



# BREAKING **GROUND:**

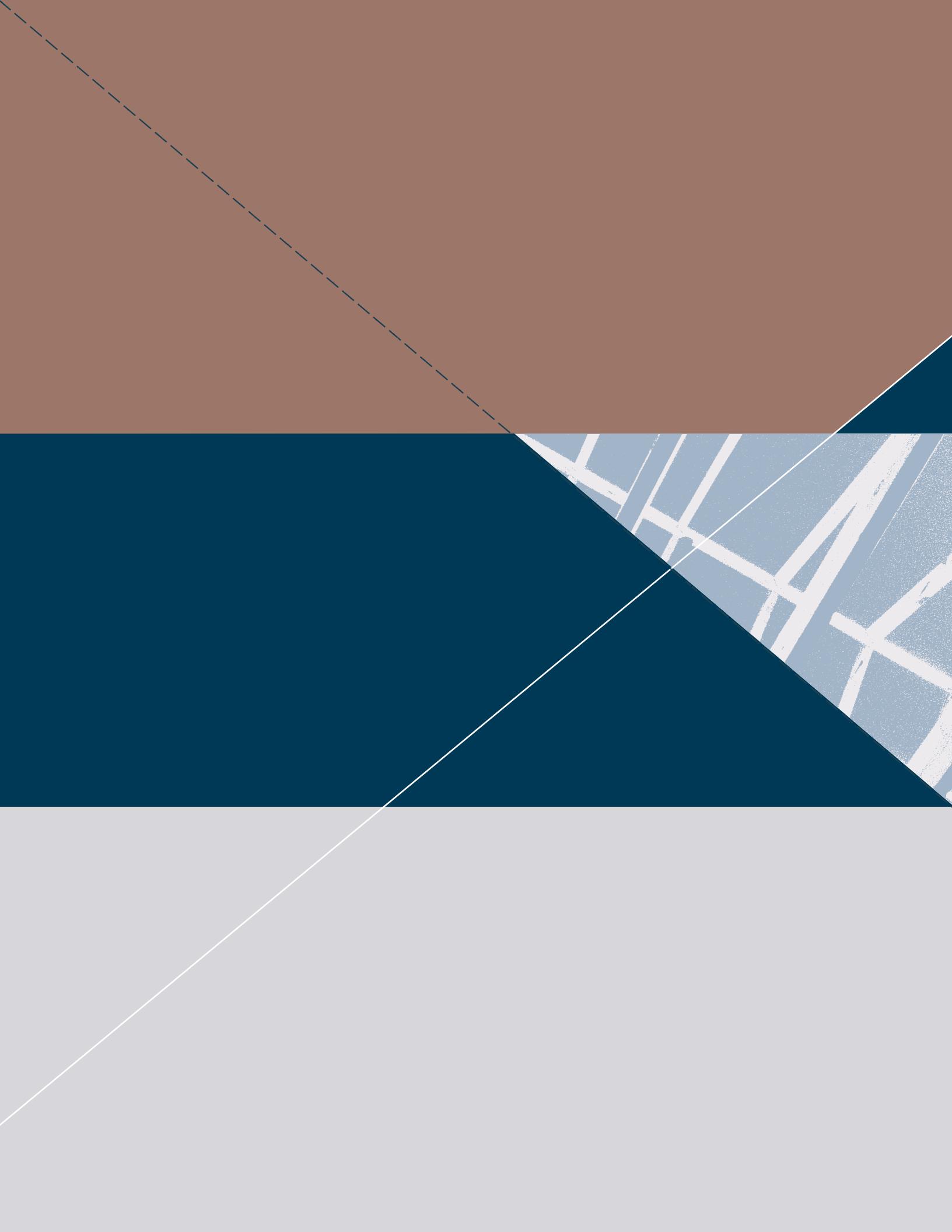
A Comprehensive Planning Guide  
for Health Center Capital Projects



The Annie E. Casey Foundation



NCB Development Corporation  
[www.ncbdc.org](http://www.ncbdc.org)



# BREAKING **GROUND:**

A Comprehensive Planning Guide  
for Health Center Capital Projects



The Annie E. Casey Foundation



NCB Development Corporation  
[www.ncbdc.org](http://www.ncbdc.org)

# Acknowledgements

This manual was made possible by a grant from The Annie E. Casey Foundation. NCBDC is pleased to be a partner in their work to build better futures for disadvantaged children and their families.

We would like to thank Capital Link and Primary Care Development Corporation for insights gained from their manual *Developing a Health Center: A Guide for Health Center Staff and Boards on Managing the Design and Construction Process* (2001) and for the use of charts and language from this publication in Sections IV, V and VIII of this manual.

We are grateful to the following individuals and organizations for their contributions to this manual:

Torrey Stanley Carlton, AIA San Antonio, Robert Cosby, Non-Profit Clinic Consortium, Liz David & Zara Marselian, La Maestra Family Clinic, Roberta Feinberg, Linda Vista Health Center, Flora Hamilton, Family and Medical Counseling Service, Inc., George Jones, Bread for the City and Zacchaeus Free Clinic, Connie Kirk, Imperial Beach Health Center, Judith Shaplin, Mountain Health & Community Services, Inc.

We would also like to acknowledge the following NCB Development Corporation staff for their dedication and hard work: Jeff Brenner, Donna Creedon, Lindsay Maher, David Nolan, Linda Sorden, and Scott Sporte.

And, of course, many thanks to **Marsha Krassner of MDK Consulting Group** for serving as the principal author of this manual and for all the work she does to benefit health centers nationwide.

# Table of Contents

<b>I. Introduction</b>	<b>1</b>	<b>VI. Construction Phase</b>	<b>43</b>
		<i>A. Project Delivery Options</i>	
<b>II. The Development Process: An Overview</b>	<b>5</b>	Traditional (or, "Design-Bid-Build")	43
		Design-Build	43
<b>III. Concept Phase</b>	<b>9</b>	Construction Management	45
Feasibility	9	<i>B. Managing The Construction Process</i>	
Needs Assessment	10	Selecting a General Contractor	51
Business Plan	10	Negotiating vs. Bidding	52
Preliminary Space Assessment	11	Maintaining the Project Budget	52
		Payment Process During Construction	57
<b>IV. Pre-Development Phase</b>	<b>13</b>	Project Close-Out and Final Occupancy	58
<i>A. The Development Team</i>			
The Owner	14	<b>VII. Funding the Project</b>	<b>61</b>
The Architect	14	<i>A. The Project Budget</i>	
The Project Manager	16	Developing the Preliminary Budget	61
The General Contractor	17	Contingency Planning	64
The Attorney	17	Finalizing and Managing the Budget	64
The Real Estate Agent (Optional)	18	<i>B. Financing Options</i>	
Paying Your Development Team	22	Conventional Financing	66
Contracting With Your Development Team	24	Community Development Financial Institutions	70
<i>B. Site Selection</i>		Government Funds	70
Selection Criteria	24	Foundations	71
Own vs. Lease	26	Tax-Exempt Bond Financing	72
Renovation vs. New Construction	28	<i>C. Fundraising</i>	
<b>V. Development Phase</b>	<b>31</b>	Launching a Capital Campaign	75
<i>A. Design Stage</i>		Individual Donors & Private Investors	76
Finalizing Space Assessment	31	Fundraising and the Internet	76
Pre-Schematic Design	31		
Schematic Design	32	<b>VIII. Planning &amp; Scheduling</b>	<b>79</b>
Design Development	32		
Value Enhanced Design	32	<b>IX. Glossary</b>	<b>85</b>
Construction Documents	33		
Design Considerations for the Disabled	36	<b>X. Bibliography</b>	<b>107</b>
<i>B. Pre-Construction Activities</i>			
Site Acquisition & Control	38		
Obtaining Project Financing	39		
Obtaining Third Party Approvals	40		
Furniture, Fixture and Equipment Planning	40		





# Section I

## Introduction

### Health Centers and the Facilities Development Process

There are over 1,000 health centers and free clinics in the U.S., operating more than 3,000 individual clinic sites. Relying on a network of 6,500 primary care providers, many of whom volunteer their services, these health centers offer time to nearly 11 million people annually, and face pressure from growing demand to see millions more. These health center organizations share a mission to provide access to quality primary health care for all underserved and vulnerable populations, regardless of ability to pay, and to eliminate disparities in health care for all racial and ethnic groups.

This ambitious mission places pressure on the physical sites, the facilities, where services are provided. The twin issues of access to facilities development assistance and affordable, flexible capital are becoming more acute as health centers expand. Indeed, industry experts estimate that 50 to 65% of health centers have a critical need for some type of facilities expansion project, whether it be replacing an outgrown facility or remodeling or expanding an existing facility.

Many health centers were initially established in space that was ill suited for efficient primary health care delivery. There are many examples of health centers that are co-located with low-income housing projects, in inappropriately converted buildings, or in poorly designed spaces at the local public health department or hospital. Even though a sizable majority has successfully developed and moved into state-of-the-art buildings over the years, many health centers still operate out of inadequate facilities.

This manual was written for health centers faced with the complex task of conceptualizing and implementing a facilities development project. Lacking previous development experience, managers can easily overlook issues critical to the success of the project. For starters, managers often grossly underestimate the time that must be dedicated to successfully bring a facilities project to fruition. Moreover, most health center settings rarely possess the staffing resources necessary to plan, monitor, and complete a construction project.

Financing the facilities project can also be daunting. Predevelopment funds for critical activities such as feasibility and needs assessments or preliminary site and architectural design work are often non-existent or difficult to access. Once these predevelopment tasks are completed, the health center is faced with the additional challenges of critically evaluating various funding options for construction and long-term financing. Health centers have an acute need for access to flexible capital (i.e., low rates, longer terms, non-traditional repayment arrangements) to match revenue and cash flow streams.

We created this manual to help health center managers, like you, navigate the development of a health center facilities project. This technical guide offers step-by-step assistance in planning, evaluating, and implementing virtually every aspect of a facilities project. Chapters are organized according to each stage of the development process, from early project concept and feasibility to final construction closeout and occupancy. Tables and charts strategically placed throughout the manual provide a snapshot of many of the major decision points you will encounter along the way, such as selecting development team members, undertaking a capital campaign, comparing conventional loans to tax-exempt bond financing, and evaluating different project delivery options. A handy glossary of terms at the end of the manual will provide you with the new vocabulary you'll need as you navigate the real estate development process.

Whether you renovate your existing space or construct a new building, the process is likely to be time consuming and expensive, and it will undoubtedly involve the cooperation of multiple parties. Give yourself time, because the real estate development process takes far longer than most people expect. Time is essential because it allows you the luxury of exploring options, negotiating with major third parties (e.g., property owners, lenders, architects), and truly developing the best possible facility within your budgetary constraints. Good luck!!

## About the Annie E. Casey Foundation

For more than half a century, the Annie E. Casey Foundation has worked to build better futures for disadvantaged children and their families in the United States. Its mission is to foster public policies, improved human services, and community support systems that effectively meet the needs of today's vulnerable children and families. In pursuit of this goal, the Foundation makes grants, funds demonstration projects, provides services, delivers technical assistance and disseminates data and analyses, all aimed at helping states, cities and local neighborhoods do a better, more cost-effective job of supporting children and families. The Foundation's investments in each of these areas are evaluated against clear goals and measured by results, performance outcomes, and return on investment.

*Making Connections* is the centerpiece of the Annie E. Casey Foundation's multi-faceted effort to improve the life chances of vulnerable children by helping to strengthen their families and neighborhoods. *Making Connections* has embarked on a three-year demonstration phase in which the Foundation will work with neighborhoods in 22 cities to promote programs, activities, and policies that contribute to strong families. The primary aim is to stimulate and support a local movement that engages residents, civic groups, political leaders, grassroots groups, public and private sector leadership, and faith-based organizations to help transform tough neighborhoods into family-supportive environments.

A major contributor to improving the lives of children and their families is providing access to quality health care in their communities. Community-based health centers experience such high patient demand that they struggle to provide care to everyone who seeks it. With so much staff energy devoted to service delivery, it is difficult for health center employees to find the time to plan and monitor an expansion project. Because they rely on an ever-changing palette of funding streams and survive on narrow operating margins, conventional financing is out of reach for many centers. They need help to assess needs, evaluate alternatives, and create a sound plan that will work well with a variety of potential funding sources. Even with this assistance, health centers need access to flexibly structured capital to match their uneven cash flow and thin operating margins.

With the recent federal initiative to double the number of patients seen by health centers, coupled with the

current economic downturn, we expect the pressure on health facilities to become increasingly burdensome. The needs will be acute for all but the largest, most resourceful health centers. Most cannot invest the staffing resources necessary to manage the planning and monitoring of a multi-month planning construction project, nor do they have adequate funding for pre-development costs – the elements that most directly correlate to a successful facilities expansion project (i.e., business planning, site selection, architecture and engineering contracts). Many of the health centers with the greatest need are the same clinics targeted by the Annie E. Casey Foundation's *Making Connections* initiative. A partner in *Making Connections*, NCB Development Corporation (NCBDC) has created this manual in an effort to provide health centers with the capacity to plan, assess, and develop a successful real estate project.

## About NCB Development Corporation

NCB Development Corporation (NCBDC) is a unique non-profit organization blending development skills and resources with disciplined financial lending expertise. It provides creative development and financial solutions that empower underserved communities to address the problems that poverty creates in America. NCBDC's solutions are based on the cooperative principles of self-help, democratic control and open participation. It provides the highest level of professional services, employing high-caliber staff and partnering with like-minded organizations to achieve systemic change in the delivery of goods and services to underserved communities.

NCBDC targets areas that it has the power to transform – education, affordable assisted living, health care, affordable housing, and economic development – providing financial and development services in all five areas. It has been providing financing for community-based health care providers since the mid 1980s, with commitments to date totaling over \$120 million to support virtually all financing needs, including working capital, equipment purchases, and real estate acquisition, construction, expansion and renovation.

As its client base has grown through the years to encompass a wide variety of community-based health care providers, including health centers, HMOs, managed care organizations, assisted living facilities, mental health facilities, and others,



NCBDC has forged strong relationships with strategic partners to enhance access to capital and technical assistance for organizations in this industry. The following are a few specific examples of partnerships that have spawned beneficial programs.

### **California Primary Care Association**

NCBDC has partnered with the California Primary Care Association (CPCA) and The California Endowment to create a highly flexible, low-hassle revolving loan fund to benefit California's health centers. Loans are available to finance the purchase of updated information systems, to meet emergency working capital needs, to provide revolving lines of credit, and to finance facilities projects, needs that health centers have historically had trouble accessing through traditional sources. The fund was capitalized with \$10 million from The California Endowment and \$1 million from NCBDC and is managed by NCBDC staff, who worked closely with the CPCA board of directors to develop underwriting criteria that meet their specific goals, particularly, to provide for a streamlined application process and assume a level of risk that makes funds available to a very high percentage of California health centers.

### **California Health Facilities Financing Authority**

The California Health Facilities Financing Authority (CHFFA), a state-sponsored lender to health facilities operating under the auspices of the State Treasurer's office, looked to NCBDC to help them develop a lending product to benefit that state's community-based health care providers that could accept a higher degree of lending risk than traditional financial institutions can offer. The result is the HealthCap program, a unique public-private partnership that facilitates loans between \$500,000 and \$1,500,000 for health care providers' equipment and facilities needs. Through the program, small and rural health facilities that would have difficulty obtaining traditional sources of financing are given increased access to capital at competitive rates and terms. This program fills a gap that falls between CHFFA's two main financing products, allowing CHFFA to address a full spectrum of financing needs for California's community-based health facilities with minimal state investment. In this public-private partnership the State of California funds a guarantee pool that leverages NCBDC's extensive health care lending experience, ensuring access to capital for a larger number of nonprofit and public health care providers.

### **Bureau of Primary Health Care**

Health centers have traditionally encountered difficulty in obtaining financing for building and equipment projects. Similarly, the challenge of limited access to capital has been a major obstacle in the development and operation of managed care networks and plans. While some health centers across the country have taken advantage of successful local, state, and nationally-based financing programs, many other health centers have not been so fortunate.

To address the capital needs of health centers nationwide, the Bureau of Primary Health Care collaborated with NCBDC to form a \$160 million loan guarantee program for facilities development and managed care networks and plans. This program provides federal guarantees on loans made by non-federal lenders for facility projects, for plan development, and for network development.

NCBDC acts as program "lender coordinator" by providing expertise and assistance to the Bureau of Primary Health Care and acting as a liaison between the Bureau and the lenders and health centers participating in the program.

For more information on these partnerships and other work NCBDC is doing throughout the country to develop new relationships to expand opportunities for health care providers nationwide, visit [www.ncbdc.org](http://www.ncbdc.org).

### **NCB Development Corporation**

1725 Eye Street, NW, Suite 600  
Washington, DC 20006  
(202) 336-7680

### **NCB Development Corporation**

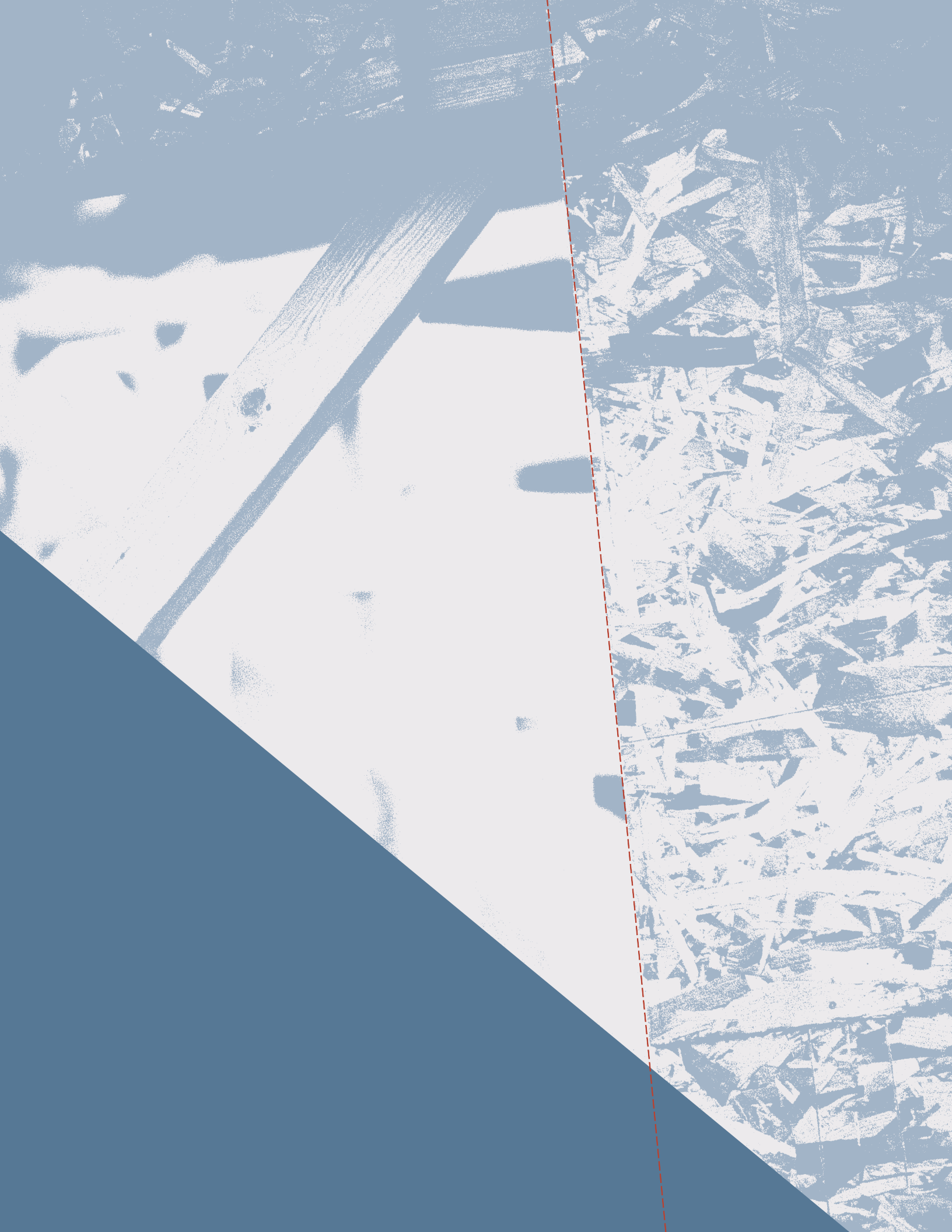
1333 Broadway, Suite 602  
Oakland, CA 94612  
(510) 496-2200

[www.ncbdc.org](http://www.ncbdc.org)

### **The Annie E. Casey Foundation**

701 St. Paul Street  
Baltimore, MD 21202  
(410) 547-6600

[www.aecf.org](http://www.aecf.org)



## Section II

# The Development Process: An Overview

The development process is characterized by a series of discrete steps, from the initial project concept to final closeout (construction completion) and occupancy. However, as you know, projects vary widely in complexity. Depending on the unique characteristics of your project, you may find yourself spending more time on one phase of the process than another.

Below is a snapshot of the development process in four distinct phases: (1) concept, (2) predevelopment, (3) development, and (4) construction. Following this overview, subsequent chapters will be devoted to an in-depth discussion of each phase of the development process.

### ▪ Concept Phase

The **concept phase** is marked by a period of getting educated, exploring options, and making preliminary decisions about the direction of the project. Usually, the health center forms an exploratory committee (at the management and/or board level) and may hire a consultant to lead all or some of the following interrelated activities:

- Getting educated about the development process;
- Assessing the facility's current and anticipated space needs;
- Testing the feasibility of a site change;
- Establishing broad guidelines for the project (e.g., renovating the existing building, acquiring a site and building from the ground up, etc.);
- Developing a viable project concept; and
- Exploring various financing options.

In most cases, the tangible outcomes of this phase are:

1. a project concept and direction,
2. a needs assessment,
3. a business plan, and
4. a preliminary space assessment that defines the project's total space requirements, all approved by your board and management.

### ▪ Predevelopment Phase

The **predevelopment phase** is one of intense planning and decision-making that ultimately positions the health center to begin actual project development. The major activities during the predevelopment phase include:

- Assembling the development team;
- Defining roles and related scope of responsibility for each team member;
- Reviewing project concept with key constituencies (e.g., third party entities who approve all or parts of the project, potential funding sources, and other stakeholders);
- Developing a preliminary project budget;
- Negotiating tentative financing commitments; and
- Obtaining site control.

Tangible outcomes at the predevelopment phase may include:

1. executed contracts with key development team members (usually excluding the general contractor at this stage),
2. a preliminary project budget,
3. informal financing commitments, and
4. preliminary proof of site control (either by a letter of intent or a purchase agreement or option).

## ▪ Development Phase

The development phase may be the most exciting phase of the project since it is during this stage that your development team turns the project's vision into a tangible design. Depending upon the project's scope and complexity, the design process may be quite lengthy. Regardless, during this period, you and your design team will consider, and ultimately finalize, various design alternatives and building features. Once the design is finalized, you must complete a number of important steps for the construction phase to begin. Specific activities during the development phase include:

- Concluding the space assessment;
- Undertaking ongoing consultation between the owner (the health center) and the design team;
- Translating the project's concepts into rough drawings during the pre-schematic design phase, preliminary building plans with elevations and sections during the schematic design phase; and then more detailed architectural drawings and decisions on materials during design development;
- Finalizing the construction documents to be used to solicit bids and/or estimates from potential contractors;
- Completing the project budget;
- Securing project financing;
- Exercising site control (i.e., by executing a lease or purchasing property); and
- Obtaining key third party approvals

At the end of the development phase, you should have the following in place:

1. a complete set of construction documents (including final drawings, construction specifications, and bidding requirements),
2. a form of the General Contractor's contract (including general conditions and contract modification forms, i.e., change orders and the form of lien waivers to be used),
3. site control (evidenced by an executed sales contract, a signed lease, a deposit or some other legally binding agreement),
4. a firm commitment for permanent financing, and a closed construction loan (if appropriate), and
5. all necessary third party approvals required by your local jurisdiction to begin construction.

## ▪ Construction Phase

This is the final phase of the development process that, when successfully completed, enables the health center to move into its new space! The construction phase is initiated by the bid process, if appropriate, and selection of a general contractor. It is completed when the building is finished, and a certificate of occupancy is issued. During this period, the following activities occur:

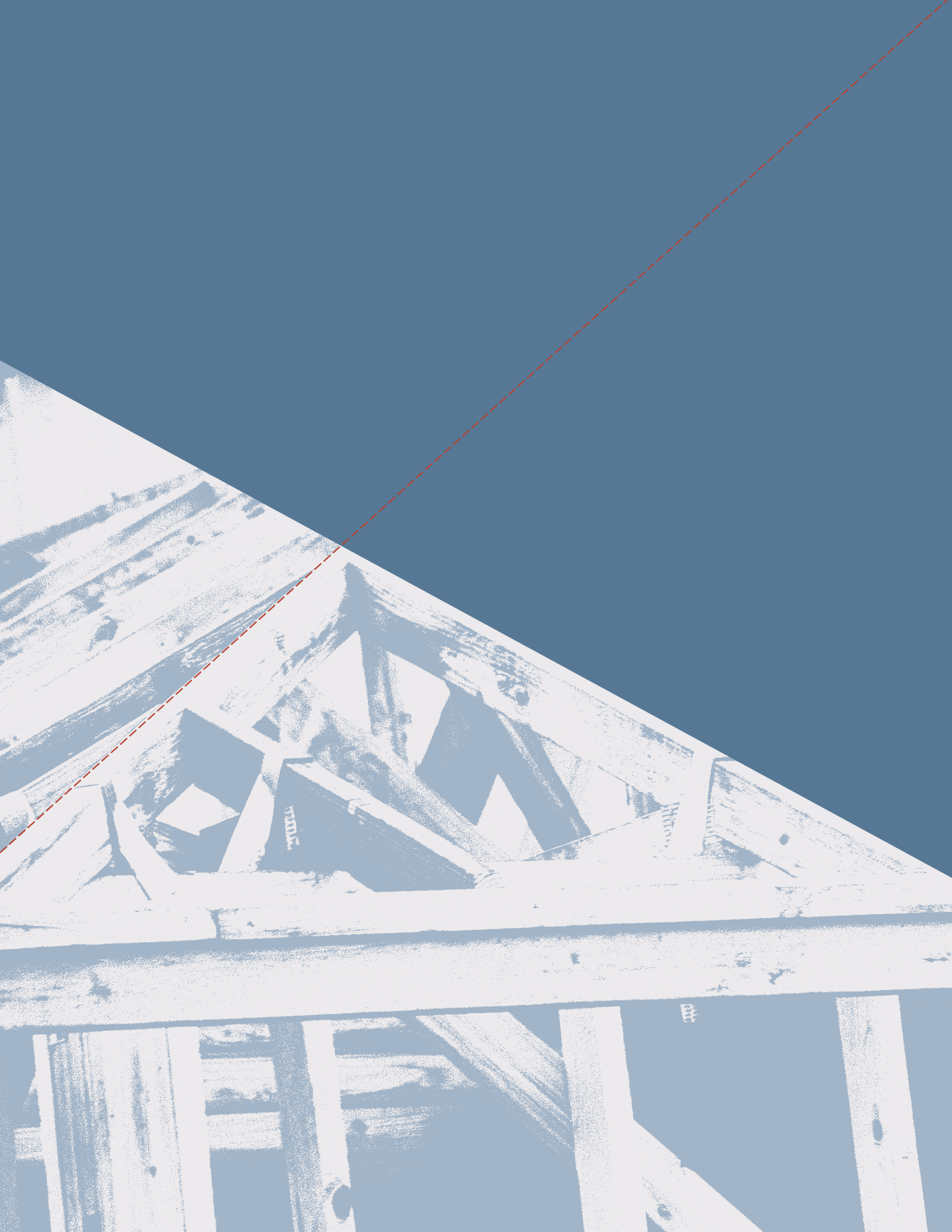
- Selecting a contractor (negotiating directly or through a bidding process);
- Negotiating the contract;
- Closing/Receiving financing;
- Initiating construction;
- Managing the construction process;
- Negotiating the certificate of substantial completion;
- Obtaining the certificate of occupancy;
- Coordinating telephone, computer, internet and other communications installations;
- Moving in; and
- Organizing a ribbon cutting and opening day party!



