Reply to
Attn. of: CACFP-573

April 1, 1999

Subject: Community Facilities Loans

To: STATE AGENCY DIRECTORS -
(Child Nutrition Programs)
Colorado DPHE, Iowa, Kansas,
Missouri DH, Montana DPHSS,
Nebraska ED, North Dakota, South
Dakota, Utah and Wyoming ED

The Rural Housing Service (RHS) of USDA Rural Development is striving to ensure that community facilities such as hospitals, clinics, and adult and child care centers are available to all rural Americans. The RHS plays a significant role in rural development by financing these facilities through the Community Facilities Loan Program.

Attached is a packet that provides more information on this Program. One of the attachments is a list of contacts at Rural Development, RHS in your States who can answer any specific questions you may have about the Program.

If you need additional general information, you may contact our staff at (303) 844-0359.

MARY C. NIELSEN, Chief
Child/Adult Care and Summer Food Program
Child Nutrition Programs

Attachments
<table>
<thead>
<tr>
<th>STATE/DIRECTOR</th>
<th>PHONE</th>
<th>FAX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colorado - Ruth Rodriguez</td>
<td>303-236-2801 x 101</td>
<td>303-236-2854</td>
</tr>
<tr>
<td>Iowa - Ellen Huntoon</td>
<td>515-284-4663</td>
<td>515-284-4859</td>
</tr>
<tr>
<td>Kansas - William Kirk</td>
<td>785-271-2701</td>
<td>785-271-2708</td>
</tr>
<tr>
<td>Missouri - William Shay</td>
<td>573-876-0976</td>
<td>573-876-0977</td>
</tr>
<tr>
<td>Montana - Anthony Preite</td>
<td>406-585-2580</td>
<td>406-585-2565</td>
</tr>
<tr>
<td>Nebraska - James Otto</td>
<td>402-437-5551</td>
<td>402-437-5408</td>
</tr>
<tr>
<td>N. Dakota - Charles Mertens</td>
<td>701-250-4781</td>
<td>701-250-4670</td>
</tr>
<tr>
<td>S. Dakota - Dallas Tonsager</td>
<td>605-352-1100</td>
<td>605-352-1146</td>
</tr>
<tr>
<td>Utah - James Harvey</td>
<td>801-524-4320</td>
<td>801-524-4406</td>
</tr>
</tbody>
</table>

November 1998
Community Facilities Loans

Community facilities — such as health care clinics, police and fire stations, schools and child care centers — are essential to the quality of life in any rural community. Through its Community Facilities Loan program, the Rural Housing Service (RHS) of USDA Rural Development is striving to ensure that such facilities are readily available to all rural Americans. The commitment of USDA to this effort is at the core of its mission and its promise to help build stronger, more vibrant rural communities across the nation.

RHS can make and guarantee loans to develop essential community facilities in rural areas and towns of up to 50,000 in population. RHS can guarantee loans made and serviced by lenders such as banks, savings and loans, mortgage companies which are part of bank holding companies, banks of the Farm Credit System, or insurance companies regulated by the National Association of Insurance Commissioners. RHS may guarantee up to 90 percent of any loss of interest or principal on the loan. Normally, guarantees will not exceed 80 percent. RHS can also make direct loans to applicants who are unable to obtain commercial credit.

How May Funds Be Used?

Loan 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. Examples of essential community facilities include:

- Health Care
  Clinics, ambulatory care centers, hospitals, rehabilitation centers, and nursing homes.

- Telecommunications
  Medical and educational telecommunication links.

- Public Safety
  Communications centers, police and fire stations, fire trucks, rescue vehicles, and jails.

- Public Services
  Adult and child care centers, city halls, courthouses, airports, garages, off-street parking facilities, sidewalks, street improvements, college classrooms and dormitories, libraries, museums, schools, fairgrounds, and animal shelters.

Who May Apply?

Loans and guarantees are available to public entities such as municipalities, counties, and special-purpose districts, as well as to nonprofit corporations and tribal governments.

In addition, 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.

Repayment of the loan must be based on tax assessments, revenues, fees, or other sources of money sufficient for operation and maintenance, reserves, and debt retirement.

What Are the Terms?

The maximum term for all loans is 40 years. However, the repayment period is limited to the useful life of the facility or any statutory limitation on the applicant's borrowing authority.

What Is the Interest Rate?

Interest rates for direct loans are based on current market yields for municipal obligations, although loans for facilities impacting prime or unique farmland may require a slightly higher rate. Certain other direct loans may qualify for a lower interest rate, depending upon the median household income of the residents of the community to be served. The interest rates for guaranteed loans may be fixed or variable and are determined by the lender and borrower, subject to RHS review and approval.
What Security Is Required?

Bonds or notes pledging taxes, assessments, or revenues will be accepted as security if they meet statutory requirements. Where State laws permit, a mortgage may be taken on real and personal property. Tax-exempt notes or bonds may be issued to secure direct loans, but cannot be used for guaranteed loans.

