

August 26, 2016

TO: State Directors
Rural Development

ATTN: Community Programs Directors FROM:

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Administrator
Housing and Community Facilities Programs

SUBJECT: Best Practices for Evaluating the Feasibility and Eligibility of Community Facilities
Projects

PURPOSE/INTENDED OUTCOME:

This unnumbered letter is being issued to provide guidance on best practices for conducting a financial feasibility evaluation on Community Facilities (CF) projects under 7 CFR 1942.17(h). The attachments address project-specific information for certain types of essential community facility projects and should be used in conjunction with the best practices information to help determine eligibility. Following this guidance will help provide savings to the applicant in time and money, improve communication between the applicant and Agency, and help ensure viable and sustainable projects.

BEST PRACTICES FOR EVALUATING CF PROJECTS

General Guidance

1. Meet with the applicant early in the application process to explain the information needed in a financial feasibility report or analysis. Explain to the applicant that the information in the report or analysis must be realistic, be supported by creditable sources, have measurable forecasts, and clearly demonstrate project demand. For example, applicants should not base projections on 100% occupancy for any facility.
2. The applicant's ability to cash flow will determine their debt capacity. Your analysis must be realistic and supportable.
3. Determine if the data being used accurately reflects the area to be served. Is the service area being used realistic? Potential clients may not be willing to relocate to other communities, regardless of the distance.
4. Are the figures reliable? Determine what resources were used to support the assumptions.

EXPIRATION DATE:
September 30, 2017

FILING INSTRUCTIONS:
Community/Business Programs

5. What is the mix of payers for the project? Does the project show a significant percentage of private-pay clients in a very low income service area? Does this information correspond with demographic information about the residents of this area?
6. Ensure that financial projections match the term of the loan being proposed and include a debt service reserve for the RD loan according to 7 CFR 1942.17(i).
7. If the applicant previously operated a facility and it ceased operating, find out what caused the facility to stop operating, and what will be different in this proposal to ensure success.

Project Size

Work with the applicant to determine what the "right" size should be based on the need in the service area. If the service area data (for example: MHI, Population, Waiting List, Current Vacancy Rate) does not support the project size being proposed, advise the applicant to revise the proposal. Reducing the project size can make the difference in whether or not the project is successful. This applies to start-up facilities and expansions of existing facilities.

1. If the project is too small, it may not provide enough revenue to support the required level of services.
2. If it is a large project, it may be better to do it in phases to ensure success and avoid the costs of underutilization in construction and/or monthly facility maintenance expense.

Market Saturation

RD staff needs to be aware of other similar projects in the area, including those financed by RD, those financed by other state and federal agencies, and privately financed facilities.

1. Are these facilities operating successfully?
2. Do they have a waiting list?
3. Can the proposed service area support another facility?

Management

Analysis should include an evaluation of the ability of management to successfully operate the facility. The quality of the managerial experience and success of other facilities they have managed should be the basis for this analysis, not simply the number of years of experience. Are the facilities they have managed similar to the proposed project requesting RD financing?

Consideration should also be given to the history of the applicant, whether it is a board of directors or city council. Do they have a history of successfully undertaking projects, hiring appropriate management, taking ownership in project development and operations and being actively engaged in the financial activity of the operating entity?

The applicant or its operator must have experience in developing and managing facilities of like kind and scope.

Market Study

A detailed market study should be included as part of the feasibility evaluation that discusses the location, types of other facilities, the rents charged, services provided and the occupancy at competing facilities within a 35 mile radius of the proposed project. Demographic data along with

its source should be included. RD's experience with projects that rely solely on users and the revenue they generate through fees assessed are highly subject to fluctuations in local economic conditions. RD and the applicant need to understand the local market conditions for these types of projects. A well prepared market study will improve the project's chance of success.

Local Contribution

A minimum local contribution of 20% of the total project cost is recommended for start-up facilities because of the inherent risk of these types of projects. Such contribution may not be needed for municipalities that own and operate these facilities and have the taxing authority to levy assessments for the difference between revenues collected and the cost of operations.

CONCLUSION

Utilizing the best practices in this unnumbered letter and the guidance provided in the attachments will enable RD staff to address potential feasibility and eligibility issues early in the application process. The potential benefits of following this information are: savings to the applicant in time and money, better applicant/Agency communication, and viable loans that will provide ongoing essential community services to rural Americans.

