients receive quality care, the health center is expected to be a collaborator in the network. Some communities may not be affected by Medicaid managed care, and in such cases if there is no such network, the health center will not be penalized. Second, this means that the health center is expected to be collaborating with other entities to integrate service delivery.

The applicant's operational history, financial condition, and ongoing viability will be evaluated in this review process. If an applicant feels that the contents of their application have not sufficiently addressed these criteria, they may include supplemental information in up to four additional pages.

V. APPLICATION REVIEW PROCESS SUMMARY

HRSA has defined an application and review process for the Title XVI Health Center Facilities Loan Guarantee Program ("the Program") which includes the following stages:

Stage I - Pre-application submission and review, the purpose of which is to:

- a. assess eligibility;
- b. provide a basis for extending technical assistance (TA) as appropriate;
- c. provide a format to assist health centers in preparing information for potential lenders; and
- d. discourage the premature submission of final applications.

Pre-applications and applications should be mailed to:

BPHC Facilities Loan Guarantee Program
attn: Joe Fitzmaurice, Rm 7-8B1
4350 East-West Highway
Bethesda, Maryland 20814

Please also forward a copy to your project officer at the appropriate HRSA Field Office

The pre-application consists of those sections highlighted in the final application. There is no due date for pre-applications, as they will be accepted and reviewed on an on-going, continuous basis. HRSA strongly recommends that interested Centers participate in the pre-application process.

Pre-applications will be reviewed by HRSA Central and Field Office staff as to the overall readiness and appropriateness of the proposed project. Projects determined to be the most ready and most appropriate for the program will be the highest priority to receive TA/consultation. Centers will be notified of the results of the review either by mail or by telephone.

Stage II - Application submission. See Addendum A for a sample application. Additional application forms may be requested from the respective HRSA Field Office or obtained via the BPHC homepage on the Internet.

As with pre-applications, applications are received and reviewed on a rolling or continuous basis. The intent is for the applicant to submit at the appropriate stage when ready.

For an application to be complete, a center must submit a preliminary proposal of terms and conditions from a Bank or Placement Agent regarding willingness to provide financing if a guarantee is awarded (See later section "Preliminary Proposal of Terms and Conditions). Each center is responsible for negotiating this proposal within the parameters of the Program.

It is anticipated that approximately 45 to 60 days will be needed to process an application prior to a loan review committee meeting. The review committees are expected to meet quarterly, however, the schedule will be adjusted to compensate for the actual demand for the program.

Stage III - Application Review, which is a programmatic and financial feasibility review of the project and organization, will be based on the:

1. pre-application,
2. full application,
3. site visit (if necessary), and
4. additional information as needed and available. (e.g., PPIR performance measures, PCER reports, diagnostic reports, NGA conditions, grant reviews)

The application review will be a two part evaluation. The BPHC, relying heavily on HRSA Field Office staff, will handle the programmatic components of the review. The financial feasibility review will be conducted by either HRSA staff or a private sector

contractor. This review will include, but not be limited to, the following:

1. A credit analysis determining the applicant's credit reputation and current credit capacity.
2. A review of the applicant's past and current financial condition and 5 year feasibility forecast based on well documented programmatic and financial assumptions. This forecast will evaluate the adequacy of projected revenue streams to meet future operating expenses (including debt service).
3. Evaluation of architectural plans and specifications, cost estimates and budgets, and environmental impact. (Centers accepting a loan guarantee from the BPHC will be expected to comply with the HRSA Office of Engineering Services' construction guidelines. These can be obtained by contacting your HRSA Field Office.)
4. Consideration of proposed loan terms.

The BPHC reserves the right not to submit for full review an application which is determined to be incomplete or is judged to represent a project that is inappropriate or not ready. These applications will be re-categorized as pre-applications and reviewed accordingly.

Stage IV - Final applicant consideration by the Loan Guarantee Review Committee. The Committee will meet to consider those applications determined viable by a BPHC loan officer in conjunction with the findings of the reviewers. (The BPHC reserves the right not to submit an application to the Loan Guarantee Committee based on the results of the application review.) The loan officer and financial feasibility reviewer will present their findings to the Committee and respond to questions or additional requests for information as appropriate. The Committee will make recommendations for applicant denial or approval to the BPHC Director, who will be responsible for making the final decisions on loan guarantee commitments.

The first review committee meeting is tentatively scheduled for the end of July 1997 depending on the readiness and appropriateness of the applications received. For this initial loan committee meeting, grantees that feel they are in a position

to apply immediately are encouraged to do so. Those determined to be incomplete or inappropriate will be re-classified as pre-applications and reviewed accordingly.

