2011 Compilation of Capital Financing Information & Options for Small Rural Hospitals

As part of the Rural Hospital Flexibility Program, MHREF is providing a “Virtual Library” of information sources that may be of help if you are considering facility modernization, expansion or replacement. These information sources, which will be periodically updated, range from a practical guide for considering financing strategies (below) to links to specific funding sources. We hope this will be of help as you investigate and explore the options that may be available to you.

General Information:

1) American Hospital Association/Hospitals in Pursuit of Excellence – A Guide to Financing Strategies for Hospitals (With Special Consideration for Smaller Hospitals)
December 2010.


Given economic and industry trends related to the worldwide financial markets, the nation’s economy, and U.S. health care reform, access to external capital has become more important than ever for hospitals nationwide. Reform and market changes are accelerating hospitals’ need for capital to fund physician employment and integration, information technology, facility modernization and expansion, and other initiatives. Successful health care organizations will need to make substantial capital investments in each of these areas.

A Guide to Financing Strategies for Hospitals - With Special Consideration for Smaller Hospitals explores seven strategies that can help hospitals achieve the best possible capital access:

1. Understand your strategic financial position and maintain credit strength.
2. Identify and evaluate the full range of financing options.
3. Consider sources of local and state support.
4. Consider partnership as a broad strategic capital option.
5. Evaluate and select the best financing strategy.
6. Involve the right professionals.
7. Stay closely connected.

Numerous "take aways," recommended action items, and implications for smaller organizations are highlighted. While the guide provides considerations related specifically to smaller organizations, such as rural hospitals, critical access hospitals, or stand-alone community hospitals, the strategies are applicable to all health care organizations, including multihospital systems, regional systems, and hospitals that are part of a larger system.

This guide was written by Kaufman, Hall & Associates, Inc., and produced in collaboration with the American Hospital Association and AHA Solutions.
2) Rural Assistance Center

The Rural Assistance Center (RAC) is a national rural health and human services information portal. RAC helps rural communities and other rural stakeholders access the full range of available programs, funding, and research that can enable them to provide quality health and human services to rural residents. The following link takes you to the Funding section of raconline.org:
http://www.raconline.org/funding

Federal Resources:

3) Health Resources and Services Administration, Office of Rural Health Policy (U.S. Department of Health and Human Services)

“Critical Access Hospital Replacement Resources”
http://www.hrsa.gov/ruralhealth/resources/criticalaccess/criticalaccessreplacement.html

This link takes you to a “CAH Replacement Process Roadmap” and a “CAH Replacement Process Manual.” There is also a link to a prototype document to assist in the architectural planning, design and construction of a critical access hospital (large 24 MB document)

4) HUD Section 242 Program

The Federal Housing Administration section of HUD helps hospitals access affordable financing for capital projects through a hospital mortgage insurance program. Uses may include new construction, refinancing, and modernization, remodeling, equipment, and expansion.

HUD Website:

Overview of HUD/FHA Section 242 Mortgage Insurance for Critical Access Hospitals

Rural Assistance Center (RAC) – HUD 242 (FHA Section 242) - Helping Hospitals Get Capital Financing
http://www.raconline.org/funding/funding_details.php?funding_id=95

5) USDA Rural Information Center

Capital Assistance Funding – A Rural Health Resource Guide
http://www.nal.usda.gov/ric/ricpubs/capital_assistance.htm

If you are looking for funds to expand or renovate a building, purchase major equipment or construct a new facility this is an excellent guide for rural health providers.
This guide is designed to help hospitals, clinics, community health centers, and other rural health providers learn more about various funding options to meet their capital needs. It is not intended to be comprehensive, but to represent examples of federal grants, direct loans and loan guarantee programs, foundation funding and other resources that may be potential sources of capital support. Funding for capital expenditures usually needs to be secured from a variety of sources, both public and private.


This guide was revised and updated by Patricia LaCaille John, July 2004.
Rural Health in Brief; no. 3 2004. Beltsville, MD. Modified July 2008

6) USDA Rural Development Community Facilities Program

http://www.rurdev.usda.gov/Home.html

The USDA Rural Development programs support such essential public facilities and services as water and sewer systems, housing, health clinics, emergency service facilities and electric and telephone service. The Program promotes economic development by supporting loans to businesses through banks, credit unions and community-managed lending pools. It offers technical assistance and information to help agricultural producers and cooperatives get started and improve the effectiveness of their operations and provides technical assistance to help communities undertake community empowerment programs.

