2021 Guam Healthcare Taskforce

Healthcare Financing and Sustainability Sub-Committee

June 25, 2021

GOVERNOR'S SEAL ISLAN GUÅHAN

GUAM MEMORIAL HOSPITAL AUTHORITY

PUBLIC HEALTH SOCIAL SERVICES

GUAM ECONOMIC DEVELOPMENT AUTHORITY
Moving Forward

Guam Healthcare Financing
What we know...

<u>Department of Public Health and Social Service (DPHSS) –</u>

- Mangilao main office no longer able to support existing operations
- New CDC Level 2 and 3 lab: $32M must be encumbered by September 2021
- Environmental Health - $3M grant from DOI (expiration Oct. 2024)
- Annual rents for office space: $1M, funded by federal and local sources

<u>Guam Memorial Hospital Authority (GMHA)</u>

- Existing facility in great disrepair. 2019 ACOE Assessment recommendations:
  - Option A - $743M: Construct a new multi-story hospital
  - Option B - $761M: Repair the current facility infrastructure (312,351 SF)

<u>Guam Behavioral Health and Wellness Center (GBHWC) –</u>

- Main offices and key support services to be moved to Mangilao; existing building to remain for housing clients as needed.

Guam Healthcare Financing
What we know…

Governor's Commitment

- Guam needs a new centralized Healthcare Center of Excellence which will include GMHA, DPHSS and GBHWC. Preferred location in Mangilao
- Governor would like to reserve $300 million of Guam's allocation through the American Rescue Plan Act (ARPA) of 2021 for the new facility
- Navy approval of long term license / lease – Pending approval

Legislative Action: Bill 121-36

- Bill authorizes a long term lease financing to include finance, design, build and maintenance of the facility for up to 30 years. RFP to be issued by GEDA
- The government will commit no more than $35 million for the annual lease payment sourced from the general fund and $1.0 million for a financing feasibility study on determining if the current GMHA facility can be used for office space or other use.
- UPDATE: Bill has been amended and is part of the Legislative Session today

Guam Healthcare Financing
What we know...

General Estimate of Funding Needs

GMHA (assuming 10% escalation)	$817,300,000
DPHSS	$100,000,000
GBHWC	$100,000,000
Infrastructure / other costs	$50,000,000
Total Cost	**$1,067,300,000**
Less: Govt. Contribution	**$300,000,000**
Total to be Financed	**$767,300,000**

Annual Lease Payment Estimate (30 years @ 5%)

Rental Payment	$48,786,276
Ins. & Maintenance / CIP Reserve	
Deposit (25% of annual rents)	$12,196,569
TOTAL Annual Lease Payment	**$60,982,845**

GovGuam Debt Ceiling Calculation as of 3/31/2021

Debt Limit (Ceiling) - 10% of Assessed Value[1]	**$1,353,534,832**
General Obligation Debt	
Guam Legislature Building	$3,593,742
GO Bonds, Series 2019	$25,360,000
Sub-Total General Obligation Debt	**$28,953,742**
Limited Obligation Debt	
UOG 2003 Loan (funded by TEFF)	10,398,360
HOT Revenue Refunding Bonds, Series 2021A	$58,865,000
BPT Bonds Series 2011A	$210,100,000
BPT Bonds Series 2012B-1 & 2012B-2	$96,390,000
BPT Bonds Series 2015D	$388,775,000
Limited Obligation (Section 30) Bonds, Series 2016 A	$206,950,000
Sub-Total General Obligation Debt	**$971,478,360**
Total GOG Debt Subject to 10% Assessed Value Limitation (Ceiling)	**$1,000,432,102**
Total Available for Future Debt Obligation	**$353,102,730**

Financing Option / Status Update

- **<u>Federal Grants</u>**
  - GEDA currently reviewing grant requirements from USDA, EDA, HUD and Energy grants
- **<u>Federal Finance (counted against debt ceiling)</u>**
  - HUD 242 Mortgage Insurance bank loan / bond
- **<u>Bond Financing (counted against debt ceiling)</u>**
  - HUD insurance would be a taxable financing
  - GovGuam Financing
- **<u>Public Private Partnerships</u>**
  - Lease Financing
  - University / Veteran / Private Foundation Partnership

Federal Capital Programs to assist hospitals

(Note: Borrowing subject to debt limit)