How Are Applications Made?

Applications are handled by USDA Rural Development field offices. Rural Development staff will be glad to discuss a community’s needs and the services available from RHS and other agencies within the U.S. Department of Agriculture. Field staff can provide application materials and current program information, and assist in the preparation of an application.

Rural Development field office locations are generally listed in local telephone directories under the heading “U.S. Government, Department of Agriculture.”

Interested applicants and lenders may also contact the RHS National Office at the following address:

U.S. Department of Agriculture
Rural Housing Service
Community Programs Division
1400 Independence Avenue, SW.
Washington, D.C. 20250-0700
Telephone: (202) 720-1490
Fax: (202) 690-0471

The U.S. Department of Agriculture prohibits discrimination in its programs on the basis of race, color, national origin, sex, religion, age, disability, political beliefs and marital or familial status. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information should contact the USDA Office of Communications at (202) 720-2791. To file a complaint, write: Secretary of Agriculture, U.S. Department of Agriculture, Washington, D.C. 20250, or call 1-800-245-6430 or (202) 720-1127 (TDD). USDA is an equal employment opportunity employer.

PA 1557
Revised March 1997
COMMUNITY CHILD CARE FACILITIES
USDA - RURAL DEVELOPMENT

Why are community based child care facilities needed?

Many rural communities lack adequate child care providers to meet the needs of parents in the work force with young children.

Who benefits from reliable quality child care programs?

1. Children from having access to a licensed child care center operated by qualified staff to meet early childhood needs.
2. Parents from the opportunity to enter the workforce to earn sufficient income to obtain an acceptable standard of living.
3. Employers from a work force whose productivity is not hindered by concerns about their children’s care.
4. Community from maintaining their population base by keeping young families who might otherwise have to move to a larger community to obtain similar services.

What is the USDA-Rural Development role in the development of child care facilities?

USDA-Rural Development can play a significant role in the rural development of the State of Colorado and the improvement of the quality of life for rural communities through the financing of early childhood facilities when other credit is not available. But an integrated approach by Federal, State and Local agencies is essential to meet the early childhood needs for all rural families.

Where can additional information be obtained?

Any USDA-Rural Development Local Office can provide basic information about Rural Development Programs financing but specific information and preapplication packets are available from the Rural Development State Office.

When should USDA-Rural Development become involved in planning a child care project?

USDA-Rural Development should be contacted as soon as it appears likely that Rural Development financing will be needed to obtain current guidelines and requirements for child care facilities including:

1. Community support
2. Organizational structure
3. Operational history
4. Child care needs assessment
5. Architect selection
6. Site selection
7. Preliminary Architectural Feasibility Report evaluating all the alternatives
8. Financial Feasibility Study

How can community leaders promote child care in their communities?

1. Contact any present licensed child care operations to obtain their evaluation of child care program needs. If there appears to be a potential need for additional child care capacity, then contact major employers, school board and superintendent, city council and mayor, and the county board of commissioners to determine their interest and support, then arrange a meeting of community leadership with the USDA-Rural Development State Office staff to further explore a potential project.
Many rural communities are seeing more parents with young children enter the workforce to achieve an acceptable standard of living. Communities without adequate child care providers should consider the establishment of a licensed community sponsored child care center to supplement before and after school programs and home based services.

When other financial assistance is not available, the USDA-Rural Development Community Facilities Program can assist employment center communities make quality child care available to working parents. Abroad based nonprofit corporation with public and employer support is usually given the responsibility for ownership, financing and operation of the early childhood services. USDA-Rural Development requires the organization be composed of a broadly based ownership and controlled by members of the community.

Communities in need of child care facilities but without an existing community based licensed daycare facility, need to form a broad based nonprofit corporation to be in providing child care services in temporary quarters. Financing for facilities that will meet the community child care needs can be considered after the corporation has demonstrated community support and the ability to manage, operate, and provide services that will be used by the community.

Community support for the project is demonstrated by resolutions of support from the city, county, school, employers and a community fund drive to raise funds for the cost of any land, equipment and initial start up operating expenses. Applicants that have not operated on a financially successful basis for at least five years prior to loan application will be required to provide commitments of financial assistance for the life of the loan from other reliable sources (such as the city, county, school, and employers).

Factors included in completing a child care needs assessment to evaluate child care space and capacity should include:

1. Review of the School District Early Childhood Advisory Committee Report
2. Completion of a community survey of child care needs including plans for employment expansion and sign-up of families requesting early childhood services
3. Availability of federal, state and county subsidies for low income families. (Coordination of local, state and federal agencies is needed to allow all families to utilize the services)
4. Potential for infant care (2 weeks to 18 months)
5. Potential for night and weekend care
6. School District present and future plans for before and after school programs or a District request that those needs be provided in the community child care center.
7. Space required to meet the State of Colorado Department of Human Services Licensed Day Care requirements
8. Space needed for sick child care if that service will be needed and provided
9. Space for merger with and/or operation of any Head Start program, if applicable
10. Space for pre-school programs including At Risk programs for any child at risk of entering school without the development to succeed
11. Space for a parents room
12. Space for future expansion if the community is operating an industrial recruitment program to expand employment.