Finally, it is important to understand that, regardless of its complexity, your project will be affected by myriad factors throughout all phases of the project:

- **Cost** - For health centers and non-profit organizations in general, cost is usually the single greatest influencing factor. Even under the best of circumstances, there are almost always cost limits to every project. Once these limitations are defined, cost considerations will invariably shape every aspect of the final product, including design matters, quality, quantity and type of materials, and building size and configuration.
- **Schedule** - The project's schedule may influence certain decisions during the development process. For example, you may decide to eliminate a design alternative because it will require a lengthy public hearing from the local planning board. Or you may choose to use a specific material for the building's exterior because the supplier has promised a prompt delivery date.
- **Codes and Regulations** - Third parties that provide building permits, special zoning variances and other regulatory approvals will have a great influence on the building's design. As detailed in later sections, obtaining third party approvals is a critical piece to your project's successful completion.
- **Site** - The site that you select will mandate numerous considerations, including accessibility to nearby services, topography, size, configuration, water, sewage, and drainage issues.
- **Building Technology** - The building's shape and size, construction materials, and major systems (e.g., electrical, heating, plumbing, mechanical) are major decision variables that will affect design and cost considerations. As discussed in various sections throughout this manual, these important variables often involve tradeoffs and compromises that must be considered.
- **Sustainability** - This is a relatively new concept that, in its broadest sense, refers to the ability of a society, ecosystem or other ongoing system to continue to function into the indefinite future, without being forced into decline due to obsolescence or overloading of key resources upon which the system depends. With regard to construction projects, sustainability typically refers to building designs that have low environmental impact (sometimes called "green architecture") and enhance the well-being, productivity and quality of life for the communities in which they are located.
- **Context and Climate** - Contextual factors relate to the nature of the surrounding area in which the building will be located (e.g., rural country side, urban inner city, etc). These factors will greatly affect the building's design and the type of materials used in construction. Climate factors such as the nature of regional microclimates, temperature, wind, rain, snowfall, and humidity must also be considered in the building's design and construction. Certain areas of the country must address seismic (earthquake) and hurricane considerations as well.

Each of these factors must be seriously considered in the context of the health center's unique set of program offerings.



## Section III

### Concept Phase

The concept phase consists of four interrelated and often concurrent tasks:

1. assessing the feasibility of constructing (or renovating) a new facility,
2. determining the health center's space needs,
3. writing a business plan for circulation to potential funders and other key constituents, and
4. developing a preliminary space assessment.

Once these four activities are successfully completed, the health center is then properly positioned to begin the predevelopment phase (described in the next chapter).

#### • Feasibility

Overcrowded waiting rooms. Insufficient number of exam rooms. Inefficient use of space in the dental area. Inadequate medical records storage. It's usually abundantly clear when a health center has outgrown its present space! For example, patient volume may have increased substantially since the health center first moved into its current location. Or the health center may have instituted several new program initiatives that the current building does not have the space to accommodate. Or maybe the health center's current building was converted from another use and was never "quite right" for the diverse programs or services provided by a health center. In any case, now may be the time to begin thinking seriously about a new space.

The feasibility phase is a period of gathering information and answering questions that will be critical to helping you make a decision about whether and how to move forward. Questions to consider may include:

- What factors have contributed to the health center's desire for another facility?
- Does the health center need more space? Is it that the space is not configured properly for the health center's operations? Or is it some combination of the two?
- What kinds of services might be offered in an expanded facility?
- What is the projected growth rate (in staffing and of patients) over the next three to five years, and what is the demographic mix (e.g., families with small children require a different waiting room lay-out than a primarily elderly population)?
- Does it make sense to consider renovating the current facility?
- How would the health center pay for the project?

Obviously, the health center may not be able to completely answer each and every question raised during the feasibility stage. However, this is the time to explore various options and develop a game plan for moving forward.

You may consider hiring a consultant to lead the feasibility process. One major activity may be to conduct a series of informal discussions with the staff to solicit their ideas, desires, and expectations about a potential project. It can be particularly useful to rely on a person who does not hold strong convictions about the final outcome of the feasibility process. Such impartiality keeps all parties more focused on practical and rational issues, and less focused on the emotionally charged aspects of a potential site change.

Also at this early stage, it can be very useful to form an *ad hoc* committee from the board of directors to research the issue. Board support will be critical to moving the project forward, and the earlier the board is brought into the process, the better informed it can be about exploring options.

## • Needs Assessment

Often, the health center's key constituency — staff, management and board of directors — can agree on the need for a larger facility, but cannot agree on how much space is needed or how that additional space should be used. Conducting a needs assessment can be a challenging process. It involves a systematic accounting of each program and/or department, and ultimately results in a reasonably good estimate of how much space (usable, net square feet) will be required for the center's operations. A few of the relevant issues for you to consider during this stage include:

• **Programs and Services** Will you maintain the same number and types of programs, or will you expand program offerings? For example, will you offer ancillary services (e.g., lab, pharmacy, X-ray), and if so, how much space will they require? Is there adequate medical records storage space to accommodate current and anticipated patient growth? Does the dental department have a sufficient number of operatories? Are there any programs that should be discontinued or phased out?

• **Staffing** In the context of the health center's programs and services, what is the projected staff size? Is there enough space to house new staff positions that may be added over the next three to five years? Is there adequate common room space for employee meetings?

• **Patients** What is the projected growth in patients? How will anticipated changes in programs and services affect patient load? Are there sufficient waiting areas? Adequate parking?

During this period, it's a good idea to take time out to visit similar health facilities. How are their programs integrated, from the perspective of the facility's space and design? What are the merits of alternative models of patient care, and how are these various models supported by the building's space features? What are some of the best design features for improving patient flow? By conducting site visits, you and your team can elicit creative ideas about what you like and what you don't like, and begin to formulate a "wish list" of design features to consider in your project.

## • Business Plan

Business plans are written for a variety of purposes, and for a variety of potential audiences. Once you've made a "go" decision, it is important to produce a written plan about the proposed facilities project. Why? There are at least three important reasons:

• **First**, writing a business plan clearly articulates the goals of the facilities planning process; what the health center hopes to achieve by pursuing the facilities project; and how the health center intends to accomplish it. It is a powerful tool to have the board of directors endorse the business plan and the recommended course of action.

• **Second**, a business plan will be an invaluable tool to attract potential funding support for your project. Understandably, funders will pose many questions about why the health center is embarking upon this project, and if it has the necessary resources to implement it. A well-written comprehensive business plan will anticipate (and hopefully, answer) many questions, and will go a long way towards reassuring potential funders that the health center is a business-savvy organization that can successfully complete the project.

• **Third**, a business plan is a road map for everyone to follow. The development process can be a lengthy, and at times, frustrating process. Producing and circulating the business plan is an effective tool for unifying the center's key constituents around a common vision.

There are numerous excellent resources that can help guide you through the business planning and writing process. One of the most relevant is *Creating a Business Plan for a Community Health Center Project: A "How-to" Manual*, prepared by the Community Health Center Capital Fund and Capital Link. See *Additional Resources* at the end of this chapter.



## Section III # 1

### *Key Elements of a Business Plan*

#### **A. Executive Summary**

1. Organizational Background & Mission
2. Future Strategic Priorities

#### **B. History & Operations**

1. Health Center Background
2. Review of Operations
3. Programs & Services

#### **C. Management & Governance**

1. Management Experience & Responsibilities
2. Board of Directors and Governance
3. Current and Future Staffing Capacity

#### **D. Market Analysis & Strategy**

1. Market Context
2. Market Trends
3. Profile of Health Center's Patients
4. Competition

#### **E. The Facilities Project**

1. Project Description
2. The Development Team
3. Preliminary Project Budget
4. Anticipated Timeline

#### **F. Financial Operations**

1. Historic Financial Performance
2. Capital Needs & Fundraising Plan
3. Projected Financial Performance  
& Underlying Assumptions

#### **G. Attachments**

## **Preliminary Space Assessment**

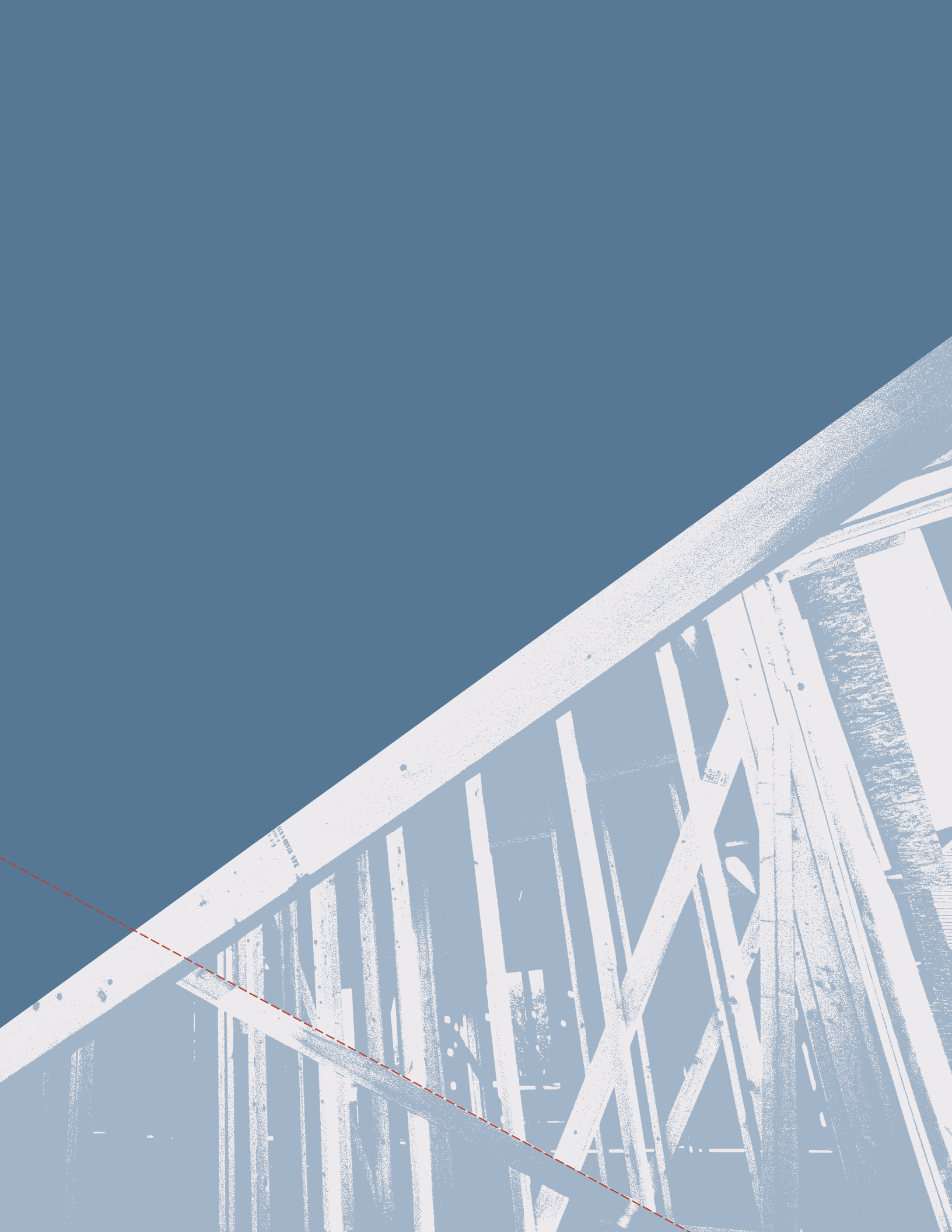
Once the feasibility and needs assessment stages are completed, the next step is the preliminary space assessment. Ordinarily, it is at this point that you retain an architect or space planner to oversee the process. It is ideal, but not absolutely necessary, for the architect who develops the space assessment to also design your facility, as well.

The preliminary space assessment is your first effort at conceptualizing the scope of your project, and a design professional can greatly facilitate that process. If done properly, the preliminary space assessment will generate a comprehensive listing of every room and/or space in the facility and its estimated square footage. Once you've accounted for the additional space required for circulation, mechanical, and utility spaces, you will have a preliminary working estimate of the project's total square footage.

One creative way to stretch a health center's budget is to design "multi-purpose rooms" during the preliminary space assessment. Multi-purpose rooms are spaces designed to suit a variety of uses such as education board meetings, employee lounges, and community meeting rooms. If designed properly, one benefit is that they can be divided into smaller spaces by using movable partitions. Your architect or other design professional can ensure that the design does not compromise any of its potential functions. For example, the furniture selected should be easily movable as the room use changes. Adequate storage for equipment that is not in use must be planned carefully as well.

## **Additional Resources**

1. *Creating a Business Plan for a Community Health Center Capital Project: A "How-To" Manual*, prepared by the Community Health Center Capital Fund and Capital Link (Boston, MA)
2. *Business Planning in Four Steps and a Leap*, written by Northern Initiatives (Marquette, MI)
3. *Business Planning Guide and Handbook*, written by Neighborhood Reinvestment Corporation (Washington, DC)
4. *How To Prepare an Effective Business Plan: A Step-by-Step Approach*, by Robert Howell and Robert Delaney
5. *The Successful Business Plan: Secrets and Strategies*, by Rhonda Abrams, The Oasis Press/PSI Research Grants Pass, OR (1993)
6. *The Business Plan Workbook*, by Gary A. Cooper, Prentice Hall, Englewood Cliffs, NY (1989)



## Section IV

# Pre-Development Phase

The following section is divided into two parts. First, we discuss the key players on your development team: who they are, how to pay them, and how to contract with them. Second, we review the major selection criteria for identifying a site for the project, and review critical site decisions that you must make early on: owning or leasing the site, and renovating an existing site or undertaking a ground-up construction project.

### A. The Development Team

A successful development project rests on a multitude of interconnected factors. The following section addresses the most fundamental component of the process: selecting and managing the development team.

The role of the development team is to render a concrete reality from a creative vision. This is accomplished by successfully coordinating the skills and efforts of professionals from many disciplines. Assembling a strong team from the project's very earliest stages will go a long way towards facilitating the project's success. By involving key players from the beginning, you guarantee that all team members:

1. “buy into” the entire project, from start to finish,
2. are well informed throughout the entire process
3. understand their respective roles and responsibilities, and
4. are readily available, when needed, to make their unique contribution.

Your team will meet countless times during the development process, which may range from one to three years (or even longer). Some individuals, such as the architect or project manager, will be a constant presence at nearly every stage of the process. Other specialized team members — attorney, real estate agent, engineers — will be brought in at crucial moments to provide their expertise.

**Regular, effective communications between team members is critical.** It is an excellent practice to establish a customary time for team meetings. These meetings are used to review progress, address outstanding issues, and generally ensure that everyone is “on the same page.” During the early development stages, the team might meet once or twice a month, and then more frequently as the project advances into the construction phase.

The major players on your development team are:

- The Owner
- The Architect
- The Project Manager
- The General Contractor
- The Attorney
- Consultants

## The Owner

Regardless of the number and/or quality of professionals on the team, the health center -- considered here as the owner of the building, even if leasing its space -- is ultimately responsible for all decisions. While professionals are paid to design, construct, and offer expert advice, it is the health center alone that must live with the consequences of their counsel, long after the last bill is paid. Thus, the health center must ask the right questions, evaluate the answers, and assess the short-and long-term impact of every decision, large or small, that may arise during the development process. Keep in mind that the design team works for you. Consider and evaluate their advice, but remember that you have the final say.

The executive director, the staff, and the board of directors each have a unique role and perspective to share during the development process:

- **Executive Director** The executive director (ED) is fully accountable for the project's ultimate success or failure. In many instances, the ED may delegate a certain degree of authority to a project manager (see below). This is often the recommended approach, given the magnitude of the typical ED's responsibilities. Yet even if the ED appoints (or hires) a project manager, it is the ED who must first define and lead the process by which the development project will be initiated, communicate regularly with the board about significant issues that arise during the process, and "manage the manager" who oversees the project on a daily basis.

- **Staff** Early on in the concept stage, the staff should be solicited for their input on layout and space considerations, since it is they who will be most affected by the building's final design. Be sure to make budget constraints clear to staff when soliciting input, so that their expectations aren't unfairly inflated. During the construction process, the staff's main role is to make sure that center operations continue to run smoothly. In the best of circumstances, the construction project takes place at an off-site location, providing minimal disruptions to daily operations. If construction is to be performed on an existing facility, staff should be kept well informed about its progress so as to keep frustration and anxiety levels to a minimum.

- **Board of Directors** As fiduciary agent, the board's role is to set the health center's long-term course and ensure that it stays true to its mission. In the context of a development project, it is the board's role to provide unified support and ask the right questions throughout the process (e.g., Will this capital project advance our mission? Is the project financially sound? Is the project being managed appropriately?). The board should be kept apprised about significant decision points (e.g., project scope, project budget, selection of major team players, final design, site selection, etc.), but should avoid micromanaging the process, and entrust the ED with the project's major responsibilities.

## The Architect

Choosing the "right" architect is essential to the project's success. Naturally, the individual you hire must have the vision, creativity, and technical skills to design the project. But of equal importance, he or she must be able to accomplish this task within the project's financial constraints. In short, the architect is the project's creative muse, but also must be enough of a pragmatist to render creative ideas into workable, cost-effective solutions. It is important to select an architect that has experience in designing health care facilities, and specifically health centers, if possible. Check with your peers to see whom they recommend.

The architect's primary responsibilities are to:

- Translate the project's space needs into a workable concept;
- Develop alternative schematic designs;
- Convert these preliminary designs into final blueprints from which the facility will be built;
- Hire and supervise engineers that may be needed (e.g., structural, mechanical, plumbing, civil); and
- Offer design advice, as needed, throughout the construction process.

Ideally, the architect should be hired early in the development process so as to avoid costly mistakes down the road. During the early concept and pre-development phases, your architect can help sort through the health center's facilities needs, consider functional uses of space, provide alternative design ideas, flag potential zoning or regulatory issues, and make design recommendations. If you are new to development, your architect will often provide leadership during the early stages of the development process.



## Section IV #1

### *Criteria for Selecting an Architect*

#### **(1) Experience with Similar Projects**

- How many projects has the architect designed of similar type, size, and complexity in the last five years? (Note: If possible, visit these projects. If not, look at pictures, but in any event, contact the owners and ask about their experience.)
- Have these comparable projects been brought in on time and on budget?
- Does the design quality demonstrate that they meet user needs, and are built to last?
- Does the architect have a keen appreciation for the unique demands of a community health center setting?

#### **(2) Experience in the Real Estate & Regulatory Environments**

- Is your architect "local"? How well does he/she know the local real estate community, which might prove useful in terms of possible site selection?
- Will the architect be able to help you navigate any zoning and/or permit issues?

#### **(3) Technical Expertise in Construction**

- What is the architect's level of expertise around construction issues?
- Does the architect have experience with any local contractors, tradespeople, etc.? Ask for references from general contractors with whom the architect has worked.
- How well has the architect been able to interpret his clients' needs while paying attention to their budget? Will the architect be able to help control costs, but still produce a high quality project?
- What is the architect's experience in bidding construction contracts? Can you rely on the architect's expertise, and does he/she add value to the bidding process?
- Does the architect have construction management experience? (This is not necessary but may be useful, depending on the project).
- What is the architect's experience with construction administration?
- How well have the architect's previous projects withstood the test of time? Contact previous owners of similar/dissimilar projects to test this criterion.

#### **(4) Understanding of Funding Issues**

- What is the architect's level of understanding about the funding requirements of your project?
- Does the architect have a keen appreciation of the budget constraints of your project?
- Can the architect develop cost-effective solutions to your unique design requirements?

#### **(5) Personal Issues & Characteristics**

- Is the architect enthusiastic about your project and committed to working with the health center?
- Will the architect you are interviewing be available during the entire development process, or will your project be handed off to other team members who you don't meet at the interview?
- Do you think you would feel "comfortable" working with the architect during the lengthy development process? Is his/her personality well suited to working on the development team?
- Is the architect a clear, effective communicator?

## The Project Manager

The role of the project manager (PM) is to coordinate every aspect of the project and manage each and every development team member. While the owner is ultimately responsible for the project's success (or failure), the PM has daily project responsibility for the myriad details that require attention. Therefore, this is an individual who ought to wear a sign saying "the buck stops here." Many lenders require that the owner hire a third party project manager as a condition of extending a loan.

Similar to the timing for bringing your architect on board, the PM should be identified at the project's earliest stages. Indeed, one of the PM's first major tasks might be to coordinate the architect selection and hiring process. An ideal candidate for the PM role is an individual with a technical background (e.g., engineer, contractor, real estate developer), who has successfully managed similar projects. During the development process, the PM will be juggling multiple tasks, coordinating schedules, and mediating on behalf of various team members. Consequently, this person should also have a meticulous attention to detail, strong organizational abilities, and effective communication skills.

The PM can be a health center employee (e.g., Executive Director/CEO, Deputy Director, Chief Operations Officer, Chief Financial Officer, Director of Development), or an individual hired specifically for this purpose. Obviously, overall project costs are reduced if a health center employee is charged with this role. But are the cost savings worth it? Most people vastly underestimate the time it takes to manage a facilities development project, and it is rare that the ED or another manager can dedicate 100% of their time to project management. The daily distractions and interruptions of their primary job responsibilities do not provide him or her with the singular focus that is needed to ensure the project's success. Further, few health centers have an individual with the right combination of skills and experience to take on total project management responsibility. Finally, if the PM is a health center employee, the lender may still require the health center to hire a qualified third party Owner's Representative to oversee the process.

## General Contractor

The general contractor (GC) coordinates all aspects of construction, whether it is new construction or a major renovation project. The GC is frequently selected through a bidding process, after the construction documents are completed. He or she works from the architect's final drawings and specifications. Since the architect and GC must work closely together, it is important that they maintain a collegial, mutually respectful work relationship.

The GC's responsibility is to hire electricians, plumbers, carpenters and other subcontractors, and to make sure the work is completed in a timely fashion and in accordance with the design documents. During regular team meetings, the GC should provide a detailed report of construction progress and actual costs incurred against the established budget. Also at these meetings during construction, the GC, the architect and the PM will review any necessary "change orders" to the construction contract. Section VI, **Construction Phase**, provides a complete discussion on selecting and negotiating with a general contractor, in addition to other topics related to the construction process.

## The Attorney

The attorney's major role is to protect the ongoing interests of the health center, from the development's earliest concept stage, to the facility's ribbon-cutting ceremony. In this regard, he or she negotiates substantive business issues, drafts various legal agreements that the health center enters into (or reviews other attorney's drafts), and advises the health center at critical moments (i.e., negotiating a lease with a prospective landlord, purchasing a building, or finalizing a construction contract). It is important that you use an attorney who has experience in *local* real estate matters, since real estate practices often vary significantly by location.

Depending upon the nature of the project, you may find it necessary to solicit specialized legal advice. For example, if you are financing the project with tax-exempt bonds, you must have bond counsel—an attorney with specific expertise in reviewing the bond purchase agreement and other legal documents associated with this complex financing method.

## The Real Estate Agent (Optional)

While a real estate agent is not an essential member of the development team, it is often useful to have a relationship with one since they are knowledgeable about market conditions, and therefore, may be aware of available properties that are outside the team's field of reference. The role of a real estate agent is to facilitate the purchase of an improved or unimproved parcel of land or facilitate the purchase of a building between a seller and a buyer. If you intend to lease a building, a real estate agent (or other real estate professional such as a commercial leasing agent) can also locate leased space.

Keep in mind that, unless you have a specific agreement with a "buyer's agent," the real estate agent always represents the seller (or property owner). This arrangement dictates how commissions are calculated, who pays the fees, and the type and nature of disclosures that are provided about the property.

Depending upon your project's complexity, there may be many other members of your development team that play a minor, albeit important role at some point during the project. Examples of other team members include cost estimator, environmental audit firm, interior designer, information technology consultant, and financial consultant. (*Developing a Health Center: A Guide for Health Center Staff and Boards on Managing the Design and Construction Process*, Boston: Capital Link and Primary Care Development Corporation, 2001, pp. 65-67 Appendix D.)



## Section IV #2 List of Potential Project Team Players

The following table has been reprinted with permission from *Developing a Health Center: A Guide for Health Center Staff and Boards on Managing the Design and Construction Process*, Boston: Capital Link and Primary Care Development Corporation, 2001 (pp. 65-67 Appendix D).

Team Member	When to Hire	Role/Function
Architect	During program planning	Works with you to design the space.
Architect's Engineers	Hired by the architect when you hire the architect	Works with the architect and you to design the structure and systems in the space.
Asbestos Inspector	Once you select a structure to renovate or demolish	Surveys the structure for the presence of asbestos and provides a report to you describing the findings. Often includes remediation suggestions and estimated remediation costs.
Attorney(s)	After preliminary planning work is done but before you hire any members of the project team	Ensures that contracts with team players reflect the business terms you negotiate and protects you. Also negotiates and/or reviews legal documents for site acquisition and financing. May represent you in zoning matters.
Clerk of the Works	During the bid phase	Works for the owner to organize and maintain the correspondence, books, records, papers and materials generated during the construction phase.
Construction Manager (Pre-Construction)	During the schematic design phase	Meets regularly with you and the architect during the design phases to provide construction insight into the design as it develops. Also provides cost estimates. Can help save you time and money by suggesting design alternatives and giving cost feedback.
Construction Manager	Hired at the bid stage for the construction period	Can either act as your agent and manage all sub-contractors on your behalf, or act as a general contractor and hire sub-contractors directly.
Cost Estimator	During the design development phase	Provides cost estimates based on the design development drawings and specifications to confirm whether the design can be built within your budget.
Environmental Audit Firm	During schematic design phase	Investigates the land and/or structures of your site and surrounding areas to ascertain whether there are any environmental risks. Often required by lenders to assess potential liability to the project for correcting environmental factors (e.g. oil spills) or other conditions (e.g. archeological sites).
		<i>Continued on next page.</i>

## Section IV #2... continued

### List of Potential Project Team Players

Team Member	When to Hire	Role/Function
Equipment Planner	During design development phase	Works with you to identify the medical equipment you need for the project. Can inventory existing equipment as well as specify new equipment. Should work with the architect to coordinate placement of equipment with design drawings and to coordinate mechanical, electrical and plumbing needs.
Expeditor	During design development phase	In some jurisdictions, helps move project through government approvals expeditiously.
Financial Feasibility Firm	During initial planning phase	Analyzes the project and your organization from a financial perspective to assess whether the project you want is viable and you can afford it.
General Contractor	During the bid phase	Builds the project according to the construction drawings and specifications.
Geotechnical Investigation/Soil Borings	During the schematic phase	Tests and analyzes ground area under and around project for factors requiring special design attention (e.g. structural options, water runoff, etc.). Unnecessary in a rehab only project.
Graphic Designer/Signage	During the design development stage	Works with you to develop the wayfinding signs and graphics for the project. Sometimes included in the architect's or interior designer's services.
Interior Designer	During the design development phase	Works with you to select the colors, furnishings and furniture. Works with the architect to coordinate interior design requirements with design drawings and specifications.
Investment Banker	During the planning phase	Helps you obtain unconventional (e.g. other than a commercial bank) financing.
Lender's Representative	During the construction phase	Hired by the lender (paid for by the owner) to monitor the progress of the project, identify problems/issues with the lender's security and approve draws on the construction loan.
Owner's Representative	During the construction phase (Sometimes during the design phase if needed to compensate for the owner's lack of in-house construction expertise)	Monitors the contractor's performance and progress of the work during construction. Works for and reports to the owner.  <i>Continued on next page.</i>

## Section IV #2... continued

### List of Potential Project Team Players

Team Member	When to Hire	Role/Function
Program Planner	During the planning phase	Helps you define and detail the specific programs, services and activities that you want to provide in your new space.
Real Estate Appraiser	During the site evaluation phase	Uses standard techniques to assess the value of a property you want to purchase.
Security Systems Advisor	During the design development phase	Works with you to plan the security systems for the project. Coordinates technical specifications and requirements with the architect.
Site Surveyor	During the schematic design phase	Surveys the property to show the boundaries, existing structures and encumbrances. Sometimes shows utility lines and topographical features. For use by the architect (if building a new structure) and the lender (for the mortgage).
Space Planner	During the planning phase	Helps you assign rooms and square footage to all programs, services and activities outlined in your program for services.
Telecommunication/MIS Advisor	During the design development phase	Works with you to plan the voice and data systems for the project. Coordinates technical specifications and requirements with the architect.
Title Company	During the site evaluation phase	Issues a report describing who owns the site and any liens or encumbrances affecting the site. Issues a title policy confirming your ownership when you acquire the site. Can issue title insurance to you and your lender guaranteeing title and the priority of the lender's mortgage.
Zoning/Code Consultant	During the schematic design phase	Analyzes the zoning and building codes applicable to your site to determine whether any variances or special waivers or permits are necessary. Often an architect performs this function unless your jurisdiction has complicated zoning or code requirements.