USDA Rural Development has a $115 billion portfolio of loans and will administer $20 billion in loans, loan guarantees and grants through its programs in the current fiscal year. Rural Development achieves its mission by helping rural individuals, communities and businesses obtain the financial and technical assistance needed to address their diverse and unique needs.

The Community Facilities program is used to provide loans, grants, and loan guarantees to rural communities for infrastructure projects. Non-profit organizations, public bodies, and Federally recognized Tribes may apply for funds to help construct, enlarge, extend, or otherwise improve essential community facilities. Examples of projects in Montana include hospitals and nursing homes, emergency vehicles and equipment, child care facilities, senior facilities, student housing, and public buildings including libraries and museums. Eligible sites are rural areas and towns of up to 20,000 in population.

Applicants must have the legal authority to borrow and repay loans, to pledge security for loans, and to construct, operate, and maintain the facilities. They must also be financially sound and able to organize and manage the facility effectively.

Eligible Use of Funds:

- Essential community facility projects must contribute to the orderly development of the rural community, comprise an essential public service, have significant community support and not include private, commercial or business undertakings.
- Loan and grant funds may be used to construct, enlarge, or improve community facilities for health care, public safety, and public services. This can include costs to acquire land needed for
a facility, pay necessary professional fees, and purchase equipment required for its operation. There are no maximum loan limits on either direct or guaranteed loans.

- Refinancing existing debts may be considered an eligible direct or guaranteed loan purpose if the debt being refinanced is a secondary part of the loan, is associated with the project facility, and if the applicant’s creditors are unwilling to extend or modify terms in order for the new loan to be feasible. Refinancing existing debt is not an eligible purpose for the grant program.

Program assistance is provided in many ways, including direct or guaranteed loans, grants, technical assistance, research and educational materials. Visit the following sites for information and/or assistance:


For more information, contact the State USDA Rural Development office or any of the community listed below.

Matthew Jones, State Director  
2229 Boot Hill Court  
Bozeman, MT 59715  
Voice: 406.585.2530  
Fax: 406.585.2565  
[www.rurdev.usda.gov/mt](http://www.rurdev.usda.gov/mt) Click on “Pgm: Community Facilities” for information and applications.

Billings Area Office: 406.657.6297 ext 4  
Missoula Area Office: 406.829.3395 ext 4  
Great Falls Area Office: 406.727.7580 ext 4  
Helena Sub-Area Office: 406.449.5000 ext 4  
Kalispeal Area Office: 406.756.2005

**State Resources:**

7) Montana Capital Assistance Program

The Montana Capital Assistance Program (“MCAP”) assists Critical Access Hospitals (CAH) and other small rural hospitals (<50 beds) with the development of a Capital Improvement Plan (CIP) that validates or justifies their proposed capital expenditures. The Montana Health Research and Education Foundation has partnered with the Montana Facility Finance Authority to provide technical assistance to eligible hospitals via Foundation-approved consultants to aid in the development of CIPs.

MCAP provides technical assistance support in four areas:

- Scope of Services Review:
Assists the facility in determining the gaps and overlaps in their community’s services, evaluating future demand for services and more fully developing pertinent services.

- **Facility Master Plan:**
  A Master Facility Plan is a critical step in the development of a facility’s CIP. It includes an inventory and evaluation of existing conditions of the facility and prioritization of improvement/renovation/new construction needs. MCAP assistance in this area may include developing project timelines, writing RFPs, selecting contractors, obtaining architectural/engineering assessments and reviewing recommended renovation/building proposals prior to the Board making a final decision to proceed with a building project and develop a Capital Financing Plan.

- **Capital Financing Plan:**
  Includes identification of financing options, establishment of a time schedule that integrates funding with the proposed capital expenditures and development of a brief written document that is formally adopted by the governing body.

- **Legal Assistance:**
  As the health care marketplace becomes more complex, hospitals are increasingly becoming involved in health care delivery systems that involve numerous contracts with third parties. Such contracting relationships must be reviewed for potential problems in securing capital financing. In addition, construction projects often involve addressing easements and other land use issues and technical advice may be needed on the advantages and disadvantages of taxable versus tax-exempt financing options. Through MCAP, an eligible facility involved in development of a capital financing proposal may apply for funding to offset needed legal assistance.

**Costs:**
Each eligible facility may apply for up to $15,000 in MCAP funding for assistance with Scope of Service Review, Master Facility Plan, Capital Financing Plan and/or Legal Assistance. Approved applications require a 20% cash match from the facility. Technical assistance will be provided through consultants selected by the facility and approved by the Foundation.