PROGRAM	DEPARTMENT	OFFICE	FOCUS	TYPE OF FINANCING	SIZE LIMITS	ELIGIBILITY
Community Facilities Program	Agriculture (USDA)	Rural Development	Develop essential community facilities in rural areas	Grants, direct loans, and guaranteed loans through USDA-approved lenders. Up to 90% loan guarantee Direct loans typically $1-3 million Max Term 40 years	None	Public entities and not-for-profit corporations in rural areas and towns up to 20,000 in population. Includes health care, public safety, education, other community needs. Direct loans and grants are competitive within state regions. Security requirements: bonds, pledge of tax receipts, assessments, revenues, or real estate mortgage
Business & Industry (B&I) Guaranteed Loan Program	Agriculture (USDA)	Rural Development	Business development and job creation in rural areas	Guaranteed loans through USDA-approved lenders. Guarantee amount varies from 80% for loans under $5 million to 60% for loans exceeding $10 million. Max term 30 years	$10 million, exceptions up to $25 million	Public, not-for-profit, or private entities in rural areas and towns up to 50,000 in population. Security requirements: acceptable collateral
EDA Investment Programs	Commerce	Economic Development Administration	Economic development and job creation	Competitive grants	Varies	Districts Organizations, units of State and local government, Indian Tribes, institutions of higher education, public or private nonprofit organizations
Section 242 Mortgage Insurance	Housing and Urban Development (HUD)	Office of Healthcare Programs	Construction, rehabilitation of acute care hospitals	Federal mortgage insurance on fixed-rate loan from HUD approved private lender 99% loan guarantee Max term 25 years	None	Acute care hospitals (public, not-for-profit, or private) Security requirements: first mortgage of building and equipment
504 Loan Program	Small Business Administration (SBA)	504 Program Branch, Office of Financial Assistance	Economic Development and job creation / retention	Certified Development Company (CDC) funded with SBA-guaranteed debenture provides up to 40% of project cost A participating lender contributes up to 50% of project cost Max term 20 years	Up to $5 million	Business must operate for profit and fall within SBA size standards (net worth less than $15 million) Finance fixed assets including land, buildings, and equipment Security requirements: lien on project assets, personal guaranties from owners of 20% or more
New Markets Tax Credit (NMTC) Program	Treasury	Community Development Financial Institutions Fund	Business and real estate investment in low-income communities	Debt or equity investments through Community Development Entities (CDE) Interest rate and term set by the CDE	None	Must be located in a qualified Low-Income Community (greater than 20% poverty or less than 80% Area Median Income) or serve a Targeted Population (Low-Income) Security requirements: determined by the CDE

Bond Financing

- Two Types, depending on payment source
  - General Obligation Bond
  - Limited Obligation (Special Tax) Bond
- Subject to Debt Ceiling Limitation
  - Current capacity under the debt ceiling as of March 31, 2021 is $353 million
- Term is up to 30 years, with low fixed interest rate
- GovGuam debt is triple tax exempt, making it very attractive to investors

Lease Financing

- The Lease Obligation will not be considered an "indebtedness or liability" under the debt ceiling.
- The obligation to pay rent is contingent upon the public agency having beneficial use and occupancy of the leased premises for the rental period.
- If use and occupancy by the public agency is not available, there is abatement of rent during the period the use and occupancy is not available.
- If the public agency lessee fails to pay rent when due, there can be no acceleration of future rent due.

Other Financing Options

1. University Hospital Partnerships: Dr. Hattori
2. Regional Hospital funding through DOI as part of Compact Impact Agreement: Office of the Governor
3. Veteran's Hospital Funding: T. Aguon / T. Arriola
4. PPP with Private Foundations: Bond Counsel

FHA's Section 242 Mortgage Insurance for Hospitals

- Section 242 of the National Housing Act provides mortgage insurance for acute care hospital facilities.
- FHA Credit Enhancement:
  - U.S. Government Backing Enhances Hospital's Creditworthiness
  - AA to AAA Credit Rating = Lower Interest Rates
  - Lower Interest Rates = More Spending Power to Address Needs
- Attractive Loan Terms:
  - No Maximum Loan Amount
  - Loan-to-Value May Be Up To 90%
  - No Cash Required At Closing with Sufficient Equity
  - FHA Insures 99% of Loan Amount

FHA's Section 242
HOW TO GET STARTED

1. Self-Assessment
   - Perform self-assessment to determine if FHA mortgage insurance is right for the project.
2. Choose a Lender
   - FHA maintains a List of Lenders who are active in the hospital mortgage insurance program.
3. Preliminary Review
   - FHA performs a preliminary review of the hospital and project to identify any obvious factors that would cause an application to be rejected before the hospital and lender expend the resources needed to prepare a full application.
4. Pre-Application Meeting
   - If the hospital passes the preliminary review, the lender and representatives of the hospital are invited to FHA headquarters for a pre-application meeting.
5. 5. Application Submission
   - Should the hospital have a satisfactory pre-application meeting, the mortgage lender and hospital may develop an application according to FHA guidelines.

FHA's Section 242
HOW TO GET STARTED

6. Underwriting

   Once the application is complete, the underwriting process begins. A client service team composed of staff members from FHA conducts the underwriting process.

7. Commitment

   If the hospital and project meet FHA's requirements and the FHA Commissioner approves the application, a commitment for mortgage insurance is issued.

8. Closing

   Following commitment, FHA counsel assists the mortgage lender, hospital, and their legal representatives to close the loan.

9. Construction

   During construction, HUD staff members monitor and approve loan draws and perform monthly site visits.

10. Final Endorsement

    Once construction is completed and the final draw has been made, the final mortgage amount is established and amortization begins.

NEXT STEPS…

- Seek funding for a Financial Advisor who specializes in healthcare financing. Key tasks include:
  - Review and research any and all federal grant opportunities available for Healthcare Facilities
  - Determine if any Federal Tax Credit programs (New Market Tax Credits, Opportunity Zones, etc.) can help in reducing the total cost
- Work with Healthcare Agencies and other professionals on project cost estimates
- Work with bond counsel on appropriate language for financing

Questions?