## Paying Your Development Team

There are many industry-accepted compensation approaches in the real estate and building professions, but they each vary according to project scope and level of complexity. Regardless of which payment method is used, you must be sure that you and your development team members are clear about the desired scope of services, and that the fee arrangement is negotiated at the beginning of the project.

Most **attorneys** are paid at an hourly rate, based on the number of hours billed (plus any out-of-pocket expenses such as photocopying, filing fees, overnight mail services, etc.). It is advisable to obtain an estimate from the attorney on what his or her time on your project will cost, from start to finish. On the other hand, **architects** may be paid in one of several ways, depending upon the level of services and complexity of the project:

**(1) Fixed (stipulated sum) Fees** In a fixed fee structure, an architect quotes a fixed price for the entire project. Fixed fee payment methods are advantageous because they help control costs. You as the owner should still carry a contingency in the event that unforeseen expenses arise during the course of the project. You should make sure that you understand what services are included in the fee, so that you can effectively evaluate its reasonableness. For example, it is reasonable for your architect to limit the number of redesigns for the project during the schematic phase, but by how much? How many redesigns is it fair to expect? How many times will your architect visit the site during the construction phase? Architects' fees are usually tied to the phase of the design work being completed (e.g., schematic, design development, construction documents, construction administration).

**(2) Hourly Billing** Hourly rates are a flexible method of payment when the exact project scope is not fully defined. An inherent downside to this approach is that the fee cannot be accurately budgeted. One way to overcome this obstacle is to use hourly billing during the very early stages of the project's concept, and then convert to a fixed arrangement during the design development stage. Out-of-pocket expenses (or "reimbursables") are usually billed separately, and can be capped at a preset amount.

**(3) Percentage of Construction Cost** This payment approach ties the compensation to total construction costs. Many architects shy away from this payment method because it (erroneously) assumes that the construction cost is somehow proportional to the architect's effort. It may also penalize the architect who attempts to work with the client to reduce construction costs during the design stage, because if the total construction costs are lowered, the architect's fees will be lowered in turn. This payment approach may not provide the architect with a financial incentive to reduce construction costs.

Banks typically prefer that the fee be capped when the construction contract has been finalized and prior to closing of the construction loan. **General contractors** are usually paid in one of three ways, although the first two methods (i.e., stipulated sum and cost plus guaranteed maximum price) are most commonly used.

**(1) Stipulated Sum Contract** This is a fixed price approach in which the contractor specifies an amount that he or she will charge for the entire project based upon detailed design and materials specifications contained in the final construction documents. Value engineering must occur before the contract is executed. Any changes to the contract are made using a “change order” which increases or decreases the final contract amount (see Section V for further information on this topic).

**(2) Cost Plus with a Guaranteed Maximum Price (GMP)** This is another fixed price approach, however, in contrast to a stipulated sum contract, there may be more flexibility built into a GMP since the contract has built-in allowances for value engineering design. For example, the contract may quote a GMP that has a 10% contractual allowance built into the total price. If the contractor can identify cost savings during the construction process, those savings are split (on a pre-determined basis) between the owner and the GC. Conversely, if the GC errs and incurs additional costs, these are borne by the contractor alone. Like the stipulated sum contract, any unforeseen changes to the costs are made using a change order.

**(3) Time and Materials** In this approach, your contractor is paid an hourly labor rate, plus all materials. This may be a good payment method for a relatively small renovation job of limited duration and complexity, but it is not suitable for a major construction project of any type.

For certain consultants (e.g., attorneys, architects), health centers might sometimes be tempted to rely on a *pro bono* arrangement with a current or former board member, or other friend of the health center. This approach can work, and will undoubtedly save you money that can be put to use in other parts of the budget. However, it can also present serious downsides. For example, an attorney that provides services on a volunteer basis may be tied up with a paying client at a crucial point in your negotiations. Moreover, if you are dissatisfied with the quality of product, it makes for a very awkward situation. In short, it is usually a much better approach to hire professionals so that you can better control the quality and pace of their work.



## Contracting with Your Development Team

The health center must enter into a legally binding contract with each development team member prior to the commencement of services. The contract must clearly spell out the scope of services to be provided, the timeframe during which services will be provided, the respective parties' rights and responsibilities, the fee schedule, and other matters that define the nature of the relationship between owner and development team member.

The building and construction industry relies heavily on standardized forms of contracts. There are contract forms for bonding, insurance and other legal representations and warranties. Your GC should also provide general conditions of the contract (sometimes separate from the actual construction contract) that outlines rights, responsibilities and duties of the owner and contractor, as well as Contract Modification forms used for change orders. Form contracts developed by The American Institute of Architects (AIA) are widely used by many of the players in the development process in addition to architects, including general building contractors, construction management firms, and lenders. Building contractors also use standardized forms provided by The Associated General Contractors of America (AGC). Even if your development team relies on standardized forms of contract that are routinely used, you must read them closely so that you understand their key terms and conditions. For example, in a "standard" architectural design contract, certain deliverables such as models, artist's renderings and computer graphics may not be included. Finally, your attorney should also review all documents before you sign any contract.

## B. Site Selection

**(1) Selection Criteria** Selecting the site is undoubtedly one of the most critical phases of the development process. Ideally, site selection should take place after the preliminary space assessment is completed. If approached in this order, potential sites can be thoroughly analyzed to make sure they can physically accommodate the proposed project. If the site is selected ahead of time, you may find that you have to compromise on key design aspects due to site limitations.

At this stage, health centers may fall prey to a common pitfall: since the costs associated with the development process are enormous, the design team may feel pressure to develop a workable site plan quickly and move on, rather than testing various ideas and choosing the best one. Professionals often recommend developing one, two, or even three alternative site plan concepts and doing so for multiple sites if more than one is under consideration. Consider the following:

1. By accepting the first plan that seems "OK," you may be forced to make design compromises later in the development process, ending up with a project that is less successful than it could have been;
2. By analyzing alternative site plans, you can truly compare costs and design features in a tangible, rather than abstract, way;
3. By evaluating multiple options, you can more effectively rank project priorities (e.g., cost? location? size?); and
4. By allowing yourself to do a comprehensive review of multiple site options, you are more likely to convince lenders and other funders that you are committed to building the best project possible.

During the site selection process, the development team may encounter situations where the site might not be ideal, but where a creative design plan can offset challenges. In another setting, you may conclude that no amount of effort or re-design can overcome a site's inherent deficiencies. Before purchasing a piece of property or a building, one must confirm that the zoning allows your project to occupy that particular site. This is one of the investigations that is conducted during the "due diligence" period prior to closing on the purchase. Other due diligence items include verifying that adequate public utilities are available, and that there are no environmental hazards on the site, and conducting a geotechnical (soils) investigation if new construction is planned.

In short, site selection is the systematic process of examining multiple options and assessing their relative advantages and disadvantages, based on numerous factors.

## Section IV #3

### Site Selection Criteria

#### 1. Location

- Is the site located in the health center's primary service area?
- Is it accessible by public transportation?
- Is it convenient for clients, staff, and providers?
- Are nearby traffic levels adequate?
- Is the site visible to passersby, on foot or in vehicles?
- Are adjacent businesses appropriate (e.g., access to other health providers such as labs, X-Ray, pharmacy)?
- Is there a history of crime or vandalism in the area?
- Is the area suitable for evening clinic hours?

#### 2. Site/Land

- Is there access to utilities (e.g., electricity, sewer, water, gas, phone)?
- Will the site require heavy maintenance (e.g., topography, drainage, retaining walls or geotechnical issues)?
- Is the proposed use for the project permitted by zoning? (For example, can you build the type of project you want on the site?)
- Is there adequate space for parking?
- Are the soil conditions conducive to the project's structural needs?

#### 3. Building

- Is the size adequate and can it accommodate future growth?
- Is it structurally sound?
- What is the condition of the roof, exterior walks, and windows?
- What is the condition of all major systems (e.g., plumbing, electrical, heating/ventilation)?
- Can the seller or broker provide you with recent utility bills from all seasons?
- Has the building been checked for asbestos, lead paint or other hazardous materials?

#### 3. Building... continued

- Are there appropriate fire exits?
- Is the building ADA-compliant (Americans with Disabilities Act)?
- Can the space be easily reconfigured for clinical and administrative space?
- Will projected energy costs be reasonable?
- Is there proper drainage in the basement?
- What is the condition of adjacent and nearby properties?

#### 4. Costs & Renovations

- Is a recent appraisal available?
- Is the purchase price (or lease rate) reasonable, and comparable to similar sites of similar age and quality?
- Are the preliminary costs for improvements reasonable? Have they been confirmed by your architect or project manager?
- What are the estimated maintenance costs?

#### 5. Legal/Timing Issues

- Is it vacant and available immediately?
- Is the seller motivated to sell within your timeframe?
- Is sufficient financing available to complete the transaction within the required timeframe?
- Are there zoning restrictions? Will there be a need for zoning variances or lengthy hearings? Required setbacks? Legal easements or rights of way across the property? Prior title issues?
- Are you permitted to display signage on the site?
- Will building permits be available within the required timeframe?
- Are there any political issues that would block approval of the site? Are the neighbors likely to be supportive?

\* Loosely adapted from NCBDC's *Charter School Facilities: A Resource Guide on Development and Financing*

As your development team considers its options, you should become familiar with two common calculations to assist in your decision-making:

• **Cost Per Square Foot** (cost psf) is total cost divided by total square feet of space. For leased space, you would multiply the rental rate by the number of square feet to arrive at your annual rent. The definition of “usable square footage” varies by local custom. (Find out if the definition in your community includes space taken up by walls, elevators, etc.) Taxes, insurance, and utilities may or may not be included, so this should be carefully verified. If these items are not included in the base lease rate, this is referred to as a “triple net” lease, meaning that the base rate is net of these three expenses, and that the lessee (the health center) is responsible for payment. For a building purchase, the cost psf is the purchase price divided by the total building square footage. Your development team should verify how square footage is determined, (preferably by an independent third party appraisal) and whether or not it also includes unusable space. Finally, for a land purchase, the purchase price may be quoted on a per acre, or per square foot basis.

• **Cost of Improvements** This is a more difficult figure to develop, as it is based on a preliminary budget for a potential site.

• **Financing the Project** If the site is purchased, your development team must estimate the cost of hard improvements plus all “soft costs”: (consulting fees, appraisals and other third party reports, financing fees, and closing costs). If the site is leased, you must calculate the one-time costs to “improve” the property so that it is ready for occupancy. Some landlords will provide a building allowance that can be applied to your improvements, and this consideration should be factored into the calculation.

**(2) Own vs. Lease** Many health centers face the dilemma of whether to purchase or lease a facility. There is no right answer. Both options have advantages and disadvantages, and must be evaluated in the context of your unique circumstances. In the event that you choose to lease a site, it is crucial that you pay attention to these finer points:

- Who is responsible for utilities, taxes, and insurance?
- Who is responsible for property maintenance, both interior and exterior, site maintenance (e.g., snow removal), and custodial duties (e.g., trash removal)?
- Is there access to shared amenities (e.g., parking, common space, etc.)?
- Does the owner provide access to the site after regular business hours, in case the health center offers evening appointments?
- What type of building security is available, and who is the responsible party?
- Will the owner provide a rent abatement clause? (This is typically a reduction in rent for a specified number of months, usually while the premise is being improved and the tenant is financing his or her own improvement.)
- What type of notification will you receive prior to lease termination? Are there options to renew the lease?
- Is there a purchase option at the end of the lease term? Are there any restrictions on the type and amount of leasehold improvements that you can make to the property? Does the owner give you a leasehold improvement allowance?
- Is there a subordination clause in the lease? For example, will the landlord provide a subordination to your lender for the purposes of financing leasehold improvements?
- Is there any lease clause that addresses disposition of hazardous or medical waste materials?

## Section IV #4

### Own vs. Lease

Owning	Leasing
Advantages	Advantages
Is usually appropriate for health centers that are knowledgeable about financial and legal issues surrounding property ownership	Provides greater flexibility in case the health center decides to move at a later date
Allows the health center ultimate control over the physical plant	Depending upon the lease agreement, the health center might be able to apply a portion of lease payments towards purchase at a later date
Protects from the uncertainty of short-term leases or "difficult" landlords	Usually requires less upfront cash
Provides the health center with a sense of permanence and investment in the community	May not carry the responsibilities of property management
Is an effective approach to build equity	The health center is not affected in the event of a real estate downturn, and in fact could benefit from a soft rental market
Disadvantages	Disadvantages
Requires an upfront cash investment	Creates uncertainty at the end of the lease term; the health center may have to locate alternative space if the landlord chooses not to renew the lease
Requires a substantial investment of time	May be harder to obtain financing for leasehold improvements and other capital purchases since some lenders will not accept a lease as collateral
May require significant fundraising and/or long-term debt burden	Can be more costly over the longrun since the cost of any property improvements cannot be recouped
Requires ongoing maintenance and other responsibilities of property management	Does not provide the health center with direct control over property management issues
	Often difficult to estimate (and/or control) CAM (common area maintenance costs)- costs of space shared with other tenants

**(3) Renovation vs. New Construction** Another crucial decision variable is whether to renovate an existing building, or to construct a new facility, also referred to as “ground-up construction.” Again, there are relative advantages and disadvantages to both, and each must be reviewed in the context of your health center’s unique circumstances.

Your development team may decide to construct a new facility for many reasons.

- First, the existing building may be configured such that there is no additional space and/or no viable options for renovating or adding on.
- Second, in a ground-up construction project, you have control over more variables, and therefore you are more likely to achieve your goals within your budgetary constraints. Your architect can design a building with your specific requirements in mind, rather than being forced to work within an existing space.
- Third, there may be less disruption to current operations since construction will be taking place off-site.
- Finally, there are more “surprises” connected with renovating an older building due to hidden or unforeseen conditions. Most budgets add a contingency factor of 10% for new construction versus 15 to 20% for a renovation project.

There may be compelling reasons to renovate the health center’s current site, or purchase another building and retrofit it to suit the health center’s needs. The center’s current location may be a huge advantage for staff and patients. There may be no available land on which to construct a new building. Your development team may locate a building that, with relatively minor renovations, addresses your space and design requirements. An engineer’s building evaluation or assessment may also reveal that the building’s structure, roof, and mechanical systems have sufficient life before replacement is needed. In other words, there are major considerations in a renovation project. For example:

- What level of rehabilitation will be needed to implement the program in this building?
- Will hazardous materials become an issue during the renovation?
- What code compliance issues are involved?
- If the health center’s site will be renovated, how will you manage current operations, and where will they be situated during the construction project?
- Will the building accommodate the types of mechanical systems, energy improvements, and safety features needed?
- Is the building appropriate for the health center’s programs and activities? Is it a “good fit”?
- Will the building be accessible to people with disabilities?

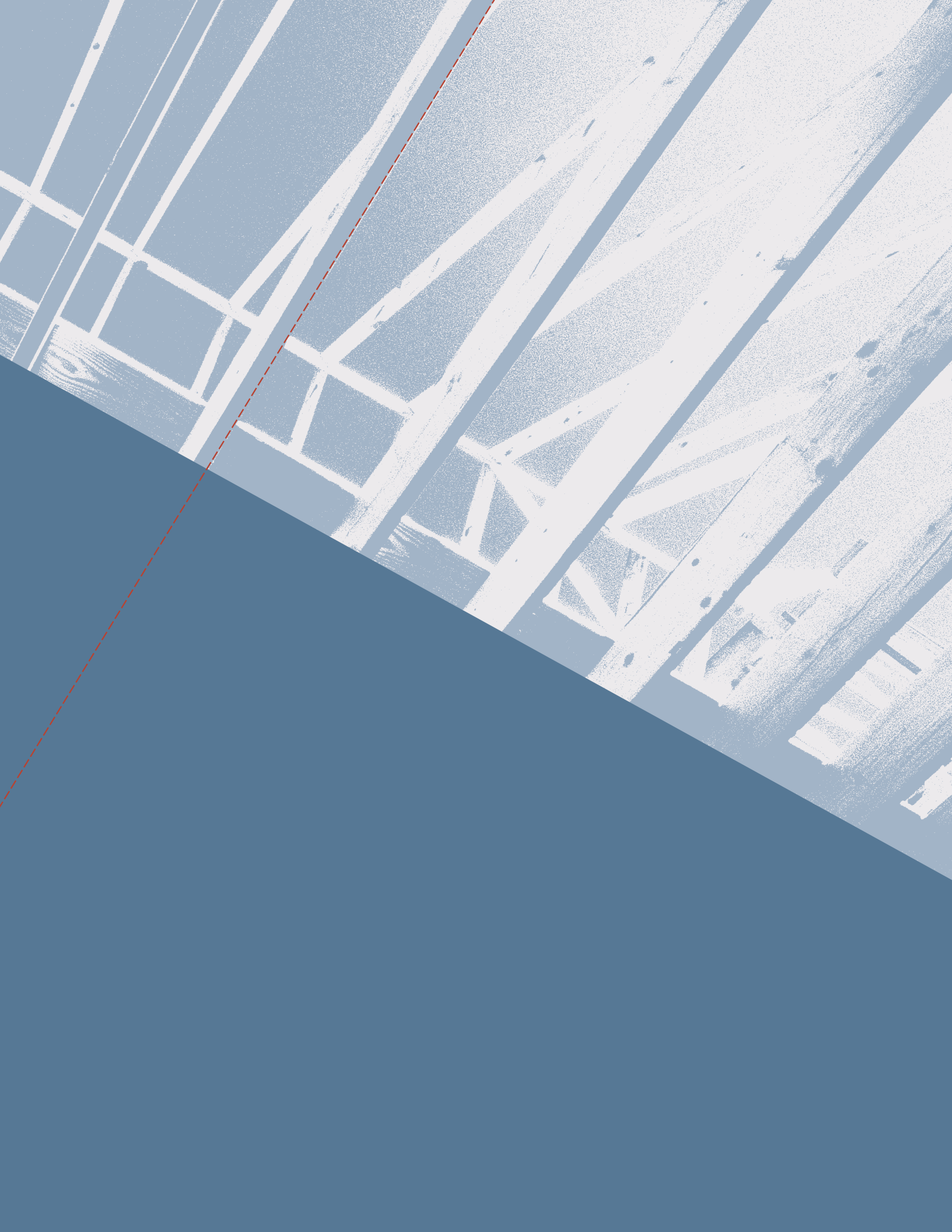
In sum, it is important to consider alternative options (and carefully estimate the costs of each) before making a decision.

### **Additional Resources**

1. The American Institute of Architects ([www.aia.org](http://www.aia.org))
2. The Association for Community Design ([www.communitydesign.org](http://www.communitydesign.org))
3. The Design Advisor ([www.designadvisor.org](http://www.designadvisor.org))
4. *Developing a Health Center: A Guide for Health Center Staff and Boards on Managing the Design and Construction Process*, prepared by Primary Care Development Corporation ([www.pcdcnyc.org](http://www.pcdcnyc.org)) and Capital Link ([www.caplink.org](http://www.caplink.org))
5. The Associated General Contractors of America ([www.agc.org](http://www.agc.org))
6. *Capital Project Case Study: Great Brook Valley Health Center, Worcester, MA*, prepared by the Massachusetts League of Community Health Centers and the Community Health Center Capital Fund in collaboration with Capital Link (Boston, MA)
7. *The School Design Primer: A How-To Manual for the 21st Century*, The Little Institute for School Facilities Research, Little and Associates Architects (1996)







## Section V

# Development Phase

The following section consists of two parts. The first part describes the steps to be undertaken during the project's design. What follows is a discussion of the major activities that must be completed prior to starting construction.

### A. Design Stage

The design stage is one of the most exciting aspects of the development process. It is during this stage that your development team pulls together the ideas, desires, and constraints to shape them into a viable plan, and ultimately, into a tangible project. Although not always a linear process, the design stage most often consists of five distinct phases:

1. finalizing space assessment,
2. pre-schematic design,
3. schematic design,
4. design development, and
5. preparation of construction documents. You will usually begin the important task of selecting and negotiating with a general contractor after the design phase is completed.

#### • Finalizing Space Assessment

During the concept and pre-development phase, the health center completed a preliminary space assessment. Before the design stage gets fully underway, you must finalize your space assessment. The process involves a final count of every room and space that you want to include in your building project along with the ideal dimensions. The sum total of these dimensions provides you with a net square footage number.

Using the net square footage number, your architect will apply a multiplier to account for additional space requirements that are not part of the space assessment. These additional spaces may include corridors, mechanical rooms, shafts for ductwork, telephone closets, and so on. The total of these computations is a gross square footage number.

Depending upon the building's space configuration, the gross square footage figure may be as much as 30% higher than the net square footage figure.

There are numerous factors that increase the gross square footage number. For example, you may choose to have double-loaded versus single-loaded corridors. In a double-loaded corridor, there are rooms on both the right and left sides. By contrast, in a single-loaded corridor, rooms feed off from only one side. Thus, while single-loaded corridors use the same amount of corridor space as double-loaded corridors, they are less efficient because the hallway is serving only half as many rooms. Once the final preliminary space assessment is completed, your architect can begin the pre-schematic design by giving the entire space an orientation that makes sense.

#### • Pre-Schematic Design

The pre-schematic design phase involves combining basic concepts about the building's space with its functional needs and translating them into a visual design. Using data gathered during the concept and predevelopment phases, your architect will prepare rough drawings of the building's interior and exterior space assessment. During subsequent stages, these sketches will be considerably refined until they ultimately form the basis for the building's actual construction. However, don't underestimate the importance of the preliminary drawings. They are extremely useful down the road, serving as visual points of references for progress made. Frequently, an idea that seems great in theory turns out to be quite different when illustrated on paper.

Typical "deliverables" at this stage are large block (or "bubble") drawings showing the basic outlines of a floor plan, major service and/or activity areas, and space flow. These drawings are compared to the final space assessment to make sure that all functional space requirements are included. At this early design stage, it is fairly easy and inexpensive for your architect to make changes to the drawings, so it is important to confirm that the project's major components and requirements are addressed for the purposes of subsequent design refinement and development of preliminary cost estimates.

### • Schematic Design

The schematic design stage more firmly establishes the project's scope and conceptual design. Rough sketches produced during the pre-schematic phase are refined into more detailed drawings, showing the total space assessment and related dimensions, floor by floor and room by room, including common areas, hallways, entrances and exits. Also during this phase, your architect will begin developing detailed specifications about major project components such as the type, quantity, and quality of materials; proposed systems (e.g., electrical, plumbing, heating, ventilation and air conditioning or HVAC); and other features of the proposed building such as stairways, roofs, foundation, walls, and doors.

A typical set of "deliverables" might include preliminary building plans with elevations (what the exterior of the building looks like from all sides) and sections (views through the interior of the building as if it were sliced apart), perspective sketches (or study models), electronic visualizations and a statistical summary of the building area and other characteristics. Often, it is worthwhile to commission an artist for a rendering of the site with exterior landscaping. Many of these documents will be used to make presentations to key constituencies, to solicit support from funding sources, and to respond to third party regulatory agencies (see section below entitled "Third Party Approvals").

Since the schematic design deliverables are now further advanced, your development team can develop more accurate cost estimates based on the project's specifications. Consequently, this is an appropriate time to evaluate design alternatives and options. You should also recognize that as your project is further refined, design changes become more costly.

### • Design Development

In the design development stage, your design team will be building upon each and every decision made during the pre-schematic and schematic phases, and further refining them into a unique, highly specific architectural design from which the construction documents will be prepared. Your architect will present a clear and well-coordinated description of every design aspect of the building (interior and exterior), including actual space dimensions. Decisions will be made (and finalized) regarding every necessary building system (e.g., mechanical, plumbing, electrical, fire protection).

Also at this stage, major decisions must be finalized about all materials to be used to construct the building, as well as smaller, but equally important decisions such as room signage, room numbers, and a keying system for all doors. The room numbers assigned by the architect for reference purposes may not be the room numbers you want on your room signs.

The "deliverables" at this stage are similar to those in the schematic design stage, but considerably more detailed and refined. For example, the drawings will show the exact location (and dimensions) of every room, hallway, door, floor, and system component. Since the building's design is becoming more detailed, this is the time when more complete cost estimates are prepared. Also, preliminary conversations should begin with the local and state regulatory departments that will issue permits, licensing and other approvals (see section below entitled "Third Party Approvals").

### • Value Enhanced Design

Value engineering (or more broadly, "value-enhanced design") is a widely accepted approach to identifying areas for cost savings in the building design by considering less expensive alternatives. Development professionals place an emphasis on value in any building project. This process allows your team to identify and manage conflicting project values such as cost, quality, long-term performance, and scheduling issues.

For value engineering to be most useful, the process should be completed towards the end of design development. With the help of a third party consultant (usually one with an engineering or construction background), each major project component that involves relatively expensive materials and/or systems (e.g., mechanical, electrical, plumbing) is evaluated against a more economical alternative. By systematically assessing each major project component, you can make better-informed decisions about how to best allocate your budget.

For example, you may want brick veneer on all exterior walls, but find that it is too expensive. A good compromise might be to put brick veneer on the front and side walls only, and to use a less expensive material for the rear walls. The point is to identify the designs and materials elements that are critical to the project. Then you can more effectively manage trade-offs and adjustments so that the overall project is not compromised.

A related activity is “design alternatives,” a process of considering different design options. For example, the health center may anticipate future patient growth, but cannot presently build additional space due to budgetary restrictions. Thus, your development team may consider a design alternative during the design process that would address future growth. One option might be to purchase a larger site than is needed for the actual dimensions of your building, so that you can build an addition at a later date. A second option might be to design and build a second story, but postpone the major costs associated with it, such as installation of the elevator, construction of interior partitions, and finishes.

In sum, using a design alternatives approach enables you to build the facility within the constraints of your budget, but allows for future growth without compromising the project’s design. You should also consider the use of “bid alternatives” i.e., alternative design elements that you might want to include or exclude, depending upon the cost of the project. This topic is further discussed in Section VI, **Construction Phase**, Managing the Constructing Process.

## • Construction Documents

Once the design development phase is complete, your architect along with any engineer(s) and other consultants that he or she may employ, is ready to prepare detailed construction documents. Completion of the construction documents is one of the final steps to be taken before putting the first shovel in the ground. In short, construction documents are a written and graphic documentation used to bid, and ultimately build, the project. They serve at least three objectives:

1. To provide you, the owner, with a detailed look at the entire scope of the project;
2. To clearly communicate to the GC the exact quantities, qualities, and configuration of variables required for project construction. In turn, the GC will use these documents to solicit bids and/or estimates from subcontractors and suppliers that he or she will engage; and
3. To be submitted to third parties (e.g., licensing and permitting authorities, financial institutions, etc.) to obtain the approvals necessary to move forward with your project.

Producing the construction documents is a major undertaking, and it involves a collective effort by many design professionals. If your health center development project is typical, the preparation of the construction documents will likely include participation by architects, civil, structural, mechanical and electrical engineers, landscape architects, fire protection specialists and interior designers. It’s not uncommon to have additional input from door hardware consultants, security consultants, and other professionals as well.

While most of the effort expended during this phase is by the design team, communication with you, the owner, is very important. During this period, numerous decisions are made that will affect the outcome of the final project and, most importantly, the budget. As the working drawings take shape, your development team will formulate more detailed budget estimates. It is vital that you stay very involved during this stage of the process. It is far cheaper to make changes on paper than to be forced to rip out a section of brick or dry wall once construction is underway!