VI. FACILITY GUARANTEE PROGRAM PARAMETERS AND RELATED CONDITIONS

Limited risk

The extent of the Federal Loan Guarantee Program for facilities has been limited to 80 percent of the loan amount.

In order to induce the lender to take on the balance of risk, certain legal provisions were deemed essential to the success of the program by experts in the financial field. Accordingly, the following provisions, each at the Bureau Director's discretion, will be considered on a case by case basis in a loan guarantee commitment: Lenders will be given control over default situations, including (but not limited to) foreclosure and liquidation proceedings; the lender will be allowed to take either the first lien position or a shared first (parity) position in the collateral; HRSA will allow subordination of any Federal reversionary interest to the lender; and, in securing a loan, a center may use as collateral assets other than those directly financed by the guaranteed loan.

Preliminary Proposal of Terms and Conditions

In order for an application to be complete, a center must submit a preliminary proposal of terms and conditions from a Bank or Placement Agent regarding interest in directly financing the project (loan) or placing the financing (through the taxable bond market or other source). The following information must be included in the preliminary proposal:

- interest rate, and whether the interest rate is fixed or variable
- term of loan
- amortization of loan
- payment schedule and structure (frequency of payment, level payment, level principal, interest only period, etc.)
- loan-to-value requirements (and whether an appraisal will be required)
- equity requirements
- collateral requirements
- covenants
- required environmental studies

The letter should also state that the financing would not be available under similar terms without the guarantee. (HRSA is currently considering contracting directly with national and regional lenders to finance those applications selected for loan guarantees. HRSA may alter the nature of this application requirement should it choose to implement the program under such an arrangement.)

Center Equity Requirement

A lender or Placement Agent's willingness to provide or make available financing for a center's project will be determined in part by its evaluation of the health center's ability to carry the debt on the project and its satisfaction with a center's ability to provide sufficient equity to make the project feasible. Therefore, in large part, specific equity requirements will be determined by the Bank or Placement Agent. However, Title XVI of the Public Health Service Act specifies that the principal amount of a loan guaranteed for a medical facilities project may not exceed 90 percent of the cost of such project unless the project is located in an area determined to be an urban or rural poverty area, in which case the principal amount may cover up to 100 percent of such costs [Part A, sec. 1601 [300q] (a)(2)(b)]. (For the definition of poverty area, see sec. 1624 [300s-3].)

Therefore, equity requirements will be determined on a case by case basis, depending on the applicant's service area and its debt service capacity as determined by the HRSA review process. The question of an asset's eligibility as equity will also be determined on a case by case basis. However, the more tangible an asset, the better chance it has of being accepted as eligible (e.g. cash, land, and buildings). (NOTE: The 10 percent equity requirement should not be confused with the 80 percent limit on the loan guarantee. The equity requirement is based on the total project cost, while the guarantee limit is based on the loan principal.)

Monitoring and Defaults

The BPHC policies relating to servicing and monitoring loans guaranteed under this program, and policies relating to the default process will be addressed in a separate policy document.

The Bureau will require the lender participating in a loan guarantee commitment to notify the Bureau in writing prior to initiating any default action on a delinquent loan under this

Program. The specific time period to be required for this notification will be addressed in the guarantee commitment document.

Origination Fee

The origination fee for this Program is 1 percent of the loan principal. The origination fee consists of the commitment fee and the loan closing fee. Due upon acceptance of the loan guarantee commitment is 50 percent of the origination fee (the commitment fee), with the balance due at loan closing. Once a center is selected to receive a HRSA loan guarantee, HRSA will issue a letter stating the terms and conditions of the loan guarantee commitment. Should the center wish to proceed, an acceptance letter must be signed by both the center's executive director and Board chair and submitted to HRSA along with the commitment fee. The commitment fee is consideration for the issuance of the loan guarantee commitment by HRSA and the significant costs HRSA has incurred and will incur in preparation for the closing of the financing. The commitment fee is non-refundable under any circumstances, whether or not the financing closes.

Legal Fees

The center is responsible for all other relevant fees (e.g., legal, fees from the lending institution). Outside legal fees and costs incurred by or on behalf of HRSA shall be paid by the applicant, including filing and recording fees.

VII. Use of Section 330 Operational Grant Funds

Section 330 grant funds cannot be used for the debt service of a guaranteed loan unless allocated specifically for that purpose as a supplemental grant (e.g., CIP). Additionally, section 330 grant funds cannot be used for health center payment of Program origination fees, or as a portion of the center's required equity contribution.

VIII. Assistance With Application Preparation

During development of applications for Title XVI funding, applicants are encouraged to work closely with the appropriate Field Office and Primary Care Association. Applicants are also encouraged to take advantage of the other relevant technical assistance and training resources of BPHC and others as

applicable and appropriate.