**MCAP Limitation:**
Total MCAP assistance available to an approved facility is limited to a maximum of $15,000 for all project components. Once the maximum award is reach, eligible facilities may not reapply for MCAP funding for five years. Approved technical assistance projects must be completed within 12 months of MCAP award.

**Eligibility:**
Montana hospitals that have been certified as a Critical Access Hospital (CAH) or who are located in a rural area of Montana and have less than 50 licensed hospital beds are eligible to receive MCAP services if they have the commitment of the organization’s governing body, a need for technical assistance and the potential to maintain financial stability and system operations. Prior to submission of a MCAP Site Application, the applicant’s governing body must have formally adopted a resolution to pursue a Capital Improvement Plan (CIP).
Application Process:
If interested in obtaining technical assistance through the Montana Capital Assistance Program, contact Joan Miles, Director of Grants and Program Development, P.O. Box 5119; Helena, MT 59604; Fax: 406-449-6571 to obtain an application. Questions and requests for additional information may be sent to the above address, called to 406-457-8015, or email joan@mtha.org.

8) Montana Facility Finance Authority

Facility Finance Authority website homepage: http://mtfacilityfinance.com/default.mcpx
Mailing address – P.O. Box 200506, Helena, MT 59620
Director, Michelle Barstad mbarstad@mt.gov Phone: 444-0052

The Montana Facility Finance Authority is the primary issuer of municipal bonds for Montana's health care organizations, continuing care residential programs and community service providers. Created in 1983 to provide not-for-profit health care providers with access to low-cost capital, the Authority's statutory powers have been expanded beyond the traditional health care arena to the point where the legislature changed its title from the Montana Health Facility Authority to the present title.

The majority of the Authority's financings have been completed on behalf of acute care hospitals; however, the Authority has also provided capital for nursing homes, assisted living facilities, retirement facilities, outpatient centers, homes for persons with developmental or mental disabilities, chemical dependency centers and pre-release centers. Many other facilities are also eligible for the Authority financing programs.

The Authority was created to assist facilities in containing future costs by offering debt financing or refinancing at low-cost, tax-exempt interest rates for buildings and capital equipment. These cost savings are shared with the consumer in the form of lower facility charges. The Authority's operational costs are funded by fees charged to the borrowers, no public funds or tax monies are appropriated to the Authority.

Five major financing programs are currently offered through the Authority:
- Direct Loan Program
- Equipment Revenue Note Program
- Stand Alone Bond Financing
- Trust Fund Loan Program
- Montana Capital Assistance Program (see previous section)

Specific information on each program can be accessed at www.mtfacilityfinance.com
Private Financing Companies:

Many private companies that assist with capital financing options are available – these examples were selected because they have worked with critical access hospitals in Montana or other rural and frontier areas.

9) Healthcare Capital Resources, Inc.

Capital Assistance Funding for Critical Access Hospitals - HCR guides its clients throughout the entire funding process from analysis and feasibility studies to contractor assistance and more. HCR helps determine which financing is most appropriate and cost effective based on specific needs and requirements. Financing options may include: Private bond funds, USDA loan guarantees, USDA direct governmental loans, Private placement with banks or other lenders, Taxable bonds, Unrated tax-exempt bonds, Multi-tiered financing, HUD Section 242 Mortgage Insurance.

www.hcrco.com   Tel: 816.863.7104   (Home office, Jacksonville, FL)

10) Professional Finance Company

Pine Creek Healthcare Capital, a division of Raymond James and Associates, can be accessed through Professional Finance Company, and is focused exclusively on providing tax-exempt and taxable capital to rural and Critical Access Hospitals as well as other healthcare facilities in Colorado and across America.

www.cha.com/vs2007rural/pfc.htm   Tel: 970.352.5000   (Home office, Greeley, CO)

11) InnoVative Capital

InnoVative Capital is a HUD-licensed FHA mortgage lender, registered municipal advisor and USDA banker customizing financing solutions and delivering low cost capital to rural, community and critical access hospitals across the United States. InnoVative Capital utilizes the FHA 242 Mortgage Insurance Program, tax-exempt and taxable bonds, bank debt, USDA, and equity strategies, as well as providing financial advisory services.

www.innovativecapital.com   Tel: 610.543.2491   (Home office, Springfield, Pennsylvania)

12) Quorum Health Resources

QHR is a leading provider of operational, financial, strategic, and educational services to independent hospitals and health systems.

www.qhr.com   Tel: 866.371.4669   (Home office, Brentwood, TN)