## Section V #1 What to Expect In Each Phase of the Design Process

The following table has been reprinted with permission from *Developing a Health Center: A Guide for Health Center Staff and Boards on Managing the Design and Construction Process*, Boston: Capital Link and Primary Care Development Corporation, 2001 (pp. 40-41).

Phase	Drawings	Specifications	Cost Estimate
Pre-schematic	<ul style="list-style-type: none"> <li>• Bubble or block drawings</li> <li>• Show general location of each service or activity area in relation to others, but no actual rooms</li> <li>• Used to establish flow patterns and to verify that all program requirements fit</li> <li>• Drawn from the space plan</li> <li>• Simplest level of drawings; no details</li> <li>• Easiest drawings to change</li> </ul>	<ul style="list-style-type: none"> <li>• None at this stage</li> </ul>	<ul style="list-style-type: none"> <li>• “Guesstimate” or “conceptual” costs based on square foot estimates (no subcontractor input)</li> <li>• Includes large contingency amounts because design is not specific</li> <li>• Used to confirm that preliminary design choices are within budget</li> </ul>
Schematic	<ul style="list-style-type: none"> <li>• Single-line drawings</li> <li>• Typically 1/16th scale (1 inch = 16 feet)</li> <li>• Show space floor by floor and room by room</li> <li>• Include every room listed on the space plan and all other spaces and areas (e.g. mechanical and storage)</li> <li>• Relatively easy to change</li> </ul>	<ul style="list-style-type: none"> <li>• Outline specification</li> <li>• Describe type and quality level of materials</li> <li>• Describe the proposed building systems and features not otherwise shown on the drawings (e.g. type and level of interior finishes, foundation walls, site work, stairs, roofs, doors, hardware, casework, plumbing, electrical and HVAC system)</li> </ul>	<ul style="list-style-type: none"> <li>• Refined conceptual estimate</li> <li>• Includes assumptions for the estimates based on specification descriptions (e.g. quantities, quality, and types of materials)</li> <li>• Includes a construction schedule</li> <li>• Identifies known or possible construction issues (e.g. logistics, phasing, or long lead time)</li> </ul>
Design Development	<ul style="list-style-type: none"> <li>• Dimensional drawings</li> <li>• Typically 1/8th scale (1 inch = 8 feet)</li> <li>• Show exact sizes and measurements of rooms, walls, doors, hallways; building and floor heights; mechanical, electrical and plumbing systems; and structural systems</li> <li>• Detail building finishes</li> <li>• Show location of elevators and stairs, lighting plans, medical systems (air, medical gases, nurse call, etc.)</li> <li>• Owner-furnished information incorporated into drawings (e.g. type and location of major movable and fixed equipment, data and telecommunication system, security system, interior design and graphic design requirements)</li> <li>• Harder to change drawings; last realistic opportunity to make discretionary changes</li> </ul>	<ul style="list-style-type: none"> <li>• Outline specification revised to reflect level of detail in drawings</li> </ul>	<ul style="list-style-type: none"> <li>• Highly detailed estimate based ideally on subcontractor input and data from actual, comparable jobs</li> <li>• Realistic costs, not conceptual costs</li> <li>• First look at what it may actually cost to build the project</li> </ul>

## Section V #1... continued

### *What to Expect In Each Phase of the Design Process*

Phase	Drawings	Specifications	Cost Estimate
Construction Documents	<ul style="list-style-type: none"><li>• Final and complete drawings (together with final specifications known as contract documents or bid set)</li><li>• Highly detailed</li><li>• Show all work to be done on the project, including references to owner work ("NIC" or not in contract work)</li><li>• Blueprints from which the building is built</li><li>• Expensive and time-consuming to change drawings given detailed and interrelated nature of different drawings; one change can affect several drawings. Only budgetary, not discretionary, changes expected</li><li>• Include optional design alternatives for pricing</li></ul>	<ul style="list-style-type: none"><li>• Final and complete specifications</li><li>• Specifications include all work to be done on the project, including work by builder and by others</li></ul>	<ul style="list-style-type: none"><li>• Actual construction costs based on sub-contractor bids</li><li>• Includes separate bids from builder (Guaranteed Maximum Price (GMP) or Lump-sum — see below), and other (for owner NIC work such as equipment purchase and installation, data and telecommunications purchase and installation, interior design, graphics, etc.)</li></ul>

*A complete set of construction documents typically consists of the following:*

- **Construction Specifications** (or the “project manual”) outline the materials and methods to be used. The “specs” provide the contractor with everything from manufacturers’ and models’ numbers for equipment to color numbers and finishes for paint. The drawings and specifications jointly form the “contract documents” to which the contractor will refer when preparing his or her bid;

- **Working Drawings** are the large floor plans, elevations, sections and details that cover each and every aspect of the building. They provide dimensions, materials, layouts and in some cases, construction phasing. The working drawings include architectural, structural, mechanical, electrical, plumbing, civil, landscape, interior design, and other specialty area drawings;

- **Bidding Requirements** include a specific invitation to general building contractors (GCs) to bid on the project, advertisement information, informational instructions for bidders, bid forms, and other miscellaneous information;

- **Addenda** (or additions) to any of these documents issued by the architect during or after the bidding and/or negotiation process.

## • Design Considerations for the Disabled

For health centers, access to quality health services is a topic that resonates. In addition to addressing linguistic, cultural, and financial barriers, eliminating physical barriers for patients and staff with disabilities is crucial. Moreover, cost, design, and scheduling considerations are such that these physical accessibility issues must be tackled during the early design stage of the development process.

Every health care facility must comply with the Americans with Disabilities Act (ADA), which mandates that public buildings must be “accessible” to individuals with disabilities, i.e., free from barriers that make it difficult or impossible to use the facility or to obtain its goods and services. It is your design team’s responsibility, under your leadership, to ensure that the building is “code-compliant” and includes the appropriate features and equipment that make it accessible to, and usable by, people with disabilities.

Many people make the mistake of thinking that “accessible” means wheelchair accessible only, but in fact these statutes cover a broad range of issues in addition to mobility, such as vision and hearing impairments. Also, keep in mind that many people benefit from design and architectural features that make a facility more accessible: the staff person temporarily on crutches for a sprained ankle will benefit from these design considerations as much as the disabled patient or family member will.

You should make sure that your architect (and the general contractor you ultimately select) is knowledgeable about accessibility issues as they relate to building design. In particular, you may wish to quiz potential architects about their interest in the growing field of “universal design”: the process of creating products (e.g., devices, buildings, environments, systems) which are usable by people with the widest possible range of abilities and operating within the widest possible range of situations.

Design considerations that must be addressed include the building’s main entrance(s) and waiting areas; reception desk (including writing surfaces of appropriate heights); exam rooms and other treatment areas; labs and pharmacies; toilets; pathways and hallways connecting parking areas and public transportation drop-off points to the main entrance and other parts of the building used by the public; emergency exits or paths to rescue assistance areas; elevators; public telephones; and drinking fountains.

## Seven Principles of Universal Design

**(1) Equitable Use:** The design is useful and marketable to people with diverse abilities.

- Providing the same means of use for all users, identical whenever possible, equivalent when not
- Avoiding segregating or stigmatizing any user
- Ensuring that privacy, security, and safety are equally available to all users
- Making the design appealing to all users

**(2) Flexibility in Use:** The design accommodates a wide range of individual preferences and abilities.

- Providing choice in methods of use
- Accommodating right-and left-handed access and use
- Facilitating the user's accuracy and precision
- Providing adaptability to the user's pace

**(3) Simple and Intuitive Use:** Use of the design is easy to understand, regardless of the user's experience, knowledge, language skills or current concentration level.

- Eliminating unnecessary complexity
- Remaining consistent with user expectations and intuition
- Accommodating a wide range of literacy and language skills
- Arranging information consistent with its importance
- Providing effective prompting and feedback during and after task completion

**(4) Perceptible Information:** The design communicates necessary information effectively to the user, regardless of ambient conditions or the user's sensory abilities.

- Using different modes (pictorial, verbal, tactile) for redundant presentation of essential information
- Providing adequate contrast between essential information and its surroundings
- Maximizing "legibility" of essential information
- Differentiating elements in ways that can be described (i.e., makes it easy to give instructions or directions)
- Providing compatibility with a variety of techniques or devices used by people with sensory limitations

**(5) Tolerance for Error:** The design minimizes hazards and the adverse consequences of accidental or unintended actions.

- Arranging elements to minimize hazards and errors, (i.e., conveniently placing most used elements and eliminating, isolating, or shielding most hazardous elements)
- Providing warnings of hazards and error
- Providing fail safe features
- Discouraging careless action in tasks that require vigilance

**(6) Low Physical Effort:** The design can be used efficiently and comfortably, and with a minimum of fatigue.

- Allowing the user to maintain a neutral body position
- Using reasonable operating forces
- Minimizing repetitive actions
- Minimizing sustained physical effort

**(7) Size and Space for Approach and Use:**

Appropriate size and space is provided for approach, reach, manipulation and use, regardless of user's body size, posture or mobility.

- Providing a clear line of sight to important elements for any seated or standing user
- Making reach to all components comfortable for any seated or standing user
- Accommodating variations in hand and grip size
- Providing adequate space for the use of assistive devices or personal assistance

Adapted from The Center for Universal Design's "Principles of Universal Design." © Copyright 1997 NC State University, The Center for Universal Design, an initiative of the College of Design. Compiled by advocates of universal design, listed in alphabetical order: Bettye Rose Connell, Mike Jones, Ron Mace, Jim Mueller, Abir Mullick, Elaine Ostroff, Jon Sanford, Ed Steinfeld, Molly Story, & Gregg Vanderheiden. Please visit [http://www.design.ncsu.edu:8120/cud/univ\\_design/princ\\_overview.htm](http://www.design.ncsu.edu:8120/cud/univ_design/princ_overview.htm) for more information.

## B. Pre-Construction Activities

The four major activities that must take place prior to beginning the construction process are: designing the project (discussed in the previous section), site acquisition and control, obtaining project financing, and obtaining third party approvals. These activities do not occur sequentially. Rather, they are a series of iterative processes that, when successfully completed, enable the actual construction process to commence.

• **Site Acquisition & Control** Acquiring the site and obtaining site control is a key benchmark in the development process. Why? Most financing sources will not act upon your request, or even take you seriously, until you have acquired “site control.” Thus, delays in obtaining site control could adversely affect the project’s financing and impede the construction schedule.

Site control is typically evidenced by one of the following: an executed sales contract, a letter of intent (which is often accompanied by a small deposit toward a future lease or purchase), a signed lease, or any other legally-binding agreement of that type. Three important steps to successfully acquiring site control are (assuming a site purchase, not a lease):

1. obtaining a title report (and title insurance) from a title company,
2. surveying the property, and
3. conducting a Phase I Environmental Assessment on the property.

A title company runs the title report and also provides title insurance to you, the property owner. The title reports details who presently owns the site, and what type of encumbrances (if any) are placed on the property. Typical encumbrances include mortgages, mechanic’s liens, easements, rights of way, unpaid taxes, and other property use restrictions. This report is important because an independent third party verifies and supplements information that the seller provides about the property. Title insurance provides you with “clear title” to (or ownership of) the property and protects you against present and future ownership claims by other parties.

The property survey shows its exact legal boundaries, the location of all utilities, easements and rights of way. A topographic survey will illustrate the slopes and other physical features of your site. In preparing the final building design, your architect and engineers will rely upon this information. If you are using outside financing for your project, your lender will require the title report, title insurance, and a copy of the property survey prior to loan closing. The title company will require a copy of the survey, as well, for preparation of the title report.



### • Obtaining Project Financing

Prior to commencing actual construction, all project financing must be in place. But, what exactly is meant by “in place”? Surely, you don’t want to incur financing costs if the funds are not yet needed. But while every dollar may not be immediately available (or even necessary), at this stage, all sources of financing should be identified and supported by formal funding commitments.

Obviously, if you are financing construction, you must have the construction loan closed. However, more often than not, obtaining a financing commitment is contingent upon (or triggered by) another event. For example, in the case of your construction loan, a construction lender will have little to no interest in your project unless you produce a long-term mortgage finance commitment. Conversely, a permanent lender wants assurances that you have the resources to complete the project, and more importantly, that you will be able to competently manage the facility and repay the loan over the long term. It should be noted that many banks offer both construction and permanent financing for a single project. In these instances, the construction loan converts to a permanent mortgage at construction completion.

As noted earlier, the events leading up to actual construction are not necessarily sequential. More than likely, your team will be working on multiple fronts simultaneously, including identifying sources of funding to pay for certain predevelopment costs, exploring permanent financing options such as a conventional mortgage, or a tax-exempt bond, and identifying potential construction lenders.

One very common approach is to secure the permanent financing first, and use that commitment to attract the interest of a construction lender or to demonstrate to a seller that you have the resources to obtain site control. Although the permanent financing commitment may be “soft” (e.g., contain contingencies to be met prior to making a firm commitment), it is often what is needed to get other critical players on board.

Obtaining a commitment from a construction lender and closing the loan is usually the “trigger” that enables you to commence construction. Your construction lender will require numerous assurances, representations, and reviews of documents to decrease the risk during the construction phase. Your permanent lender will also require many of these same documents and require that those documents be assigned to them. **A word of caution:** do not begin any construction prior to closing your loan, in order to avoid lien-related issues. (See Appendix for a list of potential documents usually required by construction and/or permanent lenders prior to closing.)

**Note:** Section VII, Financing the Project, describes a variety of financing techniques that health centers successfully use to finance building projects. Regardless of the approach you select, now is the time to formally secure the funds so that you can pay for construction.

## • Obtaining Third Party Approvals

If your project were subject only to the demands of your development team, you might be better able to control scheduling. But this is rarely the case. Depending upon the project's complexity, as well as building practices unique to your area, you will need to obtain approvals for your project from numerous third party entities. These approvals may impede the progress of your project, or even require you to consider alternative designs. Consequently, it is important to educate yourself very early in the process as to what types of approvals you will need to obtain, and the time it generally takes to obtain those approvals. Typically, there are at least three major entities that will review your project:

**1. Planning & Zoning** The zoning authority (or board) regulates property use, and is usually operated at a municipal or county level. The three most common zoning designations are residential, commercial, and industrial, each of which has a unique set of requirements. Local planning and zoning codes typically regulate lot size, site layout, building height restrictions, land use, setbacks (from the street), parking, historical landmarks, landscaping, open spaces, and the ratio of building size to lot/site size.

Planning and zoning boards often have concerns about how a project will affect public space or the "look and feel" of the neighborhood. Some larger cities require a review of the design, in addition to planning and zoning, to consider the project's aesthetic appeal. Thus, there are usually questions about a building's projected impact on traffic patterns, noise and air pollution levels, and site drainage systems. These matters may need to be addressed by environmental impact studies, which will increase project costs, and must be properly budgeted for ahead of time. Sometimes, there is neighborhood opposition to your project ("Nimbyism", the "Not In My Backyard" mentality). Community concerns, if any, are most often channeled through a local planning or zoning board. In these instances, the health center's board may need to develop a plan to counter local community and/or political concerns.

Undoubtedly, you will need a building permit to construct your project and/or a demolition permit if you are knocking down a building to replace it. Depending upon the nature of your project, you may also need a zoning variance or other special use permit, usually obtained at formal public hearings.

**2. Building Permit & Life Safety** Building and safety codes regulate structural and foundation matters, construction materials, fireproofing, heating, ventilation and air conditioning systems (HVAC), plumbing fixtures and installation, and electrical installation. Typically, there are minimum standards for methods of construction, life safety, accessibility, emergency lighting, services and emergency vehicle access, and parking, and requirements for special needs populations such as elderly or disabled persons. Your project must comply with local building codes in order to receive a certificate of occupancy (CO, or C of O, also referred to as a Use and Occupancy permit, or U & O), so that you can legally occupy and operate the facility.

**3. Health** This commission (or authority) regulates health and safety issues and may be established by local, state, and/or federal regulatory authorities. Depending upon the size and nature of your project, you may require varying levels of approvals if, for example, you intend to have a laboratory, X-ray facility, or pharmacy on site.

In all three instances, it may be desirable to retain specialized consultants such as a zoning attorney or a permit expeditor, to streamline or fast track the approval process.

## • Furniture, Fixture and Equipment Planning

Even though the project's major focus at this point is on starting construction, you must also seriously consider what goes into the building once it's completed! Therefore, it is important to make firm arrangements for the center's furniture, fixtures, and equipment (FF&E) needs. Typically, any movable or attachable item, such as furniture, medical and office equipment, computers, and telephone and security systems falls under this category.

These items often must be ordered many months in advance of the desired delivery date. Rigorous planning, paying attention to details, and closely coordinating with your general contractor will go a long way to ensuring that you will be ready to commence operations once construction is completed. Signage (both interior and exterior) may or may not be included in the architect's and general contractor's scopes of work, and if not, must be designed and procured.

The role of the project manager will be especially important, since many tasks related to FF&E planning fall outside the purview of the development team's major players. For example, assuming you use a standard architectural services contract, your architect will not be involved in furniture selection, unless this task is contracted for separately. Similarly, an electrical engineer will design the locations of telephone and cable connections, but he or she does not typically get involved in the myriad decisions that must be made regarding the selection of a particular telephone system or computer network, or its specifications.

So, you must rely on your project manager to identify professionals who can help you make decisions, and who will also manage the planning process. For example, you may draw upon the expertise of vendors who are often more than willing to visit your site, demonstrate a particular system's features, and make recommendations about type, size and specifications in the context of current and anticipated growth. You may also consider additional consultants to your team such as an interior designer who can advise you on furniture selection and finishes.

Also, as noted, equipment and furniture purchases must be considered with accessibility issues in mind. Accessible medical equipment is easily available for purchase, and while more expensive than generic, non-accessible equipment, should be available at costs that are not unreasonable for most health centers. Examples of accessible medical equipment include tables and wheelchair accessible scales. Consider the possibility of disabled providers in your planning, as well, designing your exam rooms so that they can accommodate a disabled provider.

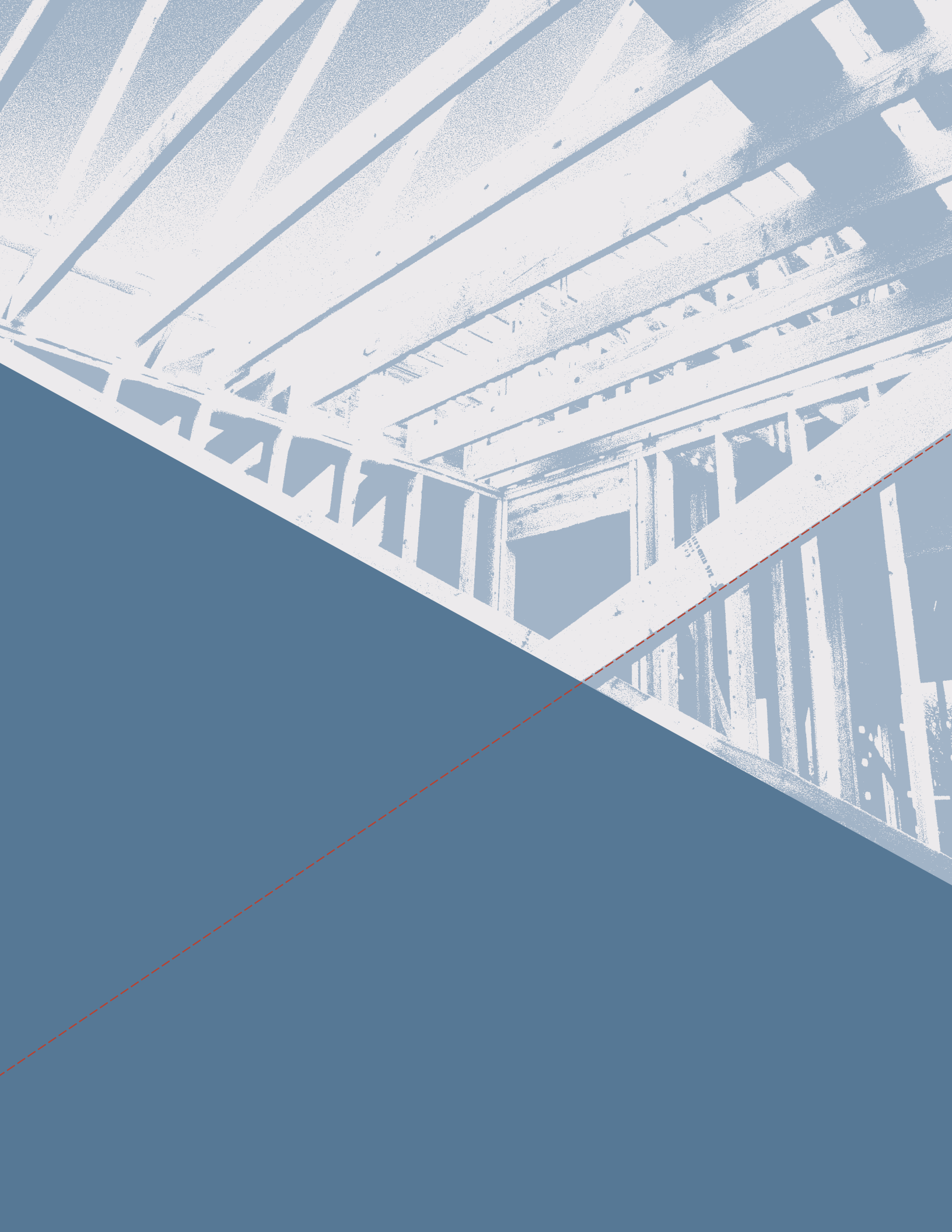
FF&E planning must be closely coordinated with the project's overall construction schedule. For example, you certainly don't want the cables for your security system installed right after the building's brand new ceiling tiles have been put up! And, you also don't want the furniture delivered before the building is completed and had its final cleaning! Consequently, these issues require close coordination with your general contractor.

### Strategies for Obtaining Third Party Approvals

- Get educated about local health facilities in your area and learn from their experience.
- Start early and allow for sufficient time during the development process.
- Identify regulators at all levels who will approve the proposed project and plans.
- Know what is important to regulators and how to address their concerns, if any.
- Compromise where possible, give in on items that are not critical to the project and use "muscle" on issues that are.
- Build a broad coalition of support for your project.
- Use consultants wisely: your architect, GC, or project manager should be intimately involved in the process. Consider hiring a "permit expeditor" to fast track certain key third party approval such as building permits or zoning variances.

### Additional Resources

1. *The Architect's Handbook of Professional Practice, 13th Edition*, The American Institute of Architects, Joseph A. Demkin, AIA, Executive Director, John Wiley & Sons, Inc. 2001
2. Charter School Facilities: A Resource Guide on Development and Financing, prepared by NCB Development Corporation ([www.ncbdc.org](http://www.ncbdc.org)) and the Charter Friends National Network ([www.charterfriends.org](http://www.charterfriends.org))
3. The Center for Universal Design ([www.design.ncsu.edu](http://www.design.ncsu.edu))
4. The Design Linc Resource and Information Center ([www.designlinc.com](http://www.designlinc.com))



## Section VI

# Construction Phase

This section first reviews the three major project delivery approaches to building construction. Following that, the key elements to successfully managing the construction phase are addressed.

### A. Project Delivery Options

There are three major approaches to constructing a building (“project delivery”): traditional, construction management and design-build. Regardless of which approach is used, all three methods involve the owner (the health center), the architect, and the contractor (or builder). The key variables that distinguish one approach from another are cost, scheduling, level of control (over the project), and owner capabilities and preferences.

#### • Traditional (“Design-Bid-Build”)

The most common approach to building a health care facility is the “traditional method,” also known as “design-bid-build.” In this approach, the owner (the health center) engages an architect at the beginning of the process to develop the building design and prepare all construction documents required to build the facility. The owner uses these documents to bid out the construction contract, and then selects a general contractor (GC). More often than not, the GC who submits a bid that best responds to the requirements of the construction documents at the lowest amount is hired to build the project.

A variation on the “design-bid-build” method worth considering is the “negotiated select team approach,” also sometimes called “design-assist.” In this approach, the architect and contractor are selected at the same time and work collaboratively from the very early stages of the design process. This approach usually produces an earlier cost estimate for the entire project, since the architect and GC are working hand-in-hand during the design stage.

The primary distinguishing characteristic of the traditional design-bid-build method is the clear separation between design and construction. This “separation of powers” is evidenced by individual contracts that you, the owner, negotiate and manage between your two principal team players: architect and contractor. Since there is no direct contractual

relationship between the architect and contractor, both parties report to you, the owner, and you are responsible for resolving any issues between them that may arise during construction.

Many health centers rely on the traditional approach because they directly and actively participate in the entire design and construction process. Also, if the health center decides to make changes during the design phase, the changes are accomplished between architect and owner only, and with relatively minimal cost. Then, the design is finalized prior to the construction bidding process so that the end results are fairly predictable.

#### • Design-Build

The design-build approach is very different from the traditional approach, and is appropriate for those health centers that prefer a single point of accountability for design and construction. In design-build, the health center contracts with an entity (e.g., firm, joint venture, or consortium) that includes both architect and contractor, rather than separately contracting with each. Thus, there are two phases to the development process in this method— design and construction— each of which is administered by a single source.

The design-build method has gained in popularity due to clients’ concerns about the inherent tensions between architect and contractor that often exist in the traditional approach. That is, even in the best of circumstances, most owners find themselves in the challenging position of mediating between architect and contractor at some point during the construction process.

Owners may prefer the design-build approach when the project is complex and necessitates close coordination between design and construction expertise. In these situations, the number of change orders may be substantially reduced since the architect and contractor are working hand in hand. Change orders almost always lead to construction delays and increased costs, so the ability to control the potential for these setbacks is crucial.



Unlike the traditional design-bid-build method, there is no direct relationship between the owner and the architect in a design-build: the architect is working for the contractor, not for you, the owner of the facility. Consequently, the design-build team may push for cost- and time- savings strategies that may be in their interest, not yours, and which could compromise design and construction quality.

- **Construction Management**

Construction management is a term that is used to cover a variety of project delivery methods in which a construction manager (CM) is added to the building team to oversee variables such as scheduling, cost, project management or building technology. CMs usually have training as architects, engineers, or builders. The three most common roles for the CM are advisor, agent, or contractor.

**CM as Advisor** This is the most common CM arrangement and is usually paired with the traditional design-bid-build approach. With this approach, the CM is contracted to provide advice to the owner about the scope of the project (e.g., cost, scheduling and construction issues), but does not build the building. In this case, the CM is often considered the owner's representative (or project manager), and is usually added to the team at the outset of the project, or at the latest, once the design phase is completed. Thus, the development team consists of four major players (i.e., owner, architect, GC and CM), and communication and coordination between all four parties is critical. This role can be critical. Although you have separate contracts with the architect and GC, each will ultimately look out for their own best interest. The CM will always be focused on what is in your best interest.

**CM as Agent** As agent, the CM acts on the owner's behalf, which enables you to substantially stay out of the project to a large extent. As agent, the CM is hired at the project's beginning, oversees all activities through construction completion, and has broad fiduciary powers throughout the project. This approach is not seen as often as CM as advisor or CM as contractor.

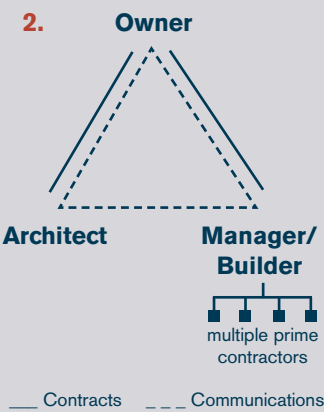
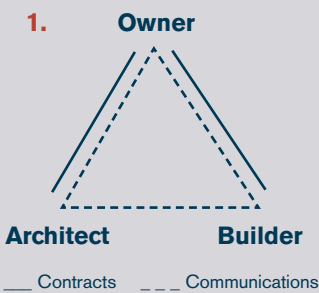
**CM as Contractor** In this role, the CM fills the part of general contractor, and assumes all responsibility and liability for project construction. The CM as contractor approach combines several aspects of other approaches. The CM is hired early in the design process, and thus provides an early cost commitment and potentially better management over construction scheduling. The owner also still retains control of (and responsibility for) the design process, since the architect is hired independently of the CM.