- Attachment A – Transitional and Other Housing
- Attachment B – Assisted Living
- Attachment C – Continuing Care Retirement Communities
- Attachment D – Childcare Centers
- Attachment E – Charter Schools
- Attachment F – Critical Access Hospitals

Transitional Housing

Transitional housing comes in many forms and has many purposes. Transitional housing can be used to address homelessness, drug and alcohol addictions, or provide a safe haven after a crisis such as domestic violence. Transitional housing is temporary housing and often provides supportive services that help transition residents to permanent housing.

Financing the construction, expansion or improvement of a transitional housing facility is an eligible CF loan purpose under 7 CFR 1942.17(d) provided the following criteria are met:

1. Residents receive at least one type of supportive service that is provided by the applicant/owner either directly or under contract.
2. The supportive service offered must assist the resident in living more independently or provide some type of treatment program (i.e. drug detox program). Supportive services include but are not limited to medical rehabilitation or counseling services.
3. Housing is provided for no more than 2 years.
4. A need for the supportive service must be clearly documented and the availability of housing should demonstrate either improved access to care and/or yield higher program success rates.

Transitional housing may also be referred to as Sober Living Homes, Domestic Violence Centers, or Women's Shelters. Regardless of the name, the focus of transitional housing is in the service that is provided. Each project of this nature should be evaluated on a case by case basis to determine eligibility.

Other Housing

Following is a list of other types of stand-alone housing facilities with general guidelines on eligibility for CF financing. This list is not meant to be all inclusive. Each project should be evaluated on its own merits under the applicable regulations including who will be served, what services will be provided and if the facility is essential to the community. Again, the focus of these facilities needs to be the services provided.

Group Homes – These are typically single family residential structures designed or adapted for occupancy by non-elderly handicapped individuals. This type of housing is eligible for CF financing. Group homes must be operated on a not-for-profit basis and must provide some type of rehabilitation or counseling services.

Congregate Housing – Individual living units for adults with common dining and socialization areas. Residents may be head-injured or spinal cord-injured individuals that require some assistance; recovering alcoholics or drug-users; or adults requiring some medical or social assistance. Housekeeping and maintenance services are provided. This type of housing should be carefully assessed for eligibility. If the primary intent of the housing is to provide health care then it is eligible for CF financing.

Residential Care Homes – These are traditional homes that offer care to a small group of residents. Services may include meal preparation, housekeeping, laundry, medication management, social programs, activities, and transportation. Medical personnel and medical services are generally not provided. This type of housing is not eligible for CF financing. See Attachment B for a description of eligible assisted living facilities.

Multi-generational Family Housing – This housing concept incorporates a traditional family home with independent living space attached to house an elderly family member. These types of housing developments are considered independent living and not eligible for CF financing.

Assisted Living Facilities

An assisted living facility is a residential facility designed, operated, and licensed to provide at least the following daily living and health care assistance to its clients and may include other components necessary to enrich the quality of life for its residents:

1. Twenty-four (24) hours a day access to medical personnel (either on-site or on call). A registered nurse or trained staff is required to be on call 24 hours a day in case of emergency, to provide medication management, and supervision of daily living activities, including making rounds and being aware of resident's general whereabouts. The number of personnel should be directly proportional to the census level of the facility. The staff may include administrators, nurses, certified nurse assistants, personal care attendants, health/wellness directors, activity directors, food service managers, marketing staff and maintenance personnel.
2. Assistance with the residents' activities of daily living such as bathing, dressing, taking medications, and eating. The facility may also incorporate a health and exercise program.
3. Providing at least two meals a day in a central dining area. Assisted living facilities typically do not contain full-size kitchens, but often contain a kitchenette equipped with a dormitory-size refrigerator and/or microwave oven. Full kitchens are acceptable if they are allowed under CAH state licensing regulations.
4. Providing transportation to local medical facilities and businesses. This service allows for personal services to be met, with minimal decline in the independence of the resident.
5. The assisted living facility must comply with all state licensure/certification requirements.

Assisted living facilities providing the aforementioned level of assistance are eligible for Agency financing.

Financial projections for start-up assisted living facilities must be based on no more than 90 percent occupancy. This information must be provided to applicants early in the application process to ensure that preparers of feasibility reports use no more than this level of occupancy when developing financial projections for the facility.

Applicants should submit a detailed, written marketing plan. They should also have a method for tracking their marketing efforts during construction.