Factors included in a projection of project costs include:

1. Architect selection following the USDA-Rural Development Guidelines for architect selection
2. Availability of existing facilities which could potentially be acquired and developed to meet the community needs
3. Identification of potential sites near elementary schools with adequate size for the building, playground, off-street parking and future expansion
4. Architect Site Report and evaluation of alternative sites for USDA-Rural Development review and approval
5. Preliminary Architectural Feasibility Report and Cost Estimate for USDA-Rural Development review and approval

Factors included in evaluation of financial feasibility for loan approval include:
1. Last annual audit and financial history (income and expense statements and balance sheets for the last five years)
2. Current annual budget, fee structure and usage information
3. Current balance sheet
4. Debt capacity determination
5. Loan amount needed (projected cost minus available community funds)
6. Analysis of the staff and board of directors experience and management capability
7. Completion of an environmental assessment
8. CPA Financial Feasibility Study and Financial Forecasts (five years)
9. Completion of an as-developed real estate appraisal by a qualified appraiser
United States Department of Agriculture
Rural Development
Rural Housing Service

Community Facilities Loan Program

Guaranteed Community Facilities Loans

Community Facility loans provide facilities that are essential to the health and well-being of rural Americans.

Types of Projects Financed

- Health Care Facilities – such as hospitals, clinics, nursing homes, ambulatory care centers, etc.
- Public Safety – such as police and fire stations, jails, fire and rescue vehicles, and communication centers.
- Telecommunications – medical and educational telecommunications links.
- Public Services – such as adult and child care centers, jails, courthouses, airports, schools, fairgrounds, etc.

Eligible Entities

- Public entities -- municipalities, counties, other public subdivisions, and special-purpose districts.
- Federally recognized Indian Tribes.
- Nonprofit organizations.

Eligibility Issues

- Lender unwilling to make the loan without obtaining a loan guarantee.
- Loans for unincorporated rural areas and incorporated towns of 50,000 or less.

Benefits to Lender

- Loans may be used towards Community Reinvestment Act requirements.
- Guarantee rate is usually 80% of loan amount. Under special circumstances, a 90% guarantee is available.
- Excellent public relations in local communities by demonstrating lender's concern for funding local community projects.
- Guaranteed loans may be sold on the secondary market -- lender retains interest rate margin for servicing and increases yield on the amount of loan retained. See example below:
Approximate yield on fixed rate loan

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Amount of loan</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Portion sold (80%)</td>
<td>$800,000</td>
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<tr>
<td>Invested funds</td>
<td>$200,000</td>
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<tr>
<td>Loan interest rate</td>
<td>10.00%</td>
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<tr>
<td>Rate paid on portion sold</td>
<td>9.00%</td>
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<tr>
<td>Servicing fee on amount sold</td>
<td>1.00%</td>
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<tr>
<td>Prime rate</td>
<td>8.00%</td>
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<tr>
<td>Income – 1% on $800,000</td>
<td>$8,000</td>
</tr>
<tr>
<td>Income – 10% on $200,000</td>
<td>$20,000</td>
</tr>
<tr>
<td>Total Income</td>
<td>$28,000</td>
</tr>
<tr>
<td>Approximate yield on invested funds</td>
<td>14.00%</td>
</tr>
</tbody>
</table>

○ Variable-rate loans may be used to reduce lender risk from interest fluctuation.
○ Lender may charge different rates on guaranteed and non-guaranteed portions of the loan.
○ The lender's risk of loss is reduced by the percent of loan guarantee.
○ Loan stimulates related banking services to customers such as checking and savings accounts.
○ Guaranteed portion of loan is secured by full faith and credit of U.S. Government.
○ Lender can use required deposit reserves to fund guaranteed portion of loan.
○ Guaranteed portion of loan does not count against legal lending limits.
○ Provides portfolio protection from:
  ● Temporary financial problems such as natural disasters, adverse economic trends, reduced use of facilities, etc.
  ● Major reorganizations due to enlargements, bankruptcy, death of principals operating and managing facility, etc.
  ● Decline in collateral value due to adverse economic trends.
  ● Accelerated depreciation and inherent risk associated with highly specialized facilities.

Benefits for the Customer

○ Customer is able to obtain more timely financing of project thereby reducing inflationary increases in construction cost.
○ Customer establishes loan history with a commercial lender and not the Government.
○ Lender can offer better terms to customer, especially when the loan is sold on the secondary market.
○ The customer may combine guarantee funds with other Federal, State, and local funds.