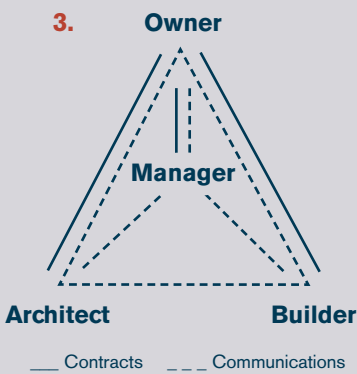
Section VI

Project Delivery Options

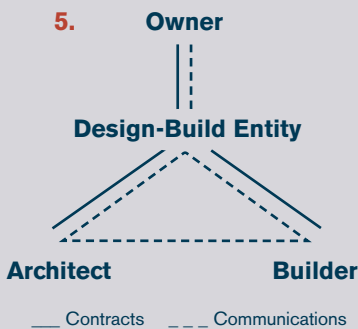
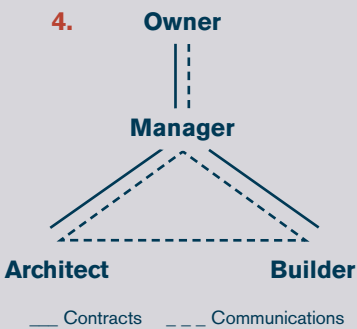
- 1. Design-Bid-Build
- 2. Construction Manager as Advisor



- 3. Construction Manager as Agent



- 4. Construction Manager as Constructor
- 5. Design-Build



\* Copyright AIA California Council 1996.

## Section VI #2

### Advantages/Disadvantages of Each Project Delivery Approach

#### Advantages

Traditional ("Design-Bid-Build")	Design-Build	Construction Management		
		CM-Advisor	CM-Agent	CM-Contractor
Design-Bid-Build's linear process is easy for owners to manage and understand	This approach provides a single point of responsibility for design and construction, thus minimizing owner risk and responsibility	Owners with less experience and those lacking in-house construction capabilities can benefit from CM expertise	SAME	Since the CM makes a cost commitment early in the project, the owner has a degree of security about costs
Owners can actively participate in the design process	Interactions between GC and architect are better coordinated, which saves time. The owner provides input at an early stage, and once the design builder is hired, further involvement is limited.	A CM-advisor empowered with decision making authority and management responsibilities may speed up the process	A CM-agent's ability to make fiscal decisions can speed up process and reduce duplication	Since CM-contractor commits to deliver the project for a specified price, it is in their interest to complete the construction on time
Scheduling is straightforward, since design and construction phases are sequential, not overlapping	Related to the above, time consuming meetings and paperwork may be reduced, since the architect and contractor are on the same team	Architect remains directly accountable to the owner, protecting the owner's interest; architect can also benefit from CM-advisor's input during design stage	Additional construction expertise during the design phase can have positive effects on the project (e.g., cost estimating during the design phase allows construction costs to be monitored at an early stage)	Owners with limited construction experience can benefit from CM-contractor's expertise
Design-Bid-Build process benefits from the architect's professional responsibility to design a building of quality and act on behalf of the owner	Early cost estimates in this approach can be advantageous in terms of project budgeting and financing	A CM-advisor's review of construction documents is a second level of review that helps reduce errors and omissions, thus resulting in reduced costs related to change orders and other delays	SAME	Like other approaches, independence of architect and contractor makes responsibility and liability relatively clear

*Continued on next page.*

## Section VI #2 ... continued

### Advantages/Disadvantages of Each Project Delivery Approach

#### Disadvantages

Traditional ("Design-Bid-Build")	Design-Build	Construction Management		
		CM-Advisor	CM-Agent	CM-Contractor
Once the contractor makes a cost commitment, it is usually reliable, because it is based on nearly completed design documents	Time delays due to scheduling problems and change orders may be reduced since the architect and contractor closely coordinate activities	Clearly delineated responsibilities between all parties lessens potential for ethical dilemmas or conflicts	No link between CM-agent and the contractors; thus, contractors can be selected based on competitive bidding	Scheduling is straightforward because design and construction phases are usually sequential
Design and construction roles are separate and well-understood, making both responsibility and liability relatively clear	Potential for conflicts between architect and contractor are eliminated			
Owners have the opportunity to review competitive bids for construction costs				
Contractors are familiar with process and work well under this approach				
Architects are more active in construction administration than in other project delivery methods so design intentions are carried through construction				
Construction costs are not firmly established until design stage is completed	This is not as well understood and can be more complex (as compared to traditional Design-Bid-Build)	Added levels of coordination and overlapping areas of authority can confuse the traditional roles and complicate the traditional processes of design and construction	SAME	Time required to select an additional professional extends the overall time required for the project
If bids run over budget, redesign, value engineering and rebidding processes can lead to project delays and additional design costs	Design, scheduling and construction are interwoven, making it difficult for the owner to participate in decision-making	A CM-advisor represents an added cost	SAME	SAME

*Continued on next page.*

## Section VI #2 ... continued

### Advantages/Disadvantages of Each Project Delivery Approach

#### Disadvantages

Traditional ("Design-Bid-Build")	Design-Build	Construction Management		
		CM-Advisor	CM-Agent	CM-Contractor
Architect does not typically receive benefit of the contractor's advice on constructability and costs during the design phase	Owner may not have the time or expertise to prepare adequate bid selection materials, thus decreasing the advantages of Design-Build	A CM-advisor may suppress direct communication between owner, architect, and contractor	SAME	Since the owner does not contract directly with prime or trade contractors, owner may be unable to control quality during construction process
Knowledge of some advanced construction technology offered by specialty subcontractors and general contractors is not as readily available in this approach	Architect does not directly serve as the owner's agent, but is contracted (or employed) by the design-build firm, shifting the architect's allegiance away from owner to the design-builder	Confusion in decision-making process may contribute to design and/or construction delays	SAME	
Since most contractors compete on the basis of the lowest bid, any gaps or alterations in the design documents may lead to opportunities for contractors to delay construction and/or request change orders	Design-builder's cost commitment may not be based on full design and documentation, since the designer and builder are working hand-in-hand. Disagreements with the owner may arise over what was implied in the documents. And, design changes required by the owner can become change orders, adding costs	Since each of the three prime parties holds a separate contract with the owner, there is the potential for adversarial relationships, increasing the likelihood of disputes	SAME	SAME

*Continued on next page.*

## Section VI #2 ... continued

### Advantages/Disadvantages of Each Project Delivery Approach

#### Disadvantages

Traditional ("Design-Bid-Build")	Design-Build	Construction Management		
		CM-Advisor	CM-Agent	CM-Contractor
This approach's relatively long process may be unacceptable for owners	Deliberations about cost-savings strategies take place with the design-build team, which may lead to reductions in building quality without input from, or knowledge of, the owner			When CM-contractor is selected by low bid, change orders and delays are likely, which increases costs
Since process is linear, any delay in one of the phases usually sets back the entire schedule				Linear process of this approach makes it relatively lengthy
Construction delays may result in added costs to owner and architect				
Adversarial relationships and potential for litigation can develop between architect and contractor, due to their separate contracts with the owner				
Adapted from <u>Handbook of Project Delivery</u> (published by the American Institute of Architects, California Council), AIACC@aol.com				





## B. Managing the Construction Process

This section assumes that you use the traditional approach (design-bid-build), and that your development team consists of the owner, architect, and GC only.

### • Selecting a General Contractor

Selecting and hiring the right general contractor is one of the more critical decisions to ensuring your project's success. In general, you want an experienced builder, one that possesses a reputation for quality construction and a proven record of completing projects on schedule. You may want a builder who has specific experience with projects similar to yours. While explicit experience with a health care building may not be a requirement, it may save you time and money in the long run, especially if there are aspects of your project that are unusual (e.g., laboratory, medical records storage space, pharmacy, etc.).

Finally, you should seek out potential candidates who appear easy to work with and seem to interact well with your development team members, particularly your architect. A mutually respectful relationship between architect and contractor will go a long way to ensuring that you, as owner, don't have to mediate conflicts during the construction process.

The following seven steps are recommended when hiring your general contractor:

**(1) Establish Evaluative Criteria** All prospective candidates should be evaluated on a level playing field. To accomplish this, you must first establish basic criteria upon which to make a decision. Criteria for Selecting an Architect (in Section IV) can easily be adapted for the hiring decision for your builder.

**(2) Identify Prospective Candidates** You should develop a short and long list of desirable candidates. Sources for possible candidates include: your architect, local chapters of trade and/or professional associations such as The Associated General Contractors of America (AGC), the American Institute of Architects (AIA), the Chamber of Commerce, your state primary care association, health care providers, and board members.

**(3) Contact Prospective Candidates via a Request for Proposals** A Request for Proposals (RFP) or Request for Bids is an effective means of soliciting candidates. The RFP is a written document that describes the proposed project, the types of services sought, the proposed schedule, and any unusual aspects of the project. The RFP also provides specific guidelines for each candidate to follow if they choose to submit a bid such as page length, types of attachments required, due date, and so on. By issuing an RFP, you can evaluate all candidates based on the same criteria since all candidates will be asked to submit the same information.

A Request for Qualifications (RFQ) allows the owner to gain a better understanding of the candidate's credentials. Qualifications from a general contractor provide customer references, a list of pertinent projects, the GC's years in business, banking relationship, surety for bonding, and financial viability. In some instances, the owner is more concerned with a positive personal interaction with the candidate (evidence of the potential for a good working relationship), than his or her qualifications. However, when applying for financing, banks will rely on the GC's qualifications to confirm that he or she will perform the duties outlined under the contract. It is acceptable to ask for multiple copies of the proposals and qualifications so that they can be reviewed simultaneously by several members of the team or committee.

You may want to hold a pre-bid conference, in which you invite all potential bidders to visit the site, so they can get a better feeling for the proposed project. This approach may also cut down on your workload, in that you won't have to repeat the same information to multiple parties. Hosting such a conference also helps you identify the "serious" bidders.

**(4) Review Qualifications Materials and Develop a Short List** General Contractors can deliver their qualifications package ahead of time, allowing for review of that piece before consideration of the bid. When checking references, having a single person make all of the calls usually results in a more objective assessment of what is learned. If the owner and general contractor are in the same area, a visit might be preferred. Once all of the

bids are received, they are then ranked using the evaluative criteria developed earlier. A short list of three to five firms and/or individuals can then be selected for personal interviews.

**(5) Conduct Interviews** At least three or four people should be involved in the interview process, so as to solicit different perspectives and to share the burdens of the hiring decision. A good approach is to include one or two key board members, the executive director, another senior manager, and your architect. Each candidate should be asked to make a short presentation, and speak to his or her understanding of the project, his or her relevant experience, his or her enthusiasm for the project, his or her ability to work within timing and financial constraints, and other relevant factors. Asking each candidate the identical set of questions will also assist you in comparing “apples to apples.”

**(6) Evaluate Proposals and Make Selection** The bids should be ranked, and then selected on the basis of the evaluative criteria previously established. Remember to check all references thoroughly before finalizing or announcing your decision! You might want to consider talking to owners and/or architects of previous projects in which the general contractor was involved.

**(7) Negotiate Contract(s)** Contracts are then negotiated with the winning bidder. Cordial relationships are encouraged with the losing bidders, in the event that some unforeseen event occurs with the winning bidder and you have to re-start the process. Be prepared for requests for debriefings by the unsuccessful candidates, and decide ahead of time about your policy on debriefings, and how much information you want to share.

### **Negotiating vs. Bidding**

In some instances, it may make sense to negotiate a contract with a single general contractor (GC) rather than bidding it out to several GCs. This might be the case if there is already a trusting relationship between the health center and the GC. It may also be appropriate if the project is so complex that it requires detailed pricing analysis for a series of complicated scenarios before decisions are made, or if the GC is part of the team from the beginning. The owner can still accrue the benefits of bidding, albeit from a smaller pool of subcontractors, by asking the GC to share his subcontractor bid results in an “open book” format. A good

contractor will gladly share this information with a trusted owner, knowing that his or her company will be fairly rewarded for their work.

Health centers might also consider the use of “bid alternates” during the bidding process. For example, you may want to consider installing skylights in the building’s internal corridors so that daylight is brought in, but you may also be understandably concerned that this attractive design feature will put you over budget. In this instance, you can ask your architect to include this component as a bid alternate, which will provide you with a specific amount for that particular design component. You can then decide whether or not you want to include it once all of the bids are received.

### **• Maintaining the Project Budget**

Construction can easily comprise approximately 50 to 75% of a development budget, depending upon various factors such as land acquisition costs, local wage rates, etc. Ongoing monitoring of the construction process and budget will help to reduce the possibility of cost overruns. Of course, as noted earlier, selecting the best payment approach for your consultants, and negotiating clean, clear contracts will go a long way towards achieving these goals. Along with a reasonable contingency, this will give you the flexibility you need to counter unforeseen events during the construction process.

It’s important to recognize that changes to, substitutions for (or even eliminations of) specific project components are an inevitable part of the construction process. Why? First, a specific product may not be available, and substitutions may have to be researched and secured. Second, there may be a price increase in materials, forcing you to consider a less expensive alternative. Or, there simply may be delays in shipping that will create a “logjam” with other project components, and selecting a more readily available option may alleviate the problem. You and your architect should approve all substitutions before they are installed.

Regardless, it will be essential to make certain that any substitutions or eliminations do not substantially affect (or compromise) construction quality. If your priorities are clear and well thought out, you can assess unanticipated changes in the context of overall project quality.

## Section VI #3

### Construction Risks and Mitigating Factors

Construction Risks/Issues	Tools to Mitigate Risks
<p><b>Risk #1</b></p> <p>The health center's budget is understated and they run out of money before the project is completed.</p>	<ol style="list-style-type: none"> <li>1) Develop a <u>detailed budget with a contingency</u>. The budget should provide a realistic estimate of all project costs, with construction costs based on a guaranteed price contract or bid, and with individual line items for each soft cost. The budget should include an allowance for any unforeseen occurrence during construction (usually 10% for new construction hard costs; 15-20% for renovation hard costs; 5% for soft costs).</li> <li>2) Execute a <u>fixed-price contract (i.e., stipulated sum or guaranteed maximum price)</u>. The contract price is fixed, determined in advance of any construction, and based on defined construction specifications that are prepared by the architect and agreed to by the owner. Carefully review the GC's exclusions.</li> <li>3) <u>Make monthly disbursements</u> to the contractor through the construction lender, based on an <u>application and certification for payment</u>. This is a generally accepted process for disbursing construction loan proceeds, whereby the general contractor (GC) requests payment from the owner (borrower), according to a schedule outlined in a construction contract. The applications for payment provide detailed information about how much work has been completed to date, and are signed off by the architect. The lender's inspector provides a separate report on payment applications. Do not sign a contract which allows for payments in equal monthly installments over the term of the contract.</li> <li>4) Hire a <u>project manager</u> to oversee the development/construction project.</li> </ol>
<p><b>Risk #2</b></p> <p>The general contractor (GC) runs into cash flow problems. He/she doesn't have cash available to purchase supplies or pay subcontractors. Or, the GC diverts loan proceeds earmarked for the construction project to another purpose.</p>	<ol style="list-style-type: none"> <li>1) Make sure that the GC posts <u>payment bond and performance bonds</u>. These are bonds issued by a surety company. They are similar to an insurance policy that insures that if the GC does not pay his/her subcontractors or the GC is unable to complete the project, the borrower can make a claim to the surety company. For the smaller GC, have the GC obtain a letter of credit that equals 25% of the hard costs.</li> <li>2) Require a <u>Lien Waiver and Release</u> upon each application for payment. By using this release, the GC, each subcontractor, supplier of materials, and mechanic acknowledge that upon payment, any right to place a lien on the property for work performed on the project to date will be waived.</li> <li>3) Obtain a <u>satisfactory contractor's qualification statement</u>, which indicates the experience, availability, and capability of the proposed contractor. The statement should include financial statements, a resume of significant (and similar) work experience and references.</li> <li>4) Check the GC's references for work on similar projects.</li> </ol> <p><i>Continued on next page.</i></p>

## Section VI #3... continued

### Construction Risks and Mitigating Factors

Construction Risks/Issues	Tools to Mitigate Risks
<p><b>Risk #3</b></p> <p>The GC (or a subcontractor) places a mechanic's lien on the property, thus placing the senior lender's first deed of trust (or mortgage) at risk.</p>	<ol style="list-style-type: none"> <li>1) Require a <u>release of lien</u> upon each application for payment (see Risk 2, #2.)</li> <li>2) Obtain <u>title insurance</u>. This is an insurance policy that assures that the senior lender will have a first deed of trust. Depending upon the state, there may be a Pending Disbursement Clause that requires date downs for each construction loan advance, so that the bank is insured only up to the amount advanced by that date.</li> </ol>
<p><b>Risk #4</b></p> <p>The GC has completed 95% of your project, but has started another large project, and doesn't show up to complete your project.</p>	<ol style="list-style-type: none"> <li>1) Obtain a <u>satisfactory contractor's qualification statement</u> (see Risk 2, #3.)</li> <li>2) Make sure that the GC posts <u>payment bond and performance bonds</u> (see Risk 2, #1)</li> <li>3) Hire a <u>project manager</u> to oversee the development/construction project.</li> <li>4) <u>Require Retainage</u>. This is a standard payment plan by which a certain percentage (typically, 10%) is withheld from the progress paid to the GC to ensure that the GC will not walk away from the project prior to 100% completion.</li> <li>5) Contact the GC's bond company.</li> </ol>
<p><b>Risk #5</b></p> <p>An environmental problem is discovered on the property (e.g., contaminated groundwater due to a previous facility located on, or adjacent to, the property.)</p>	<ol style="list-style-type: none"> <li>1) Obtain a <u>Phase 1 Environmental Site Assessment Report</u>. This is a report obtained by a third party (prior to construction, and usually required by your lender) that identifies any existing, potential, or suspect conditions that may pose an environmental liability to the property.</li> <li>2) Hire a <u>project manager</u> to oversee the development/construction project.</li> </ol>
	<p><i>Continued on next page.</i></p>

## Section VI #3... continued

### Construction Risks and Mitigating Factors

Construction Risks/Issues	Tools to Mitigate Risks
<p><b>Risk #6</b></p> <p>When the building is completed, the city inspector determines that it is not structurally sound, and will not issue a final permit.</p>	<ol style="list-style-type: none"> <li>1) Make sure that your architect has <u>Certificates of General &amp; Professional Liability (Errors &amp; Omission insurance)</u>. The architect's professional liability insurance covers negligent work performed by the architect and protects the owner (borrower) if there is damage due to such negligence.</li> <li>2) Obtain an <u>Architect Qualification Statement</u>. This is a statement verifying the architect's qualifications and experience with projects similar to yours.</li> <li>3) Check the <u>architect's references</u> for work completed on similar projects.</li> <li>4) Require Certificate of Occupancy prior to release of final loan funds. This is a certificate issued by the appropriate government authority indicating that the project is ready and fit for occupancy, and that there are no building code violations.</li> <li>5) A lender's Construction Inspector is appointed by the lender and serves as his/her representative to monitor construction progress on a monthly basis. This individual warrants the work on the lender's behalf only.</li> <li>6) If possible, review a Construction Inspector Pre-Construction Report. This is a written report from the lender's construction inspector that provides an analysis of the feasibility of the project, specifically the reasonability of the price that the GC is bidding and the timeframe proposed.</li> <li>7) Obtain Satisfactory Contractor's Qualification Statement.</li> <li>8) Hire a project manager to oversee the development/construction project.</li> </ol>
<p><b>Risk #7</b></p> <p>An accident occurs during construction and a worker is seriously injured. The worker sues the GC, thus tying up the GC and impeding completion of your project.</p>	<ol style="list-style-type: none"> <li>1) Increase the health center's <u>General Liability Insurance</u>. Make sure that the center's insurance policies cover the value of the new property (with proposed improvements.)</li> <li>2) If the borrower is purchasing a new site, make sure the new property is added onto the health center's existing insurance policies.</li> <li>3) Confirm that the GC has sufficient <u>Workers' Compensation Insurance</u>. Ensure that the GC has sufficient insurance to cover works in case of an accident.</li> </ol> <p><i>Continued on next page.</i></p>

## Section VI #3... continued

### Construction Risks and Mitigating Factors

Construction Risks/Issues	Tools to Mitigate Risks
<p><b>Risk #8</b></p> <p>A flood, fire, or other disaster occurs on the construction site, causing serious damage to construction in progress.</p>	<ol style="list-style-type: none"> <li>1) Confirm that the GC (or the owner) has obtained Builder's Risk Insurance in an amount that is at least equal to the GC's contract.</li> <li>2) Determine whether the property is in a flood zone and do a search for Flood Compliance (usually performed by lender.)</li> </ol>
<p><b>Risk #9</b></p> <p>Real estate market conditions take a downturn, and once the building is completed, it is appraised for less than what it cost to construct it. The senior lender's loan-to-value is insufficient, and requires additional collateral coverage.</p>	<ol style="list-style-type: none"> <li>1) Obtain an as-built appraisal reflecting adequate collateral coverage. This is a third party estimate of the property's value, once constructed, based on plans, specifications and current market conditions. Lenders typically allow a maximum of 75% of the property's value to be in the form of senior debt so as to make sure that the property can be sold to cover the outstanding loan in a liquidation scenario. The lender providing the loan typically orders the appraisal.</li> <li>2) If possible, obtain a Construction Inspector Pre-Construction Report. (See # __ above.)</li> <li>3) Ask your lender for construction inspector's reports throughout the project, if possible. (See # ____ above.)</li> </ol>
<p><b>Risk #10</b></p> <p>The health center's current operations suffer because management is focused on the new development project and "no one is minding the store".</p>	<ol style="list-style-type: none"> <li>1) Hire a <u>project manager</u> to oversee the development/construction project.</li> </ol>
<p><b>Risk #11</b></p> <p>The building is constructed with a small portion encroaching on a neighbor's property.</p>	<ol style="list-style-type: none"> <li>1) Obtain an <u>Architect Qualification Statement</u>. (See Risk 6, #2.)</li> <li>2) Review a <u>Construction Inspector Pre-Construction Report</u>.</li> <li>3) If possible, obtain an <u>A.L.T.A./As-Built Survey</u>. This is a survey prepared by an independent, third party surveyor showing the precise location of all improvements, encroachments, and rights of way on the property. Lenders may also require an updated survey once the building's footprint (e.g., footings and foundations) is laid to avoid this problem.</li> </ol>



Also, if your project budget includes sufficient contingency funds, and they are not consumed by unbudgeted items before construction, you should have sufficient cushion to handle most substitutions.

Of course, maintaining the project budget doesn't start with construction – it must be an ongoing process, beginning in the predevelopment stage when designers and other consultants constitute the bulk of the expenditures. It is important to maintain impeccable financial records of these early expenditures, as they can most likely be reimbursed at closing of the construction loan, if proof of expenditure is available.

#### • **Payment Process During Construction**

The contractor will typically provide an Application for Payment (form AIA G702 and G703) on a monthly basis. This document includes a breakdown, by building trade of the entire contract amount. It also reflects the amount completed to date, the amount remaining, the retainage being withheld, and the amount due. The architect and project manager should review this document for accuracy before approving payment to the contractor.

The contract with the GC stipulates the timeframe within which the owner has to make payment to the contractor, usually 25 days. It's in that window that the architect reviews and approves the Application for Payment and the owner or project manager sends it to the lender with a requisition for payment for the lender's review and approval. The lender then typically sends an inspector to the site to verify that the work billed is indeed complete, and the inspector writes a report to the lender approving payment. Prior to authorizing payment, the lender typically collects additional documentation to support the inspector's report. For example, the lender may collect **conditional lien waivers** (lien waivers that the GC gives to the lender indicating that he or she has not been paid for work that has been completed, but expects to be paid based on the current month's work) and **unconditional lien waivers** (lien waivers that state that the GC has been paid for the prior month's work). The lender may also want a certification from the owner stating that there are no pending issues (i.e., that the work completed to this point is satisfactory) and that there is no change in the owner's financial condition. The lender will also likely contact the title company

and require a title update (also referred to as a title run, title bring-down, or continuation report). At this point, the lender transfers the funds to the owner, who then writes the check to the GC.

While these steps may seem cumbersome, they are designed to protect the lender and the owner by ensuring that funds are not released until the work is completed to everyone's satisfaction. An owner who can routinely effect these transactions on a timely basis will reap the benefits of a relationship with their GC and lender. To streamline, a lender's inspector often attends monthly meetings.

### • Project Close-Out and Final Occupancy

Project closeout is initiated when the contractor notifies you, the owner, that the building is sufficiently completed (according to the Certificate of Substantial Completion) and is ready for occupancy. At this stage, the following seven steps are taken:

1. When the project is nearing completion, the architect will conduct a walk-through with the contractor, creating what is known as the "punch-list." It is at this time that unfinished tasks – which should be minimal at this point in the project – are listed as conditions to be completed by the contractor prior to final payment. It is a good idea to have both the project manager and a representative from the health center attend this session, which, although tedious, benefits from several sets of eyes looking over the completed construction. Among the details that should be checked are door hardware, light switches and missing light bulbs, function of plumbing fixtures, availability of hot water, finishes, paint touch-ups and the functioning of and hardware on casework (built-in furnishings).
2. The owner (or project manager) undertakes a detailed inspection to make sure that the work fully conforms to the contract documents (usually working from a final "punch-list" of outstanding items).
3. The GC and his or her subcontractors, along with the owner and the owner's facilities or maintenance staff, conducts a walk-through of the project to demonstrate how all building systems operate. It is a good idea to videotape these demonstrations for future reference.
4. The owner and contractor determine the final contract amount to be withheld ("retainage") until final completion. If the construction is financed, the lender will probably not release retainage (up to 10% of contract amount) until the Certificate of Substantial Completion and Certificate of Occupancy are received (Note: Depending upon scope and length of project, there may be subcontractors who performed and completed work during the early phases of the project. On a case-by-case basis, a lender may release their retainage).
5. Once the facility is complete, the architect issues a certificate of substantial completion, which is then signed off by the GC and the owner.
6. There is a walk-through and inspection by the owner and contractor, who agree that the building is ready for a final inspection by all third party agencies.
7. Third parties inspect and sign off on the project, resulting in the issuance of a certificate of occupancy (CO).
8. The GC then provides all warranties, affidavits, receipts, release, and waivers of liens of bonds to the owner, indemnifying the owner against liens. Usually, if the project is financed by a bank, the owner will have to provide these items to the bank, upon request.
9. The GC issues final application for payment and either simultaneously or after receipt of payment issues a final release of liens.