Continuing Care Retirement Communities

Continuing care retirement communities (CCRC) offer residents a full spectrum of care from independent living apartments or villas to assisted living and long-term care all on one campus. Many also offer short-term rehabilitation services and specialized Alzheimer's care. A CCRC offers residents peace of mind in knowing that whatever level of care they may need in the future, it is available to them. As residents begin to age and need more care and assistance, they move through the level of care the CCRC offers transitioning seamlessly with each change in health condition. Independence, safety and community are emphasized for enhanced quality of life.

Services offered at a CCRC may include dining, transportation, wellness activities, health services and a range of other supportive services.

CCRCs may voluntarily participate in accreditation. One such organization that provides CCRC accreditation is the Commission on Accreditation of Rehabilitation Facilities (CARF). The independent living units in a CCRC are not regulated in contrast to assisted living and long-term care facilities which are regulated.

Within a CCRC, financing the construction, expansion or improvement of the independent living units is an eligible Community Facilities loan purpose provided the following criteria are met:

1. The independent living units are physically located on the same campus as the assisted living and/or long-term care facility.
2. Residents of the independent living units have access to medical personnel from the assisted living or long-term care facility on an as needed basis.
3. Residents of the independent living units have access to the services commonly provided in an assisted living facility, but may pay for these services on an as needed fee basis.
4. Financing the independent living units is done in conjunction with financing another component of the CCRC.

Independent Living Units (with services), Service-Enriched Housing or Catered Living are all examples of housing that is inherently independent living. This type of housing will only be eligible for CF financing if it is located within a CCRC and meets the requirements listed above.

Financial projections for start-up CCRCs must be based on no more than 90 percent occupancy. This information must be provided to applicants early in the application process to ensure that preparers of feasibility reports use no more than this level of occupancy when developing financial projections for the facility.

Applicants should submit a detailed, written marketing plan. They should also have a method for tracking their marketing efforts during construction.

Childcare Facilities

Childcare facilities can be a benefit to a community because they attract and retain young families providing a ripple effect in the local economy. School systems benefit because of the potential for future increased enrollment and reimbursement. Businesses benefit because their employees have access to childcare. Despite these benefits, balancing the cost to operate a facility with affordable fees can be difficult. Because of this, childcare facilities often run on a shoestring budget. A realistic assessment of the service area, in regard to the actual need as well as the ability to pay for these services, is required. This attachment provides some of the best practices for applicants to develop and the Agency to analyze childcare facility proposals.

1. Identify State agencies responsible for licensing requirements and possible funding sources. Find out if your State has money specifically earmarked for childcare.
2. Identify Federal, State and local agencies that provide assistance to families to help pay childcare costs.
3. Applicants should organize a community meeting with community leaders, businesses, health care organizations, the school system, other childcare service providers and potential clients to discuss the proposed facility, evaluate need and gain community support.
4. If possible, applicants should get commitments from community organizations and businesses to provide financial support if there is a shortfall in revenue. Obtaining these commitments at the time of application will make it more likely those commitments will be honored later.
5. Community support may also be obtained from in-kind services such as janitorial, lawn mowing, snow removal and administrative/bookkeeping services. This will also result in reduced operating expenses.
6. The applicant might consider a community-wide fundraising activity and use the proceeds as an applicant contribution reducing overall debt service.
7. All possible funding sources should be considered including foundations and large, local businesses that may benefit from the availability of childcare.
8. Nonprofit organizations should be encouraged to partner with public bodies such as a school district, city, county or hospital.
 - a. The public body can be the borrower and the nonprofit can operate the facility through a management agreement. Long-term financial viability is enhanced when a public body is the borrower.
 - b. An advantage of a public body owner/operator is the ability to provide employment benefits (health insurance & retirement) resulting in staff retention.
9. Nonprofit board members should include a majority representation from public bodies including schools, city/county government, hospital, and economic development organizations. Additional board members should include parents, the operating entity and other interested individuals.
10. Assess the experience and qualifications of the management staff. In addition to early child care experience, staff should include a person with a financial background to monitor cash flow and budgeting.
11. Applicants should hire an architect with experience in designing child care facilities to ensure the design and square footage meets state licensing and staffing requirements to maximize project cash flow.
12. Location is a key factor. Assess the convenience and accessibility of the facility. Is it in route to major employers?
13. Applicants should seek support from businesses, whose employees will likely benefit from the childcare services, to guarantee a certain number of slots. The number of occupied slots

- needed to cash flow must be determined. If the census drops below the number needed to cash flow, the business would need to pay for slots not utilized up to the number of slots guaranteed.
14. Childcare facilities that offer preschool or nursery programs tend to be more sustainable. Because some states offer these programs free, the applicant should be aware of all other providers in the market area and how those competing services may negatively impact enrollment.

