

CAPITAL FINANCING PROCESS

EARLY PREPARATION

A. INTRODUCTION

- State Capital Grants Cover Only Portion of Capital Costs, Debt likely
- Speed of Access to Capital Impacts Speed of Implementation Impacts Scoring

B. STEPS IN CAPITAL FINANCING PROCESS

- Balance Project Scope/Debt Capacity
- Review Security Available: Gross Receipts Pledge, 1st Mortgage Lien
- Identify Potential Lenders
- Submit Information Package
- Evaluate Term Sheets
- Select Lender
- Negotiate Terms
- Close Loan
- Regulatory Approvals

C. LENDER INFORMATION PACKAGE

- EARLY PREPARATION OF FINANCIAL OPERATIONS
 - Profitability
 - Liquidity
 - Projections and Assumptions
- REDUCE UNCERTAINTY
 - Use Financial Strength of PPS
 - Enhanced Security: Guaranty, Reserves, Line of Credit, Obligated Group

SAMPLE INFORMATION PACKAGE

- Audited Financial Statements for 3-5 years
- Project Description
- Amount of debt
- Projections w/ Detailed Assumptions for Revenue, Expenses and Demand
- Description of PPS Structure
- Market Area
- Services
- Recent Regulatory Agency Surveys
- Senior Management Resumes
- Board of Trustees and Affiliations
- Utilization and Occupancy Data for 3-5 years
- Fund Raising Strategy
- List of Grants

D. FINANCING ALTERNATIVES

- Taxable or Tax-Exempt
 - Size of Loan
 - Interest Rate
 - Term and Amortization
 - Loan to Value
 - Upfront Costs
 - Negative Arbitrage
 - Processing Time
- Examples
 - Commercial Loan
 - Tax-exempt Bank Bond
 - Tax-exempt Unrated Bond
 - PCDC Financing Programs

Other Financing Alternatives

- New Markets Tax Credits
- CDFI Guaranty Program
- LIF/TRIF Lending Program
- US Department of Agriculture
- HRSA Guaranty
- CRA Credits
- Rated Tax-exempt Bonds
- Equipment Leases: Tax-exempt and taxable

E. TERM SHEET EVALUATION CRITERIA

- Criteria for Comparing Terms Sheets and Negotiating a Proposal
- Main Terms to Review
 - Interest Rate: Level and Type
 - Equity Requirement
 - Term and Amortization Period
 - Financial Covenants

- Loan Evaluation Criteria
 - Security
 - Interest Rate
 - Loan to Value
 - Fixed vs Synthetic Interest Rate
 - Interest Rate Swap/Termination Fee
 - Annual Debt Service
 - Total Debt Service
 - Prepayment Premium
 - Financial Covenants: Debt Service Coverage Ratio, Minimum Liquidity, Limitation on Additional Debt, Limitation on Transfer of Assets and Mergers
 - Required Reserves

Loan Evaluation Criteria cont'd

- Construction Monitor
- Depository Relationship
- Prepayment Premium
- Tax-Exempt Issuing Agency Regulations
- IRS Tax-Exempt Bond Regulations
- Up-front Costs
- Debt Service Reserve Fund Requirement
- Negative Arbitrage: Project Costs and DSRF
- Application Process and Time
- Construction Monitoring Requirements

F. DEVELOP STRATEGY FOR CAPITAL NOW

- Strengthen Financial Operations
- Determine Debt Capacity
- Identify Potential Lenders
- Select Key Evaluation Criteria