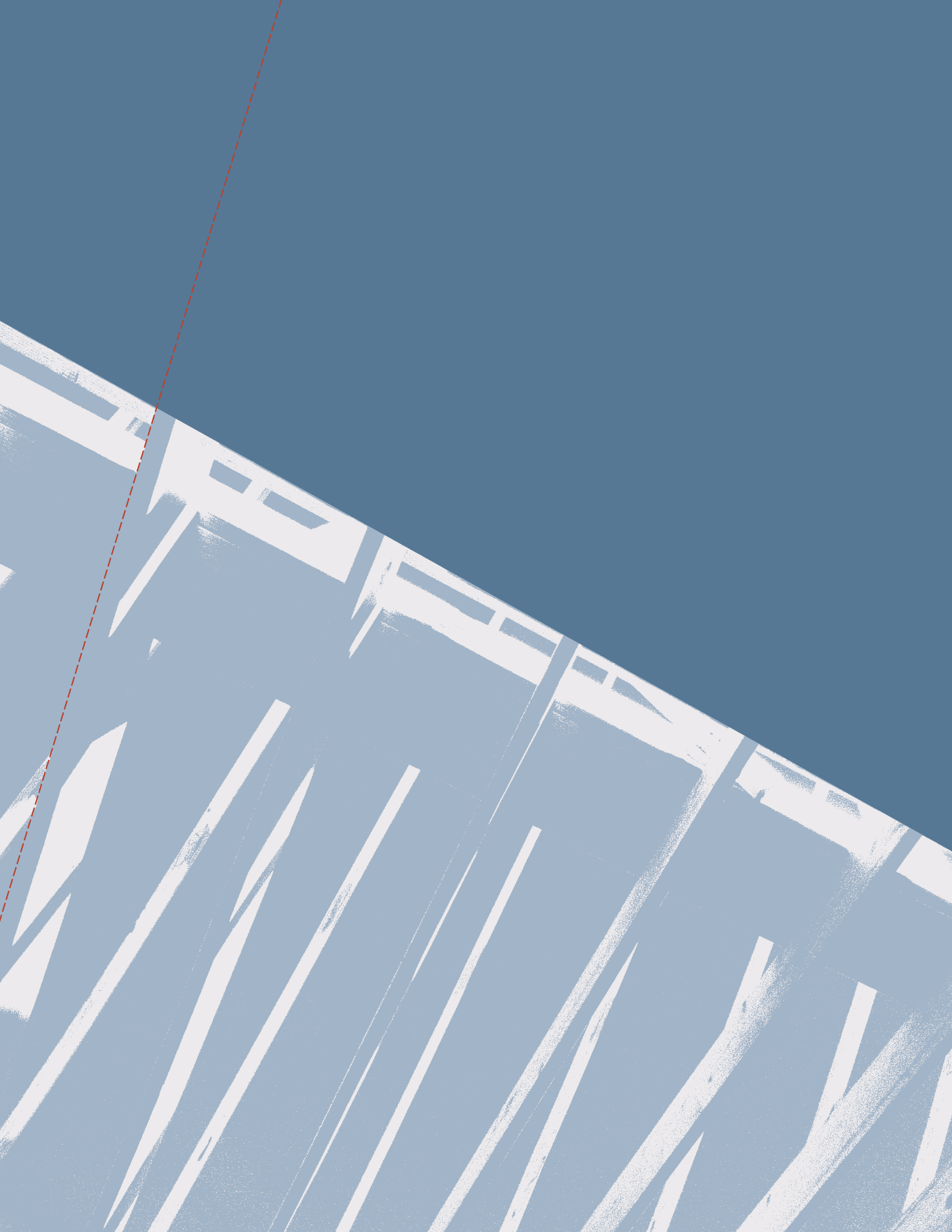
Many development professionals recommend producing an operations and maintenance manual prior to moving in to the new facility. The purpose of the manual is to maintain all key information related to the project in a single location, so that once your development team is off on another project, you and your staff are armed with the vital information necessary to manage the building. Ideally, the design team and your contractor should produce the manual, together with the following key elements:

- Identifying major design elements, systems, and materials that are crucial to the long-term quality and performance of the building (e.g., exterior wall and roof materials, windows, exterior doors, landscaping, all major operating systems and related components such as HVAC, plumbing, electrical, mechanical);
- Collecting all vendor-supplied operations and maintenance information and manuals, and all warranties, guarantees and certifications that are contractually owed to you;
- Assembling all previously-produced design materials (e.g., as-built drawings, final finish schedules, and plans)
- Setting up a maintenance schedule (weekly, monthly, quarterly, annually) for all major system components.

The general contractor typically warrants the overall project for a period of one year following completion. During this time, the GC is obligated to return to the site to correct any deficiencies that may become evident. Your GC will appreciate it if you send your requests in writing, organize your requests so that a number of similar items (i.e. plumbing issues on one request, roof leaks on another, etc.) can be addressed at one time. Daily or hourly phone calls as each relatively insignificant item arises are usually not well received. It is often useful to keep a written log of when the deficiency was first noted, when the contractor was notified, when the problem was corrected, and if the problem recurred. Emergencies should, of course, be treated as such.

### **Additional Resources**

1. *The Architect's Handbook of Professional Practice, 13th Edition*, The American Institute of Architects, Joseph A. Demkin, AIA, Executive Director, John Wiley & Sons, Inc. (2001)
2. *Handbook on Project Delivery*, published by The American Institute of Architects, California Council, Sacramento, CA (1996)
3. The American Institute of Architects ([www.aiaonline.org](http://www.aiaonline.org))
4. The Associated General Contractors of America, ([www.agc.org](http://www.agc.org))



## Section VII

# Funding the Project

Without sufficient funds, you will not be able to complete (or perhaps, even start!) your facilities project. This section first reviews the steps necessary to developing and finalizing a project budget, and planning for contingencies. The second half offers a comprehensive review of the various financing options available to health centers.

### A. The Project Budget

#### (1) Developing the Preliminary Budget

A preliminary budget is typically broken into two parts. The “sources” section lists all the sources of capital that the health center will use to pay for its project. Typical “sources” include cash on hand, funds raised from individual donors or corporations, foundation or government grants, and borrowed money. The “uses” section lists the items on which the money will be spent, such as architect and engineering fees, feasibility studies, permits, environmental studies, construction costs (or leasehold improvements) and furniture, fixtures, and equipment. The “uses” section is further divided into “hard” and “soft” costs, as described in depth below.

If you are relatively new to capital project planning, you might consider one of two seat-of-the-pants approaches to developing a preliminary budget. The first is to pick an amount that you can afford (from cash reserves, borrowing money, fundraising, or some combination of all three) and consider this to be your budget. A second approach is to estimate total square footage, multiply that by another estimate of construction costs per square foot, and arrive at a preliminary budget figure.

Both approaches may suffice to establish a “working number” for internal discussions with board members and staff. But, neither approach provides you with a true, reliable estimate of what the project will cost. And, more importantly, these rough estimates will not get you past the front door with prospective lenders or investors. Funders must be assured that you’ve given your project the best chance for success by thoroughly scrutinizing every cost category and planning for contingencies. Thus, developing a preliminary budget is important for at least four reasons:

- The preliminary budget sets the project’s financial boundaries. Armed with a reliable cost estimate, you can choose among different site options, project designs, and other critical decision variables with greater confidence;
- Once you have a good estimate of your project’s total costs, you can then make educated decisions about financing options. For example, depending upon your project’s scope and success at fundraising, you may be able to delay drawing down on your debt financing, and save on interest expenses;
- Your lender and/or prospective contributor will not take your project seriously if you haven’t done your homework. Without an accurate project budget, your funders will not know how much funding you need, what kind of funding you need, and when the funding is needed; and
- A preliminary budget can reduce any unwelcome “surprises” during the development process. By accurately and honestly estimating every possible cost, you greatly improve the likelihood that the project will be completed on time, and within budget.

The preliminary budget is assembled after the initial space assessment is completed. At this point, you and your development team have a reasonably good idea of how much square footage the project will require (e.g., offices, exam rooms, common waiting areas, lab, pharmacy, etc.). You may have also addressed major site considerations such as purchasing a new building or renovating an existing facility.

Initially, your preliminary budget may have only two cost categories: “hard” and “soft” costs. “Hard” costs cover construction and/or improvements to the property, including equipment and fixtures. “Soft” costs relate to items such as architectural fees, permits, feasibility studies and other professional and consulting fees, and financing costs, much of which is expended during the design phase. As you put together the preliminary budget, these hard and soft costs will be further broken down into multiple cost categories.

Detailed, multiple cost categories are important because they allow you to keep close tabs on what you will actually spend. Your lender also expects to see individual budget items so they know exactly what they are paying for. It is important to conservatively budget every line item (i.e., err on the side of slightly overestimating costs), since many lenders will not allow line items to vary, or will only allow a small (e.g., 2 to 5%) variance. Any variance will have to come out of budgeted contingencies, or reductions in other line items. For example, if you have budgeted \$30,000 for legal fees, and the final bill comes to \$38,000, you have three options:

1. take the difference from another line item;
2. take the difference from contingencies; or
3. add additional cash equity.



## Section VII #1

### Components of a Capital Project Budget

The following ten categories are usually a part of most capital project budgets. While each item may not apply to your specific project, they have been included so that you can see the entire scope of project costs.

#### (1) Land or Building Acquisition

- Surveys and site assessments
- Appraisals
- Engineering and Topographical Studies
- Environmental Testing
- Purchase Price (of land or building)
- Legal Fees
- Demolition Costs of Existing Structure(s) (if appropriate)
- Recordation fees

#### (2) Professional Fees

- Architects and Engineers
- Legal Counsel
- Project Management
- Space Programming
- Construction Manager
- Cost Estimator
- Interior Designer
- Technology Consultants (Information Technology, Security)
- Equipment Planner
- Other Professional Consultants

#### (3) Construction

- General (fixed sum) Contract
- Separate contracts for various specialities (only if deemed necessary)

#### (4) Site Preparation (Most should be in the GC contract.)

- Utilities (water, sewage, gas, etc.)
- Site Drainage
- Landscaping
- Parking Lot
- Surfacing and Fencing
- Outside Lighting

#### (5) Furniture, Fixtures & Equipment (FFE)

- All movable furnishings
- Medical and dental equipment
- Computers, Telephones, Data Lines
- Security Systems
- Signage/Artwork
- Installation Fees

#### (6) Inspection

- Inspector to supervise work on owner's behalf (only if deemed necessary)
- Related expenses (e.g. on-site trailer with light, heat, computers, phone)

#### (7) Administrative & Permitting Costs

- Postage & Shipping
- Permits, Filing, and License Fees
- Moving/Storage Costs

#### (8) Financing Costs

- Commitment fees
- Mortgage recordation costs
- Interest during construction
- Lender's Inspection
- Letter of credit fees
- Mortgage insurance fees
- Interest reserves

#### (9) Insurance

- Builder's Risk
- Property and Liability
- Worker's Compensation
- Fire & Theft

#### (10) Contingencies

- Emergencies and unforeseen events
- Change orders during construction
- Soft costs – 5%
- Hard costs – 10-20%
- Equipment – 5-10%

\* Courtesy of Little and Associates Architects

## (2) Contingency Planning

Even in the best of circumstances, situations will arise during the development process that you do not anticipate. Consider the following:

- All three construction bids come in between 3 and 5% higher than you budgeted.
- There is a shortage of materials, and your materials costs are higher than anticipated.
- Your contractor discovers asbestos on site and it has to be remediated.
- A major grant that you anticipated falls through and you are \$500,000 short.
- The site is vandalized, and a portion of the work has to be redone. While the replacement of materials and the cost of redoing the work are covered by the builder's risk insurance, the damage to the project in terms of time delays must be considered.

Contingency planning is a must. Most experts recommend a 5% contingency on soft costs, a 10% contingency for new construction, and a 15 to 20% contingency for renovation projects. A higher contingency for renovation projects is advisable because these projects often involve older buildings, which can present thorny construction problems that aren't discovered until work is well underway.

While a contingency line item is always recommended, it cannot be a substitute for proper planning and budgeting. Indeed, if you are under budget, you may run out of money. Then, you may be forced to choose between one of two equally undesirable options: put the project on hold while you go out and locate additional funding sources, or scale back on your project design.

## (3) Finalizing and Managing the Budget

Your preliminary development budget should be continuously refined after the space assessment is completed, and finalized prior to obtaining financing. Finalizing a comprehensive and realistic project budget is a key component of the development process. But, the importance of managing the budget cannot be overstated. How can you best accomplish this? One successful approach is to establish the project budget early and fine-tune it continuously throughout the development process.

A highly regarded industry resource, The Design Advisor ([www.designadvisor.org](http://www.designadvisor.org)), recommends that costs analyses be conducted a minimum of seven separate times during the development process. As aptly noted, critical design components that affect the project's long-term success are often eliminated to save money. These design/cost trade-offs often occur at an advanced stage during the design phase. Then, it is often too late to adjust the overall design, and the only option left is to eliminate specific project components.

If you pay close attention to cost considerations from the very earliest stages of the project, you and your development team can increase the likelihood that, as the design "evolves," it can be built for the available budget. Trade-offs are always necessary. But, if costs are regularly assessed, these trade-offs can be minimized and you may not need to sacrifice critical design components. (See Appendix for a sample budget.)

## Section VII #2

### *Conduct Cost Analyses Early and Often*

The Design Advisor recommends that costs analyses be conducted at least seven separate times throughout the development process. Early analyses tend to be rough estimates, with each subsequent analysis gaining additional refinement.

1. Concept Phase  
*Upon completion of the site evaluation*
2. Predevelopment Phase  
*Upon completion of early schematic design*
3. Development Phase  
*Upon completion of late schematic design*
4. Upon completion of late schematic redesign  
(as required, for example, by funding agencies)
5. Upon completion of design development
6. Upon completion of the construction contract documents
7. After the bidding process, to compare bids

## B. Financing Options

More than likely, you will not have 100% of your project's capital needs in cash reserves and will have to look elsewhere to meet the project's total budget requirements, especially since you have been paying for predevelopment and development costs out of those cash reserves. This section describes five common sources of facilities financing. Typically, these financing sources are supplemented by funds that your health center has reserved for the project, and/or by embarking upon a capital fundraising campaign, also further described below.

### (1) Conventional Financing

Many health centers try to avoid commercial loans and often consider mortgage financing to be a last resort. Why? First, non-profit managers (and health center boards) are often fiscally conservative, and are generally reluctant to pledge assets as collateral for a loan. Second, most non-profit organizations work in an extremely challenging environment, and usually operate with thin operating margins. Debt service (i.e., interest and principal debt repayment) contributes to increased fixed operating expenses, creating an ongoing financial burden. Thus, many health centers seek to stay away from, or minimize the amount of, debt in their capital project.

But, consistently, health centers find that they have a financing gap, which can only be met by borrowed money. In fact, financially savvy health centers agree that it often makes good business sense to fund a portion of the total project budget by debt, for the following reasons:

- Getting a loan from a bank enables the health center to establish a successful credit history;
- Leveraging dollars frees up cash for other operational needs;
- Bridging a long-term capital campaign with borrowed funds allows the center to complete its capital project more quickly;
- Borrowing money (for the ultimate purpose of buying a facility) may be less expensive than lease payments and has the added advantage of building equity;

- Combining public and private dollars typically lowers the overall cost of capital;
- Repaying a loan encourages financial discipline and may improve cash flow management; and
- Establishing a banking relationship may lead to additional opportunities, such as short term working capital lines of credit or access to enhanced banking services.

When approaching your bank, keep in mind that lenders are risk averse: their primary objective is to make sure that the loan is repaid as agreed. But depending upon the type of financing, risk is evaluated quite differently. For example, construction lenders have a short-term focus and a unique set of skills that enable them to closely monitor the construction process: a short period with relatively high risk due to scheduling delays, possible cost overruns, potential difficulties with subcontractors and so forth. Construction loans can be priced higher due to the risk incurred, but the decision to lend on a particular project is based on the permanent lender's "take-out" financing to repay the loan at project completion, except if the construction lender and permanent lender are one and the same. If the construction lender and permanent lender are one and the same, there are a number of criteria considered in the decision-making process, including the strength of the owner, the effectiveness of the development team, and the quality of the construction documents.

## Section VII #3

### *Types of Loans*

#### **Acquisition Loan**

This is a short-term loan used to purchase a parcel of land or a property. Typically, once the development process is completed, the loan is paid off with permanent financing.

#### **Construction Loans**

These are short-term loans used to renovate an existing building or to construct a new facility. Interest only is typically paid during the construction period, and the entire principal balance is paid off at the project's completion. Construction (or "interim") lenders are specialists at providing financing during construction, but may not want to serve as the permanent lender once the project is completed. Typically, the construction lender makes the decision whether or not to lend, based upon the likelihood of being "taken out" (repaid) at project completion. In other words, once the project is completed, in accordance with the project's terms and specifications, the permanent lender steps in and pays off the construction loan, providing the borrower with a long-term mortgage.

#### **Permanent Financing**

This type of financing is usually used to pay off the construction loan when construction is complete. A long-term mortgage is then placed on the property over a long period of time, say 10-20 years. Unlike a construction loan, (where interest only payments are made during construction) a long-term mortgage consists of monthly interest and principal payments, with the percentage of principal paid monthly increasing during the loan term, similar to a home mortgage. The permanent lender provides specific benchmarks that the owner must meet for closing to occur (e.g., paying off of the construction loan, obtaining the final certificate of occupancy). These include completion of the project in accordance with the plans and specifications, (within a certain period of time) and within a certain budget, and a final appraisal verifying that the fair market value of the property is sufficient to be used as collateral for the loan.

In sharp contrast, a permanent lender is entering into a long-term relationship, usually upwards of ten years. Consequently, he or she is looking at the health center's operations, market environment, growth potential, and other factors to ensure that the health center will be able to comfortably repay the loan over the long term. Many permanent lenders perceive that financing health centers poses higher-than-usual credit risks. There are at least four reasons for this perception:

1. Lending to the health care industry requires an acute understanding of various reimbursement methods (which usually vary by state), complex provider arrangements, and multiple payor sources, all in the health center's unique setting. These issues are often difficult to understand for those unschooled in health care finance. Due to this lack of understanding, many banks that have experienced losses in other unrelated areas of their health care portfolio (such as hospitals or nursing homes) have exited the sector altogether, and will not consider new loans to any type of health care provider.
2. Health care centers are also usually reliant on grant income for a portion of their total revenue. These "soft" money sources cannot always be relied upon in future years, and thus raise concerns about debt repayment ability.
3. Since health centers serve a low- to moderate-income population, their facilities are often located in economically distressed areas with correspondingly low property values. Consequently, the underlying real estate may not "appraise out" to the desired loan-to-value ratio required by the bank.
4. Banks are often reluctant to exercise legal recourse (such as a foreclosure) on a non-profit because they are concerned about negative publicity from the community-at-large. Further, in the event that a bank is forced to foreclose on the property, they are faced with an additional burden, since health centers are "special use" facilities and cannot easily be converted for another purpose.

Permanent lenders follow the "Five C's of Credit". You will be far more successful in attracting your lender's interest in your capital project if you know what to expect from the underwriting process.



## Section VII Chart # 4

### *The Five "C's" of Lending*

#### **Credit**

- What is the health center's track record with other creditors (e.g., banks, credit unions, vendors)?
- What is the health center's historic and current financial performance (e.g., revenue analysis, percentage of grants funding, payer mix, debt to net worth, receivables management and collection experience)?
- What is the health center's previous experience with managing debt?

#### **Competition**

- Who are the health center's competitors, collaborators, partners?
- What are the health center's strengths and weaknesses?
- Has the health center undertaken a market analysis? If so, is the expansion supported by the market analysis?

#### **Capacity (or, Character)**

- Describe the health center's key managers and staff (e.g., experience, qualifications, tenure, turnover, depth in management team).
- What is the health center's governance structure (e.g., board of directors, committee structure, member involvement)? Is it adequate?
- What is the health center's plan for managing the capital project (e.g., review qualifications of all development team members)?
- Does the health center have the capacity to manage the development process and adequately oversee daily operations?

#### **Cash Flow**

- What is the health center's primary source of repayment (cash)? Review the project budget/sources and uses statement and pro forma financial projects (e.g., balance sheet, income statement, cash flow with supporting assumptions).
- What is the projected debt service capacity?

#### **Collateral**

- Review the health center's secondary source of repayment (e.g., collateral).
- In the event of a loan default, is there adequate collateral to repay the loan?
- Are there any obstacles to properly perfecting the lender's security interest?

#### **Common Liquidation rates:**

Real Estate	<75-80% of appraised value
Equipment	<50% of book value/invoice amount
Receivables	<80% of Medicaid/Medicare receivables <80% of current A/Rs (i.e., under 30 days past due) <60% of other A/Rs (i.e., between 30 and 60 days past due)

Note: CDFIs are often more flexible here.

## (2) Community Development Financial Institutions

Community Development Financial Institutions (CDFIs) are specialized financial institutions that provide a wide range of financial services targeted to low-income households and businesses located in distressed urban and rural communities. CDFIs usually work in market niches that are underserved by traditional financial institutions. In many market segments, CDFIs are pioneers — lending to perceived “high risk” businesses such as charter schools, childcare facilities, and health centers. CDFIs have successfully broken down credit barriers and demonstrated the creditworthiness of community-based businesses to the investor community.

CDFIs often carve out business strategies that are favorable to, and increase access to financing for, community-based organizations. For example, in Washington, D.C., Local Initiatives Support Corporation (LISC) has partnered with the Non-Profit Facilities Fund (NFF) to launch the “Community Facilities Fund.” This fund provides acquisition, construction, renovation and working capital loans for community-based, non-profit organizations based in Washington, D.C. that operate programs in the arts, childcare and youth services, community centers and health care.

Another innovative resource is the Primary Care Development Corporation (PCDC), a CDFI operating in New York City. PCDC provides construction, permanent and pre-development financing for local health care providers. For large-scale capital projects, PCDC also operates a tax-exempt bond-financing program that provides construction and permanent financing at below-market rates for terms up to 25 years.

NCB Development Corporation provides financing nationwide for community-based health care providers to meet a variety of needs, from working capital and equipment purchases to real estate acquisition, construction, expansion and renovation.

Health center managers should think of CDFIs as an excellent resource for debt financing for at least three reasons:

- Many CDFIs have a strategic business interest in health centers, and have developed internal expertise in underwriting transactions;

- CDFIs are considered a “flexible” source of financing. CDFIs will often structure a loan with a longer amortization schedule or an interest-only period (i.e., deferred principal payments for some period of time). CDFIs also frequently accept non-traditional forms of collateral and are apt to accept real estate located in economically distressed areas. It should be noted that due to their relatively small capital base, some CDFIs may be limited in the size of loans that they can extend;
- CDFIs may offer lower interest rates, since they frequently obtain all or a portion of their loan capital from non-traditional sources (e.g., religious investors, government loans, social investors). Consequently, they may be in a position to pass those savings on to you, the borrower.

See *Additional Resources* at the end of Section VII for further information about contacting CDFIs in your community.

## (3) Government Funds

While public money for facilities projects is limited, it is a funding source that is well worth investigating. For example, depending upon where your health center is located, there may be state, local, or Federal funds available through Community Development Block Grant funds (CDBG) or grants, tax incentives or loans set aside for federally designated Empowerment Zones and/or Enterprise Communities. Although these funds are usually designated for “economic revitalization” activities, they are worth pursuing, especially if your facility is located in an economically distressed neighborhood.

In some instances, health centers that enjoy a close relationship with their Congressional district occasionally benefit from a “windfall” in a budget surplus year. There are also at least two Federal agencies that operate programs directly supporting facilities financing projects for health centers.

- **Department of Health & Human Services, Bureau of Primary Health Care (BPHC) Facility Loan Guaranty Program** BPHC offers a guarantee to non-federal lenders (including many CDFIs) who provide loans to health centers. The purpose of the loan guarantee is to encourage lenders to make loans to health centers by agree-

ing to protect a portion of the lender's investment in the event of a default. The loan guarantee may be used for construction of a new health center or renovations to an existing facility. Eligible costs include land and building acquisition, renovation and new construction costs, refinancing existing debt, equipment, capitalized predevelopment costs, and miscellaneous costs such as consultant fees and capitalized interest during construction.

• **United States Department of Agriculture's (USDA) Rural Development Community Facilities (CF) Program** Under the USDA's CF Program, eligible health centers can obtain direct and guaranteed loan funds for 100% of project costs. Facilities must be located in rural areas and/or towns with populations under 20,000. Uses for the direct loan fund program include construction, expansion, or improvement of an existing facility. Rates and terms are typically very favorable, with three levels of fixed interest rates (poverty, intermediate and market), determined using a formula that considers poverty rates, unemployment, and other market factors. To be eligible, an area's poverty rate may be as low as 4.5%, and all loan terms may be extended for as long as 40 years. Under the companion CF loan guarantee program, the bank or CDFI lender applies for the guarantee and makes and services the loan. The guarantee may be for up to 90% of the loan amount. The CF program also has a small grant pool, which may be used to support up to 75% of project costs.

Finally, you should also check your home state for the availability of state-funded programs that support health center facilities projects. One notable model is the California Health Facilities Financing Authority's HealthCAP Program. The Authority partners with NCB Development Corporation (NCBDC) to increase health centers' access to facilities financing in the state of California. Under this program, NCBDC underwrites short and long-term loans ranging in amounts from \$250,000 to \$1.5 million to a variety of health facilities, including health centers. The Authority supports these loans by a loan loss reserve account that reduces lender risk and enables NCBDC to make these loans. Eligible health centers must have at least three years of operations, and demonstrate that they are ready to begin their capital project shortly after loan funding. Similar programs exist in other states through local authorities or primary care associations.

#### (4) Foundations

Foundations offer excellent opportunities, and are certainly a vital component of any fundraising campaign (see section below). According to The Foundation Center (see [www.fdncenter.org](http://www.fdncenter.org)), there are more than 63,000 private and community foundations operating in the United States today. Thus, health center managers should undertake a thorough and persistent search to identify foundations that are interested in funding projects such as yours.

The four main types of foundations are:

- **Independent foundations** established by wealthy families or individuals;
- **Company sponsored foundations** (or corporate foundations) created and operated by businesses;
- **Operating foundations** pursue social welfare, research or other charitable programs that are led by the donor or governing body; and
- **Community foundations** supported by and operated for the benefit of a specific community or geographic region.

Many large, national foundations such as Ford Foundation ([www.fordfound.org](http://www.fordfound.org)) and MacArthur Foundation ([www.macfdn.org](http://www.macfdn.org)) do not typically make funds available for "bricks and mortar" projects, but may be a source of predevelopment funding or other special initiatives funding. You may be more successful obtaining funds for your capital project from a community or family foundation, which often maintain a specific geographic focus.

Foundations almost always provide funds in one of the following ways:

1. grants,
2. program-related investments ("PRIs"), or
3. recoverable grants. Grants are made for a specific amount and purpose; no repayment is required. PRIs are investments made by foundations to support charitable activities that require repayment within a specified timeframe. Typically, PRIs carry below market interest rates and are often used as way of leveraging additional dollars from other sources. Recoverable grants are grants that function as interest-free loans.

As a general rule, foundations have a social or public policy orientation. Foundation staff, usually under the direction of the Board of Trustees or Directors, develops and pursues specific initiatives (e.g., education, AIDS, health care, youth programs, welfare to work programs, etc.). These policy initiatives may vary from one funding cycle to the next, so it is important to keep abreast of trends and changes in institutional focus.

There are several notable foundations that specialize in health care issues, e.g., Henry J. Kaiser Foundation, The Robert Wood Johnson Foundation, The Kresge Foundation, The W.K. Kellogg Foundation, and so-called “conversion foundations” in your home state that may be worth pursuing. A conversion foundation is the term used to describe a foundation that is created from the sale of a non-profit entity to a for-profit (hence, it is “converted”). The assets of a non-profit are owned by the public and therefore must revert to the public in some way. Proceeds from recent sales of non-profit health organizations have generally been converted to foundations established to continue to pursue the overall mission of the pre-conversion entity. These new “conversion foundations” take varying approaches to what constitutes healthcare and therefore they each differ in their priorities and funding guidelines. As noted in the *Additional Resources* section below, The Foundation Center (web site: [www.fdncenter.org](http://www.fdncenter.org)) is a good starting point to get educated about funding opportunities.

#### **(5) Tax-Exempt Bond Financing**

For strong health facilities with solid credit and a clear ability to service debt over a long period of time, tax-exempt bonds can be a good option. Tax-exempt bonds are a form of long-term debt financing used for institutional facilities construction (e.g., schools, hospitals, health centers). Typically, tax-exempt bonds are authorized by federal, state or municipal law and issued by a qualified agency such as a local school district or a health authority. Private and corporate investors that have an appetite for tax-exempt income then purchase the bonds through a registered securities broker/dealer.

Underwriters are going to look for a strong demonstrated ability to support the tax-exempt debt. Unless the health center is particularly strong, the tax-exempt bonds will have to be issued on a credit-enhanced basis. In other words, the bondholders may require that the bonds have an additional source of security by a third party source of credit support, such as a letter of credit or bond insurance. Tax-exempt bonds may also be rated or unrated by one of the three major credit rating agencies (i.e., Moody's Investor Services, Standard & Poor's or Fitch Investor Services). The rating quality will determine the bond's price and other factors that affect the terms of the ultimate sale to the investor community.

Tax-exempt bond financing may be an attractive alternative to conventional financing. As a general rule, tax-exempt bonds offer lower interest rates and often provide longer terms than comparable conventional financing. Interest rates are typically lower because investors are willing to accept a lesser rate of return in exchange for not paying federal and/or state taxes on the interest income.

On the other hand, tax-exempt bond financing can also require significant reporting requirements and restrictive covenants that may be considered overly burdensome. Moreover, out-of-pocket expenses (i.e., “closing costs”) are higher than conventional financing. Completing a bond transaction requires multiple parties. In short, tax-exempt bond financing is often complex and costly, but favorable interest rates and longer terms may be more advantageous when compared to conventional financing, particularly as project sizes exceed \$2.0 million or so.