Applicants should submit a detailed, written marketing plan. They should also have a method for tracking their marketing efforts.

Charter Schools

A charter school is an independently run public school that is granted greater flexibility in its operations, but has greater accountability for performance. The "charter" establishing each school is a performance contract detailing the school's mission, program, students served, performance goals, and methods of assessment. In considering financing for charter schools, special consideration should be given to a few areas that differentiate charter schools from typical public schools that are financed under the Community Facilities program.

1. Financing – While looking at the financial projections for charter schools you may want to consider the source of the operating funds. Is it from private industry, state, or local government? What does the future look like for that funding source?
2. Charter Terms – What are the terms of the charter? What are the conditions for renewal? What is the history of charter school renewal in the state? If state funded, is there any known legislation that would negatively impact the future of charter schools and the reimbursements they receive?
3. Enrollment – Just like a traditional school, we want to consider the source of the enrollment. Also, we want to consider if the area will be able to sustain an enrollment throughout the duration of the loan. We want to make sure that the enrollment of the proposed school will not adversely affect surrounding schools. Keep in mind that we are not in the business of creating competition in rural areas, rather we are supposed to fill a void that is in the community. Can the enrollment be sustained when you consider the demographics in the community? Is the population increasing?
4. Board of Directors – Is the board well run? How often do they meet? How do they assist the school? Are there any educators on the board?
5. Marketing - Do they have an effective marketing plan? How do they monitor the plan? How do they measure success? How has the school adjusted to enrollment decreases?

Critical Access Hospitals

Critical Access Hospitals (CAH's) face a set of challenges disparate from non-CAH hospitals, so the development of financial indicators specific to their environment is critical in performance assessment. Because these hospitals tend to have a higher risk of financial insolvency, assessing their financial performance is key to ensuring their long term financial viability.

Please read the unnumbered letter under the subject heading "Guidance for Feasibility Analysis of Health Care Facilities." This unnumbered letter provides guidance and information to assist in the financial and technical evaluations of proposals submitted by Health Care Facilities for Community Programs financing and the principles apply to all Health Care Facilities.

CAH's with a Necessary Provider Designation

Prior to January 1, 2006, States had the authority to waive the CAH location relative to other facilities requirement (i.e., that a CAH be more than a 35-mile drive from other hospitals or CAHs) by designating a facility as a necessary provider CAH. Section 405(h)(2)(B) of the Medicare Prescription Drug, Improvement, and Modernization Act (MMA) of 2003 amended section 1820 of the Social Security Act to eliminate this State authority. As of January 1, 2006, States are no longer permitted to designate a facility as a necessary provider CAH. Existing necessary provider CAHs were grandfathered under the MMA. A CAH that has a necessary provider designation from the State that was in effect prior to January 1, 2006, and relocates after January 1, 2006, may retain their necessary provider designation if the relocated facility meets the three criteria shown below. The CAH in its new location must:

1. Serve at least 75 percent of the same service area that it served prior to relocation;
2. Provide at least 75 percent of the same services that it provided prior to relocation; and
3. Be staffed by 75 percent of the same staff (including medical staff, contracted staff and employees) that were on staff at the original location.

Prior to any relocation of a CAH, the CAH must send a letter of intent to the State Survey Agency (SA) and the Center for Medicare/Medicaid Services (CMS) Regional Office (RO). The CAH should send the letter in the early planning stage of its relocation and prior to spending or obligating significant funds and resources. The letter should state that the CAH plans to relocate and must attest that it will continue to be essentially the same provider, serving the same community, but at a new location. CMS will evaluate the letter of attestation and documentation provided by the CAH. CMS will advise the CAH of the results of its preliminary evaluation.

The final determination will not occur until after the CAH relocates. Once the location is completed, the CAH must write the RO attesting that it remains essentially the same provider serving the same community in its new location and identify any information provided in its earlier attestation that does not remain the same. Once the CAH has forwarded all required documentation to CMS, a determination will be made and the CAH will be notified in a letter as to whether the CAH will retain the same provider agreement and retain its necessary provider designation.

The letter from CMS indicating the CAH will retain the same provider agreement and its necessary provider designation should be included as a requirement in the Conditional Commitment for Guarantee for Community Programs Guaranteed Loans and the Letter of

Conditions for Community Facilities Direct Loans and Grants.

These above conditions along with other items related to status and location of Critical Access Hospitals can be found in Title 42: Public Health, Part 485 – Conditions of Participation: Specialized Providers, Subpart F, §485.610.