## Section VII #5

### *Typical Parties to a Tax-Exempt Bond Transaction*

#### **Borrower**

- The health center

#### **Borrower's Legal Counsel**

- The borrower's legal counsel protects the interests of the health center during negotiation of business terms and provides certain legal opinions required at bond closing.

#### **Issuing Authority**

- Tax-exempt bonds are issued by a state, local government unit, government agency, or public authority on behalf of the borrower. The issuing authority serves as a "conduit" for the bonds to the borrower.

#### **Issuer's Legal Counsel**

- The issuer's legal counsel represents the interests of the issuing authority at bond closing, performing duties such as preparing the bond purchase agreement, reviewing and preparing the official statement, reviews various legal opinions from other parties, and qualifying the bonds for sale under the particular state's securities laws.

#### **Underwriter**

- The underwriter is responsible for structuring the financing, negotiating the business terms, preparing the offering statement (to be circulated to potential buyers of the bonds), arranging the credit enhancement (if needed), organizing and managing the marketing and selling of the bonds, negotiating the terms of the bond sales, and arranging for the delivery of the bonds and payment of the purchase prices at bond closing.

#### **Underwriter's Legal Counsel**

- The underwriter's counsel represents the underwriter's interests during and at the close of the transaction.

#### **Credit Enhancer (bank or bond insurer)**

- A commercial bank or a bond insurance company that provides a credit enhancement (such as a letter of credit) to the bond.

#### **Credit Enhancer's Legal Counsel**

- Represents the interests of the bank or bond insurance agency.

#### **Bond Trustee**

- The trustee holds, invests, and administers the bond funds for the particular bond issue. The trustee also serves as bond registrar, transfer agent and paying agent for the bonds, and acts on behalf of the bondholders to ensure that the borrower meets the terms of the covenants contained in the bond documents. In the event of a bond default, the trustee pursues all legal remedies permitted in the bond documents.

#### **Bond Legal Counsel**

- The bond's legal counsel writes the majority of the financing documents and provides opinions on the legality and tax-exempt nature of the bond issue, as well as the underlying security (collateral) for the issue.

#### **Financial Auditor**

- The auditor prepares a summary of the health center's historical audits for inclusion in the offering statements. The auditor also typically prepares comparative year-to-date statements for the health center. In addition, the auditor provides a "comfort letter" at the time of the bond sale (and subsequent closing) that addresses the financial information provided in the official statement.

## Section VII #6

### *Comparison of Tax-Exempt Bond Financing to Conventional Loan*

Tax-Exempt Bond Financing	Conventional Loan
<ul style="list-style-type: none"><li>• Interest rates may be significantly lower than conventional financing</li></ul>	<ul style="list-style-type: none"><li>• Interest rates are set at "market" and based on perceived risks</li></ul>
<ul style="list-style-type: none"><li>• Fixed rates may be 2-3% below market rates, with no rate resets or balloon features; variable rates can be even lower</li></ul>	<ul style="list-style-type: none"><li>• Fixed or variable rate financing is usually available, with rate resets</li></ul>
<ul style="list-style-type: none"><li>• Terms are often longer than conventional financing (e.g., 20-25 years is common, 30 years is possible)</li></ul>	<ul style="list-style-type: none"><li>• Terms are usually shorter than bond financing, with longer amortization periods possible</li></ul>
<ul style="list-style-type: none"><li>• Reporting requirements and covenants are typically more restrictive than conventional financing</li></ul>	<ul style="list-style-type: none"><li>• The center may be able to leverage other existing bank services (e.g., lines of credit, funds on deposit) so as to obtain facilities financing</li></ul>
<ul style="list-style-type: none"><li>• Closing costs are high</li></ul>	<ul style="list-style-type: none"><li>• A permanent mortgage with a local bank may enable the center to access enhanced banking services</li></ul>
<ul style="list-style-type: none"><li>• Collateral requirements are significant, and may tie up collateral so that it cannot be used for other financing</li></ul>	<ul style="list-style-type: none"><li>• A "personal" relationship with the local bank may afford more negotiating room on key terms and conditions</li></ul>
<ul style="list-style-type: none"><li>• There may be annual fees associated with a letter of credit</li></ul>	



## C. Fundraising

The saying “money attracts money” is particularly fitting as it relates to fundraising in the non-profit sector. Lenders rarely provide 100% financing, and almost always expect to see “owner’s equity” in the project, often as high as 30 to 35% of total project costs. Foundations and other philanthropic investors want to know “who else” has invested in your project and will often establish challenge grants that match funds raised from other sources. In short, prospective investors want to see what sources of money you already have in place, and usually no one wants to throw the first dollar into the hat. So, where do you start?

### (1) Launching a Capital Campaign

A capital campaign is an organized, systematic approach to raising grant money. The critical difference between a “capital campaign” and “fundraising” can be summed up in three words: focus, duration, and purpose. A capital campaign is planned around a specific goal, usually a facilities project. The campaign can be as short as six months, or as long as two or more years. Further, it requires a coordinated effort between the board of directors, center staff, management, and frequently, volunteer labor, to implement the capital plan.

If you can afford it, consider hiring a fundraising consultant (or development director). These professionals can first assess the campaign’s feasibility: How responsive are prospective funders (i.e., foundations, corporations, private investors, the community-at-large) to your organization? Would they likely support your project, and to what extent? If the answers are in the affirmative, he or she can then develop a targeted list of prospective candidates, set clear financial goals within a specified framework, and then implement the capital campaign.

For example, your capital campaign plan may look like this:

#### Sources of Funds

Total project cost \$2,000,000 Capital Campaign:

Donation of Land	\$100,000
Foundation grants	\$750,000
Sponsor Equity	\$100,000
Corporate Donations	\$100,000
Board of Directors	\$50,000
Conventional Loan	\$750,000
Individual Donors	\$150,000

*It is often a good idea to plan to borrow more than you might need, just in case the capital campaign does not meet 100% of its goal.*

The capital plan should be a written document that includes financial benchmarks for each source of funds raised (e.g., foundation grants, corporate donations, individual donors, etc.). The plan should itemize each prospective funder category and the specific donors you intend to apply to in each category. In the event that one of your board members or a friend of the health center has a personal contact or prior relationship, you may decide to assign them as “point person” for that donor.

As noted in the previous section, foundations have varied initiatives and interests, so it’s important to research appropriate candidates before making a formal application. In fact, many foundations require that you first send an “inquiry letter” describing your project, before submitting a formal application. (See Appendix for sample page from The Foundation Center’s web site, [www.fdncenter.org](http://www.fdncenter.org).)

## (2) Individual Donors & Private Investors

Non-profit organizations can also run successful campaigns targeted to individual donors. For example, one health center held a “Buy a Brick” campaign, with each donor’s name engraved on a brick footpath to the center’s main entrance. Another facility created a “Wall of Community Supporters” using tiles decorated with children’s handprints. These approaches generate dollars and build community goodwill for your capital project.

Unfortunately, the cost of raising many small contributions from a large pool of people is usually high. Greater pay-off may be found by targeting wealthy individuals in your community, or by thinking creatively about novel approaches to financing the facility. For example:

- If you have located a property, the seller might be interested in providing you with “seller-friendly” financing (i.e., on terms and conditions that might be more favorable than a conventional bank);
- Your seller may also be willing to donate the property, in exchange for a tax break;
- A private investor may be willing to purchase a property and then lease it back to the health center under more favorable terms and conditions that would be available in the open market; or
- A wealthy individual may be willing to donate stocks or bonds in exchange for a tax break, which could then be used to collateralize a loan.

## (3) Fundraising and the Internet

The Internet should be considered a critical element in your fundraising efforts for at least two important reasons. The Internet is a vast educational resource and offers the opportunity to research hundreds of thousands of corporations and foundations nationally in a highly efficient manner. Through the Internet, you can establish a direct link between your organization and a particular funder, enabling you to sidestep a myriad of phone calls and correspondence, so as to quickly identify appropriate prospects. Further, the Internet offers hundreds of sites about how to write grants, how to build partnerships with the philanthropic community, and how to develop effective fundraising strategies.

Also, consider an investment in fundraising software. There are many software programs on the market directed towards fundraising in the non-profit sector. Examples include Blackbaud, Donor2, DonorPerfect,

ETapestry, Exceed, and GiftmakerPro. A shortcut to evaluating these and other packages is the Non-profit Software Index ([www.npinfotech.org](http://www.npinfotech.org)).

## Pulling It All Together

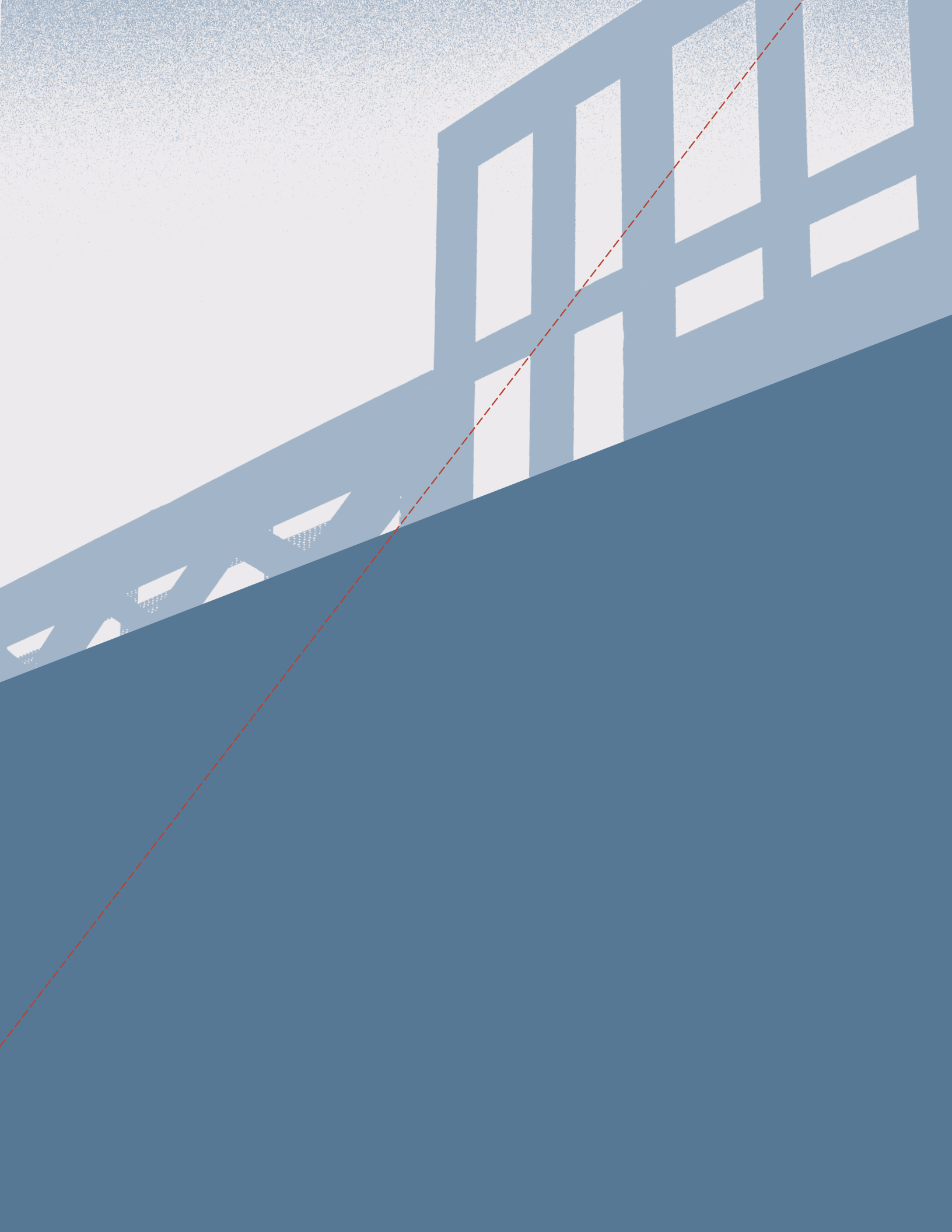
Developing feasibility studies, identifying financing options in your area and exploring capital campaigns can require a lot of research and legwork and specialized knowledge that many health centers don’t always have on staff. To help pull it all together, health centers can look to specialized service providers such as Capital Link. Capital Link is a non-profit organization dedicated to assisting community health centers in accessing capital for building and equipment projects. Their staff provides extensive technical assistance to health centers throughout the capital development process. From financial and market feasibility reviews to business plan and proposal development, Capital Link assists health centers in strengthening their abilities to plan and carry out successful capital projects.

Capital Link receives funding from the Bureau of Primary Health Care (BPHC). Consequently, for federally funded health centers, much of Capital Link’s assistance is provided without charge. For more information, visit their website at [www.caplink.org](http://www.caplink.org).

## Additional Resources

1. United States Department of Agriculture, Rural Development Community Facilities Loan Program ([www.rurdev.usda.gov](http://www.rurdev.usda.gov))
2. Bureau of Primary Health Care ([www.bphc.hrsa.gov](http://www.bphc.hrsa.gov))
3. Department of Housing & Urban Development ([www.hud.gov](http://www.hud.gov))
4. California Health Facilities Financing Authority, “HealthCap Loan Program” ([www.treasurer.ca.gov/chffa](http://www.treasurer.ca.gov/chffa))
5. National Community Capital Association ([www.communitycapital.org](http://www.communitycapital.org))
6. The Foundation Center [www.fdncenter.org](http://www.fdncenter.org)
7. Primary Care Development Corporation ([www.pcdcnyc.org](http://www.pcdcnyc.org))
8. Local Initiatives Support Corporation ([www.liscnet.org](http://www.liscnet.org))
9. NCB Development Corporation ([www.ncbdc.org](http://www.ncbdc.org))
10. The Enterprise Foundation ([www.enterprisefoundation.org](http://www.enterprisefoundation.org))
11. Capital Link ([www.caplink.org](http://www.caplink.org))





## Section VIII

# Planning & Scheduling

The facilities development process can be thought of as a complex piece of machinery with many moving parts. Over the course of the process (which could be under a year, or as long as two or three years in duration), numerous individuals will have responsibility for some part of the project. Several of these people will be a constant presence, such as your architect, attorney, or project manager. Other individuals, such as an environmental engineer or bond counsel, will be brought in at a critical stage.

Getting your development project organized, maintaining individual accountability, and having these individuals stay on task throughout the entire development process will contribute to the project's overall success. One useful tool recommended by the American Institute of Architects (AIA) is **R-charting** (or responsibility charting). This involves assigning responsibility for certain tasks within a group. According to the AIA, people will do what they've promised to do when they are in a group and have publicly agreed to take on a particular task. The AIA further recommends the following steps:

- Identify the appropriate team member that is most capable of completing the task
- Give this individual the appropriate responsibility and authority needed to complete the task
- Establish the expected level of performance
- Define what is expected to complete the task or activity
- Agree on level of effort and time required
- Establish a suitable completion date
- Establish interim milestones or some other means of checking in on progress

Another useful planning tool is the project work plan. Much like you use a business plan as your "road map", a project work plan is another invaluable guide for leading you and your development team through the development process. By listing all the key project components, and by assigning responsibility to an individual for each and every component part, you can be reasonably assured that you will not overlook any major activity along the way. (*Developing a Health Center: A Guide for Health Center Staff and Boards on Managing the Design and Construction Process*, Boston: Capital Link and Primary Care Development Corporation, 2001, p. 9, Table 1.)

Finally, you will want to establish a project schedule. Most project schedules list the project's major benchmarks, action steps, and a completion date. Of course, the construction schedule is probably the single most important schedule item and will be established with your general contractor and incorporated into the project's overall timetable. Microsoft Project Management is useful software that helps you create both a work plan and a schedule. (See Appendix for a sample project schedule.)

## Section VIII #1 Elements of a Work Plan

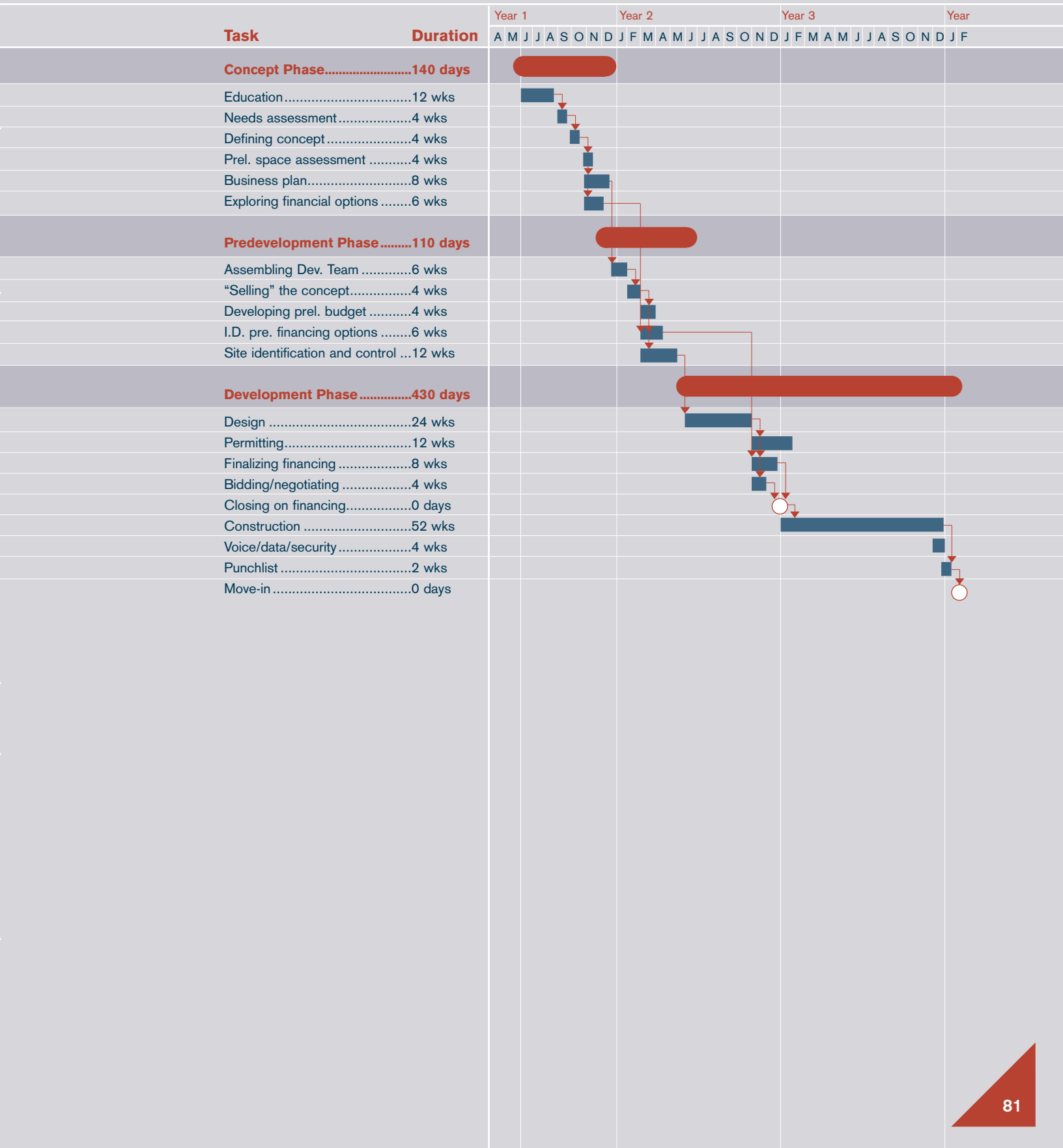
The following table has been reprinted with permission from *Developing a Health Center: A Guide for Health Center Staff and Boards on Managing the Design and Construction Process*, Boston: Capital Link and Primary Care Development Corporation, 2001 (p. 9).

Project Workplan Component	Purpose	Timing
Project Definition	<ul style="list-style-type: none"> <li>• Defines scope of project</li> <li>• Outlines planning steps required to prepare strategic plan</li> </ul>	<ul style="list-style-type: none"> <li>• Develop during strategic planning</li> <li>• Incorporate into business plan</li> <li>• Refine as necessary during entire life of project</li> </ul>
Team Selection	<ul style="list-style-type: none"> <li>• Identifies all necessary team members, both internal and external</li> <li>• Defines roles for all team members</li> <li>• Outlines process/criteria for consultant selection</li> </ul>	<ul style="list-style-type: none"> <li>• Identify team members during project planning phase</li> <li>• Identify cost of consultants during budgeting phase</li> </ul>
Site Issues/Site Acquisition	<ul style="list-style-type: none"> <li>• Details site selection process</li> </ul>	<ul style="list-style-type: none"> <li>• Identify site selection criteria during business planning phase</li> <li>• Identify potential sites during business planning phase</li> <li>• Define site costs during budgeting phase</li> <li>• Purchase and prepare site before construction</li> </ul>
Third-Party Permits and Approvals	<ul style="list-style-type: none"> <li>• Outlines steps and time frames for any required regulatory, governmental, or third-party approvals</li> </ul>	<ul style="list-style-type: none"> <li>• Identify all necessary approvals during budgeting phase</li> <li>• Incorporate permit and approval schedule into project timeline</li> <li>• Update and adjust as necessary</li> </ul>
Design and Construction Phasing	<ul style="list-style-type: none"> <li>• Describes all required tasks and actions</li> </ul>	<ul style="list-style-type: none"> <li>• Create as part of schedule</li> <li>• Update and adjust as necessary</li> </ul>
Legal Work	<ul style="list-style-type: none"> <li>• Describes legal work required at various stages during life of project</li> </ul>	<ul style="list-style-type: none"> <li>• Engage attorney at start of project</li> <li>• Utilize attorney as necessary throughout life of the project: prepare/review site acquisition documents, contracts with architects and builders, necessary lease documents, etc.</li> </ul>
Financing	<ul style="list-style-type: none"> <li>• Outlines steps to secure financing for the project</li> <li>• Determines levels of debt vs. grant/gift financing</li> <li>• Defines fundraising process if necessary</li> </ul>	<ul style="list-style-type: none"> <li>• Define during project planning</li> <li>• Refine as necessary during budgeting, fundraising, and building process</li> </ul>



## Section VIII #2

### Health Center - Conceptual Schedule



## Section VIII #3

### School (alternate) - Conceptual Schedule

\* Courtesy of Little and Associates Architects

- Get site information and survey
- Meet with planning team and staff to develop program
- Develop multiple schemes
- Present to planning team and building committee staff
- Prepare design of preferred scheme
- Present design drawings for approval

- Project management planning, scheduling, base drawings
- Survey, soil testing, criteria to engineers for their design
- Deliver base drawings to engineers for drafting
- Develop construction systems
- Building code check
- Material selections
- Food service and library consultants
- Coordinate engineers
- Progress reviews with school board
- Prepare specifications and consult with supplier representatives
- Quality control review
- Revisions

#### Schematic Design

Program  
Brainstorm  
Present Scheme  
Design Drawings

*Board Approves Design*

**4 weeks**

#### Design Development

Survey  
CAD  
Review  
Revise

*Planning Team & Staff Approval*

**4 weeks**

#### Construction Documents

Project management  
Schedule  
Base Drawings

50% Budgets  
Planning Review  
Owner Review 60%  
Specifications  
90% Engineers  
Coordination  
Quality Control  
Review

Revise

*Board Approval to Advertise*

**18 weeks**

#### Bidding

Contact Bidders  
Addenda  
Pre-Bid Conference  
Bid Opening

*Review Bids with Board*

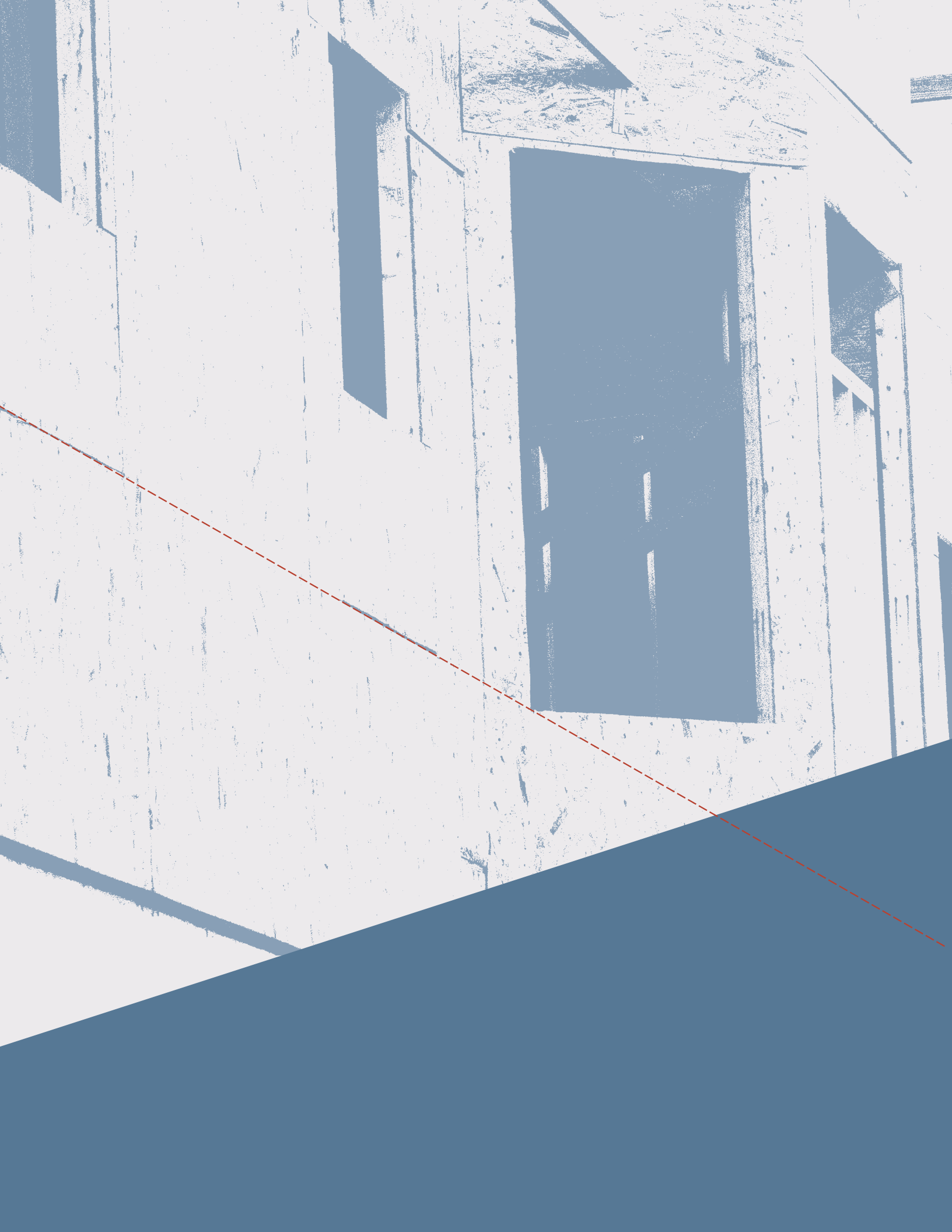
**4 weeks**

- Consultants finalize work
- Prepare design development documents on CAD
- Review design development documents with planning team, staff, and board representatives

- Evaluate amounts and contractors
- Negotiate alternatives and allowances for budget
- Present bids to school board
- Prepare contracts and "Notice to Proceed"

Award Contract	Construction	Contingency Time	Move-In Time
Evaluate Bids Negotiate Prepare Contract	<b>Construction Time</b> 14 months unless starting in December, January, or February (add 2-3 months)	For allowable days	Before students arrive
Sign and Execute Contracts			
3 weeks	14 months	(2 months)	(1-2 months)

- Call contractors and distribute documents first week
- Addendum clarifying questions, substitutions, and revisions
- Pre-bid conference on site with all bidders
- Open bids and tabulate results



# Glossary of Terms

Adapted from a glossary produced by Local Initiatives Support Corporation (LISC).  
The full glossary can be found online at <http://www.liscnet.org/resources/glossary.shtml>.

**Abstract of title:** A summary of the public records relating to the title of a particular piece of land or property. An abstract of title should be a chronological history of recorded instruments that affect the title of the subject property. In some states, an attorney does a title search using an abstract. An attorney or title insurance company reviews an abstract of title to determine whether there are any title defects which must be cleared before a buyer can purchase clear, marketable, and insurable title.

**Acceleration clause:** A clause in a note, bond, mortgage or deed of trust giving the lender the right to demand the remaining balance due and payable before its original date due to an event of default.

**Accessory building:** A building or structure detached from but on the same property as a main building. Examples of accessory buildings are garages, storage buildings and guest houses.

**Accrued interest:** Interest earned but not paid since the last due date.

**Act of God:** An event that causes damage by nature such as a flood, earthquake or tornado.

**Action to quiet title:** A court action to establish ownership of real property. This court action usually removes any interest or claim to title of real estate, also referred to as a cloud on the title. Normally a lender will not commit to a mortgage with a cloud on the title. If the complainant is successful in the court action, the title is made quiet, or "clean".

**Ad valorem:** A method of taxation using a fixed proportion of property value; for example, real estate taxes collected at the rate of a specific dollar amount of appraised value or assessment. People use the ad valorem method as a formula to decide how much tax to pay the government. A commonly used formula for computing taxes is as follows (assumptions: properties are assessed at 25% of valuation, appraisal is \$100,000 and the tax rate is \$7.50 per \$100):  $\$100,000 \times 25\% = \$25,000$  ?

$\$100 = 250$  (\$100 units),  $250 \times \$7.50 = \$1,875$  ?  
 $12$  (12 months) = \$156.25 per month

**Adaptive reuse:** Providing a new use for an older, but sound, structure. Examples might be an abandoned warehouse that is converted into a business or residential condominiums.

**Add-on interest:** Interest added to the amount of the loan on the front end, or beginning of the loan repayment period. The balance is then paid by installments. This form of interest is much more expensive than simple interest paid on the entire amount for the entire term of the loan.

**Adjustable-Rate Mortgage (ARM):** A mortgage where the interest rate is not fixed, but changes during the life of the loan in line with movements in an index rate. The rate is usually based on indices tied to the nation's economy. You may also see ARMs referred to as AMLs (adjustable mortgage loans) or VRMs (variable-rate mortgages)

**Adjusted basis:** The original cost of the property plus improvements (including what it cost to sell the property), less depreciation. The gain on the sale is calculated by subtracting the adjusted basis from the sale price.

**Agreement of sale:** A contract in which a seller agrees to sell and a buyer agrees to buy, under certain specific terms and conditions spelled out in writing and signed by both parties. May be known by various names, such as contract of purchase, purchase agreement, or sales agreement according to location or jurisdiction.

**All-Inclusive Trust Deed (AITD):** A new deed of trust securing a balance due on an existing note plus new funds advanced. This technique is similar to a wraparound mortgage.

**American Institute Of Architects (AIA):** A professional organization of architects. All registered architects adhere to AIA's standards of ethical practice.

**American Land Title Association (ALTA):** An organization comprising title insurance companies, abstractors and attorneys specializing in real property

law. ALTA has adopted many title insurance policy forms that standardize coverage nationally for property owners and lenders. Many states require ALTA standardized title insurance policies.

**Amortization schedule:** A list showing the payment number, interest payment, principal payment, total payment and unpaid principal balance. People sometimes call an amortization schedule a curtail schedule.

**Amortization:** The process of paying off a debt or mortgage, usually by monthly payments. Regardless of whether a loan is a level payment mortgage, graduated payment mortgage, adjustable graduated mortgage or variable-rate mortgage, if it is an amortized loan there will be a portion for interest and a portion for principal reduction in every loan payment.

**Amount financed:** The base loan amount without regard to closing costs, discount points or mortgage insurance premiums.

**Annual Debt Service (ADS):** The total amount of principal and interest to be paid each year to satisfy the obligations of a loan.

**Annual Percentage Rate (APR):** A measure of the cost of credit, expressed as a yearly rate. It includes interest and points as well as other charges. It provides borrowers with a good basis for comparing the cost of any loan, including a proposed mortgage loan.

**Annual Percentage Rate (APR):** A method for calculating an interest rate to the interest collected, discount points charged to either purchaser or seller or both, certain costs related to closing and mortgage insurance premiums.

**Appraisal Institute:** A professional organization of real estate appraisers. The Appraisal Institute is the result of a merger between the former American Institute of Real Estate Appraisers (AIREA) and the Society of Real Estate Appraisers. The surviving designations are the MAI (Member of the Appraisal Institute) and SRA (Senior Residential Appraiser).

**Appraisal report:** A written opinion of value. The report contains the estimate of value; date of valuation; certification and signature of the appraiser; the purpose, qualifying conditions and description

of the subject property and its ownership; a neighborhood description; the approaches to value; and the final determination of value. An appraiser usually reports the present market value for an existing property and proposed improvements. For example, the appraiser may report a value as of the conclusion of construction and as of a projected date.

**Appraisal:** An expert judgment or estimate of a property's fair market value by a licensed professional as of a given date. There are three different types of valuation approach depending upon the property type and current or anticipated usage: The Market Approach, Cost Approach or Income Approach. The market approach bases value on the sales of other comparable properties. The cost approach bases value on what it will cost to replace the property. The income approach bases value on the income produced by owning the property. In most appraisals all three approaches will be used, with the appraiser stating what approach was most influential in making the final determination of value.

**Appraiser:** One who estimates value on a professional level. Many appraisers have designations such as MAI (Member of the Appraisal Institute), SRA (Senior Residential Appraiser), SREA (Senior Real Estate Analyst) and SRPA (Senior Real Property Appraiser).

**Appreciation:** An increase in the value of a property due to changes in market conditions or other causes.

**Appurtenance:** An item attributable to the land, such as improvements or an easement. Appurtenances are outside the property but are considered part of the property and transfer with it upon sale or other transfer. A utility easement is an example of an appurtenance.

**Arm's-length transaction:** A transaction between individuals who do not have a conflict of interest or reason for collusion. The value of property should be questioned for fairness or accuracy if there is not an arm's-length transaction between buyer and seller. In general, appraisers typically use comparable sales that are closed by an arm's-length transaction in the market approach to value.

**Arrears:** Refers to the end of a period with respect to interest payments. For example, interest on a mortgage is paid in arrears, as contrasted with rent, which is paid in advance. For example, a

mortgage payment due May 1 is for the interest for April; rent due May 1 is for the month of May. The term can also pertain to delinquent mortgage payments. A mortgage loan that is three months delinquent can be said to be three months in arrears.

**Assessed valuation:** The dollar amount or value on what real estate tax is levied. If a property worth \$100,000 is assessed for tax purposes at 50% of value, the assessed valuation is \$50,000. County or township tax assessors normally make appraisals for tax reasons. Many state laws require properties to be reappraised periodically. If the taxpayer disagrees with the appraisal, he or she can appeal to a board of appeal or board of equalization.

**Assessed value:** (1) Dollar amount assigned to taxable property for tax purposes by the county tax assessor. It is usually a statutory percentage of market value. (Not to be confused with appraised value.) (2) The valuation placed upon property by a public tax assessor for purposes of taxation. (3) The value of real property established by the tax assessor for the purpose of levying real estate taxes.

**Assessment:** (1) The fair market value of property for tax purposes. (2) An expense appropriated to a unit of a whole such as a condominium assessment for common grounds, maintenance or an additional charge for improvement. (3) A levy for adding a product or service to a neighborhood, such as curbs or sewers. (4) A value given to a property owner for the taking of the property by the process of condemnation.

**Assessor:** Commonly called a tax assessor, an assessor is the individual charged with determining the fair market value for tax purposes. Tax assessors do not set the tax rate; they merely set the value for tax purposes.

**Asset:** Something of value that is owned. An asset could be a parcel of land, a building, stocks or bonds, etc.

**Assign:** The act of transferring rights or property to another.

**Assignee:** One who receives rights or property. An assignee stands in the place of the assignor for rights, liabilities and interest in the property.

**Assignor:** One who assigns rights or property.

**Assumption of mortgage:** An obligation undertaken by the purchaser of property to be personally liable for payment of an existing mortgage. In a full assumption, the purchaser is substituted for the original mortgagor in the mortgage instrument and the original mortgagor is to be released from further liability. In the assumption, the mortgagee's consent is usually required. The original mortgagor should always obtain a written release from further liability if he/she desires to be fully released under the assumption. Failure to obtain such a release renders the original mortgagor liable if the person assuming the mortgage fails to make the monthly payments.

**Attachment:** The actual taking of property into the custody of a court to serve as collateral for a judgment sought in an impending suit. This form of legal action is not available for obligations secured by collateral, as in the case of a mortgage.

**Attestation:** The act of witnessing a signature on an instrument.

**Average life of a mortgage:** The average number of years one dollar of principal investment remains outstanding in a mortgage loan. The average life is used in deciding the true yield of a mortgage. A 30-year mortgage is said to have an average life of 12 years; a 10- to 15-year mortgage has an average life of 7 years. Investors base the yield of a mortgage on the average life as opposed to the original term.

## B

**Backup contract:** A term often used with contracts to buy real estate. A backup contract is a contract that replaces a prior contract in the event of failure to perform or close by the parties of the prior contract. The seller should get a release from the buyer on the first contract before canceling the contract and proceeding with the second (or back-up) contract.

**Balloon mortgage:** A mortgage loan with periodic payments of principal and interest that do not completely amortize the loan. The balance of this type of mortgage loan is due and payable in a lump sum at a specified time in the future. The borrower pays interest regularly, but may or may not make small principal repayments during the loan period. The unpaid balance is due at a specific time in the



future as stated in the mortgage or deed of trust. For example, if you borrow \$30,000 for 5 years, or 60 months, and the interest rate is 15%, your monthly payments will be only \$375. But the payments cover interest only, with the entire principal due at maturity in five years. Thus, the borrower must make 59 equal monthly payments of \$375 and a final balloon payment of \$30,375 (the principal plus the last interest payment). If the borrower cannot make the final payment, the borrower must refinance (if refinancing is available) or sell the property. Some lenders guarantee refinancing when the balloon payment is due, although they do not commit to a specified interest rate. The rate at refinancing could be much higher than the borrower's current rate. Other lenders do not offer automatic refinancing. Without such a guarantee, the borrower could be forced to start the whole business of shopping for mortgage funds again, besides paying closing costs and front-end charges a second time. A balloon mortgage can be a senior or junior mortgage; i.e., a first or second mortgage.

**Balloon note:** A Promissory Note which requires only partial or no amortization (principal reduction.) Balloon Notes result in an eventual Balloon Payment. A Balloon Note may be coupled with an Extendible Rider which allows for the extension of the loan term as long as certain conditions are met.

**Balloon payment:** The final payment in a balloon mortgage. The balloon payment ends the mortgage, and the mortgage is paid in full. This final payment is called the balloon or bullet.

**Bankruptcy:** When a person or business is declared by a court to be unable to pay outstanding debts, that person or business is said to be in bankruptcy. Any assets must be then turned to a trustee for a management, an individual appointed by the bankruptcy court.

**Base line:** A surveyor's term used to show an east-west line.

**Basis points:** A term used in relationship to interest rates. One basis point is equal to 1/100 of 1 percent. Basis points are used to describe the yield of a debt instrument, including mortgages. The difference between 9% and 9.5% is 50 basis points.

**Basis:** An unadjusted basis is the cost of the property minus the land value. Cost plus capital spent to modify the improvements minus the land value is the adjusted basis. For the purposes of determining capital gain or loss, it is the total cost of the property compared to the sales price minus the costs of the sale.

**Binder:** A preliminary agreement, secured by the payment of earnest money, under which a buyer offers to purchase real estate.

**Blanket mortgage:** (1) A single mortgage used to secure a debt for money loaned on several properties such as the lots a builder owns in a subdivision. It is important for the borrower (mortgagor) to ask for a partial release clause in a blanket mortgage. A partial release clause will release each lot that is sold for a stated amount that is a portion of the entire debt. Without a partial release clause, the entire debt must be paid before the mortgage is released (2) Mortgage lien secured by two or more property parcels.

**Blended rate:** (1) A first-mortgage lender can use a blended rate in an advertisement to induce mortgagors to refinance and pay off their old low-interest-rate first mortgage. The first-mortgage lender could offer a 10% interest loan as compared to the going rate of 12% if the mortgagor will refinance the existing mortgage that is at 8 % (2) A second-mortgage lender or a wraparound lender will advertise not to pay off the old mortgage with the low rate and short term remaining, but instead, to place a second mortgage or wraparound loan behind the first and have a blended rate below market interest rates for first-mortgage loans.

**Block grant:** Federal funds allocated to a state for a group of related services, such as affordable housing, maternal and child health services, or drug abuse programs.

**Board of Adjustment:** A government body that hears appeals concerning zoning matters. A Board of Adjustment can grant zoning variances.

**Board of Equalization:** A government body that hears appeals concerning real estate tax assessments. If a property owner thinks the assessment is too high, they can appeal to the Board of Equalization. This board can lower assessments, causing a lower real estate tax.

**Board of Realtors®:** The local association of REALTORS® who belong to the State and National Association of Realtors.®

**Board of Review:** See Board Of Equalization.

**Boilerplating:** Standard language found in contracts, deeds or deeds of trust, and in covenants, conditions and restrictions

**Bona fide:** Genuine; sincere; in good faith. The term can be used in a sentence such as, “this is a bona fide offer to purchase real estate.”

**Bond:** A formal certificate that evidences a debt and outlines the terms. It is a formal promise to pay a lender a specified sum of money at a future date — with or without collateral. The promise must be in writing and signed and sealed by the maker (borrower). The balance owed is paid on a future date with a series of interest payments in the interval.

**Book value:** An accounting term used to show the value of a business as a whole or particular asset, such as real estate. The value is shown by accounting records that give the cost of the assets plus any improvement minus depreciation. Depending on the reason for valuation, book value may be marked down for a distress sale, but is not typically marked up to reflect an increase in value.

**Boring test:** Using samples obtained by boring deep holes in the ground to determine the strength of the subsoil for construction purposes.

**Breach of contract:** Failure to perform according to the terms of a contract. The party who has not breached the contract can rescind the agreement and sue for damages or for performance.

**Breach of trust:** Abuse of the responsibilities or authority as set forth in a trust agreement.

**Bridge financing or bridge loan:** Short-term mortgage financing between the end of one loan or financing instrument and the beginning of another.

**Builder's risk insurance:** Insurance used to protect builders against fire and special risks while they have a building(s) under construction.

**Building code:** Local and State Laws that set minimum construction standards.

**Building line or setback:** Distances from the ends and/or sides of the lot beyond which construction may not extend. The building line may be established by a filed plat of subdivision, by restrictive covenants in deeds or leases, by building codes, or by zoning ordinances.

**Building permit:** A written permit that must be obtained from a local jurisdiction by anyone doing remodeling or rehabbing work on a property.

**Bureau of Primary Health Care (BPHC):** The agency within the Health Resources Services Administration of the U.S. Public Health Service that is responsible for primary care delivery programs including community and migrant health centers and delivery of health care to special populations such as the homeless, uninsured and underinsured.

**Buyer's agent:** A real estate agent who works for the buyer of a house, not the seller.

## C

**CAP:** A stated limit on how much an interest rate or the monthly payment of an adjustable rate mortgage can change at each adjustment or during the life of a mortgage.

**Capital improvement:** A permanent improvement that increases the value of real property and extends the useful life of the property and is an expenditure that differs from a necessary repair expense. For example, painting a house is a maintenance repair expense, whereas the installation of vinyl or aluminum siding is a capital improvement.

**Carryback financing:** When the seller finances the sale of property to a buyer (also, see seller financing).

**Cash flow:** Income from an investment after deducting expenses and debt service from gross income and before depreciation and income taxes. Net income minus debt service equals cash flow.

**Cash flow:** Investment returns generated by one of two methods: current income (rents, dividends, etc.) minus expenses and debt service or cash proceeds received upon the sale of an investment (reversion).

**Cash reserve:** A requirement by some lenders that buyers have sufficient cash remaining after closing to make future mortgage payments or property repairs.

**Certificate Of Occupancy (CO):** An official document by a governing authority stating that a structure complies with local zoning and building codes, is ready for use and may be occupied legally.

**Certificate of Title:** A certificate issued by a title company or a written opinion rendered by an attorney that the seller has good marketable and insurable title to the property which he/she is offering for sale. A certificate of title offers no protection against any hidden defects in the title which an examination of the records could not reveal. The issuer of a certificate of title is liable only for damages due to negligence. The protection offered a property owner under a certificate of title is not as secure as that offered in a title insurance policy.

**Change order:** A form used by a builder to specify changes from the approved original plans or blueprints used to construct a building.

**Chattel mortgage:** A lien on personal property that is not permanently attached; something other than real estate.

**Clear title:** A title that is free of liens and legal questions as to ownership of the property.

**Closing costs:** Those expenses which buyers and sellers normally incur to complete a transaction in the transfer of ownership of real estate. These costs are in addition to price of the property and are items prepaid at or before the closing day. Non-Recurring Closing Costs are items such as appraisal, credit report, processing fees, origination fees, transfer taxes, points, etc., which are paid on a one-time basis. Recurring Closing Costs (also known as pre-pays) include such items as property taxes, hazard insurance and may include pre-paid interest or Private Mortgage Insurance premiums. Total costs and the method by which they are split between the buyer and seller depend upon local custom, jurisdiction and agreements stipulated in the purchase contract.

**Closing day:** The day on which the formalities of a real estate sale are concluded and at which time title passes from seller to buyer. The final closing merely confirms the original agreement reached in the agreement of sale.

**Closing:** The meeting during which all the papers are signed (the loan is “closed”) and the keys are turned over to the new owner. May also be referred to as settlement.

**Cloud (On Title):** An outstanding claim or encumbrance which adversely affects the marketability of title.

**Codes:** Standards for constructing buildings that are established by city, state or municipal governments. In most areas these codes are modeled after national codes and establish minimum requirements for construction buildings. Points covered by the codes include design, quality of construction, use and occupancy of the building on the site, safety and health.

**Collateral or security:** Assets that are pledged to secure the discharge of an obligation. If the borrower does not repay the loan as agreed, the lender can foreclose and take possession of the collateral. In real estate transaction, the property financed with a mortgage typically serves as the bank's collateral.

**Commission:** Money paid to a real estate agent or broker by the seller (or infrequently the buyer) as compensation for finding a buyer and completing the sale. Usually the commission is set as a percentage of the sales price, and depending upon local real estate practice, may be negotiable.

**Commitment letter:** A formal offer by a lender stating the terms under which it agrees to loan money to a borrower.

**Common Area Maintenance: (CAM)** Charges paid by the tenant for the upkeep of areas designated for the use and benefit of all tenants.

**Common areas and elements:** Areas of property used or available for use by multiple parties. Common Areas in office building often include stairways, hallways, restrooms, courtyards, etc.

**Comparable properties:** See Direct Sales Comparison.

**Comparables:** Properties that are similar or comparable to the subject project.

**Completion bonds:** Bonds provided by contractors to lenders to guarantee completion of construction in accordance plans and specifications.

**Condemnation:** The taking of private property for public use by a government unit, against the will of the owner, but with payment of just compensation under the government's power of eminent domain. Condemnation may also be a determination by a governmental agency that a particular building is unsafe or unfit for use.

**Contiguous:** Properties that touch each other.

**Contingency:** An item in a real estate sales contract stating that the contract is good only in certain cases. For example, a sales contract may be binding only if the buyer obtains financing at a certain rate or if the seller replaces the shingles on the roof. Contingencies must be written in the contract.

**Contract of purchase or contract of sale:** See Agreement of Sale.

**Contractor:** In the construction industry, a contractor is one who contracts to erect buildings or portions of them. There are also (sub)contractors for each phase of construction: heating, electrical, plumbing, air conditioning, mechanical, and others.

**Conversion clause:** A provision in some ARMs that allows you to change the adjustable rate to a fixed-rate loan at some point during the term. Usually conversion is allowed at the end of the first adjustment period. At the time of the conversion, the new fixed rate is generally set at one of the rates then prevailing for fixed rate mortgages. The conversion feature may be available at extra cost.

**Convertible ARM:** An adjustable-rate mortgage that can be converted to a fixed-rate mortgage under specified conditions.

**Co-signer:** A person who signs loan documents, such as a mortgage note with another person. The co-signer is responsible for making payments, if the borrower does not.

**Cost approach:** A way to determine the market value of a property by evaluating the costs of creating a property exactly like the subject.

**Cotenancy:** A form of co-ownership of property. Examples include: tenancy in common, tenancy-by-the-entirety, joint tenancy.

**Counter-offer:** If a seller does not like a buyer's offer, the seller can reject the offer or make a counter-offer.

**Covenant:** A clause in a mortgage that obligates or restricts the borrower and which, if violated, can result in foreclosure.

**Covenant:** A promise written into a deed or contract to perform or not perform certain acts.

**Credit report:** A report of an individual's (or business's) credit history prepared by a credit bureau and used by a lender in determining an applicant's creditworthiness.

**Creditworthy:** A person with good credit, whom a lender judges will repay a loan, is credit worthy.

**Cross-default clause:** A provision in a junior mortgage making the mortgagor in default on all mortgages if a default occurs on just one mortgage. The cross-default clause allows a lender to foreclose if the borrower is in default on just one mortgage.

## D

**Daily interest:** The amount of interest the borrower pays the lender calculated on a daily basis. It equals the annual interest rate divided by 360 or 365 and multiplied by the amount of the loan. Also called per diem interest.

**Debenture:** A broad term for any unsecured, long-term debt instrument. Corporations use debenture bonds to raise capital. Municipal bonds are a type of debenture bonds.

**Debt service coverage (or debt coverage ratio):** Amount of money left over after other expenses such as taxes, insurance, maintenance and utilities, including an assumption of a reasonable vacancy factor, which can be utilized to service mortgage debt. Lenders usually require that the resulting earnings be a certain percentage above the proposed mortgage payments. (Applicable to Apartments and Commercial Properties.) The debt coverage ratio (DCR) is calculated as the ratio of net operating income (NOI) to annual debt service (ADS).  $DCR = NOI / ADS$ .

**Debt service:** Mortgage Payment.

**Declaration of trust:** An instrument that identifies property held by a master for another individual.

**Decree:** An order or judgment of a court.

**Deed of Trust:** Like a mortgage, a security instrument whereby real property is given as security for a debt. However, in a deed of trust there are three parties to the instrument: the borrower (or trustor), the trustee, and the lender, (or beneficiary). In such a transaction, the borrower transfers the legal title for the property to the trustee who holds the property in trust as security for the payment of the debt to the lender or beneficiary. If the borrower pays the debt as agreed, the deed of trust becomes void. If, however, he/she defaults in the payment of the debt, the trustee may sell the property at a public sale, under the terms of the deed of trust. In most jurisdictions where the deed of trust is in force, the borrower is subject to having his/her property sold without benefit of legal proceedings.

**Deed restrictions:** Restrictions or limitations to the use of property as noted in a deed.

**Deed:** A formal written legal instrument by which title to real property is transferred from one owner to another. The deed must contain an accurate description of the property being conveyed, be signed and witnessed according to the laws of the State where the property is located, and be delivered to the purchaser at closing day. There are two parties to a deed: the grantor and the grantee. (See also deed of trust, general warranty deed, quitclaim deed, and special warranty deed.)

**Default:** Failure to make mortgage payments as agreed to in a commitment based on the terms and at the designated time set forth in the mortgage or deed of trust. It is the mortgagor's responsibility to remember the due date and send the payment prior to the due date, not after. Generally, thirty days after the due date if payment is not received, the mortgage is in default. In the event of default, the mortgage may give the lender the right to accelerate payments, take possession and receive rents, and start foreclosure. Defaults may also come about by the failure to observe other conditions in the mortgage or deed of trust.

**Defective title:** Title that is not clear.

**Defendant:** Party who is defending or denying in a legal action.

**Deferred interest:** Interest due but unpaid. Mortgages that permit negative amortization (such as GPMs and ARMs without a rate cap) will allow deferred interest.

**Deferred maintenance:** Depreciation caused by failure to properly maintain a property; sometimes called curable physical depreciation.

**Deficiency:** In the event of a foreclosure, there is a deficiency when the highest bid in a foreclosure sale is less than the outstanding balance plus foreclosure-related costs.

**Delinquency:** A loan in which a payment is overdue but not yet in default.

**Demand note:** A debt instrument that allows the lender to call the balance due at any time without prior notice.

**Deposit:** Cash paid to the seller when a formal sales contract is signed.

**Depreciation:** Decline in value of a property due to wear and tear, adverse changes in the neighborhood, or any other reason.

**Direct sales comparison:** Property value estimation using the sales prices of similar properties (comparables) and making value adjustments according to such things as square footage, room count, lot size, condition and amenities in order to obtain a realistic fair market value of the property being appraised.

**Discount points:** Charges made by a lender to adjust the effective interest rate (yield) on loans. One point is equal to 1% of the loan amount. On a \$100,000 loans, one point would be equal to \$1,000. In practice, on most 30 year fixed rate loans, the payment of an additional discount point can lower the actual note rate by approximately 1/4%.

**Discount points:** See Points.

**Discounting:** The process of reducing the value of money received in the future to reflect the opportunity cost of waiting to receive the money.

**Down payment:** The difference between the sales price and actual mortgage amount which the buyer must put down in cash or cash equivalents, usually 5% to 20% of the amount of a loan.

**Due-on-sale clause:** A provision in a mortgage allowing the lender to demand repayment in full if the borrower sells the property securing the mortgage.

## E

**Earnest money (Good Faith Deposit):** The deposit money given to the seller or his agent by the potential buyer upon the signing of the agreement of sale to show that he is serious about buying the house. If the sale goes through, the earnest money is applied against the down payment. If the sale does not go through, the earnest money may be forfeited or lost unless the offer to purchase expressly provides that it is refundable. Most purchase contracts require that certain contingencies (such as the availability of financing and acceptance of property condition) be removed prior to the deposit being forfeited

**Easement:** (1) a legal interest that one person has in land belonging to or in possession of another person entitling the owner of the easement to use the other person's land (2) a right of way giving persons other than the owner limited access to or over a property.

**Easement appurtenant:** An easement that burdens one parcel of land (the servient estate) for the benefit of another parcel (the dominant estate).

**Easement by necessity:** An easement that is created by operation of law when a grantor conveys a portion of a larger parcel of land and in doing so landlocks either the portion that is transferred or the part that is retained.

**Easement rights:** A right-of-way granted to a person or company authorizing access to or over the owner's land. An electric company obtaining a right-of-way across private property is a common example.

**Economic life:** The period of time over which the property is estimated to be profitably utilized.

**Economic obsolescence:** Loss in property value caused by conditions external to the property.

**Effective age:** The apparent age of a property based on its appearance; may be more than, the same as, or less than the actual or chronological age.

**Egress:** A means of exit from a parcel of land.

**Eminent domain:** Right of a government agency to take private property for a public purpose. Fair compensation must be paid to the owner whose property is taken.

**Encroachment:** An obstruction, building, or part of a building that intrudes beyond a legal boundary onto neighboring private or public land, or a building extending beyond the building line.

**Encumbrance:** (1) a legal right or interest in land that affects a good or clear title, and diminishes the land's value. It can take numerous forms, such as zoning ordinances, easement rights, claims, mortgages, liens, charges, a pending legal action, unpaid taxes, or restrictive covenants. An encumbrance does not legally prevent transfer of the property to another. A title search is usually done to reveal the existence of such encumbrances, and the buyer must determine whether he/she wants to purchase with the encumbrance, or if it can be removed (2) anything that imposes a legal burden on title to land such as liens for security purposes, easements, and restrictive covenants.

**Equity financing:** Use of buyer's or owner's funds to finance property.

**Equity:** The value of an owner's unencumbered interest in real estate. Equity is computed by subtracting borrowed funds and other liens from the property's fair market value. Equity increases in a property as a mortgage is paid off, or as the property appreciates in value. When the mortgage and all other debts against the property are paid in full the owner has 100% equity in the property.

**Erosion:** The loss of land by wearing action of water or wind.



**Escrow agent (escrowee):** A person or corporation employed by parties to a real estate transaction to receive documents and money and deliver them in accordance with their instructions.

**Escrow agreement (escrow instructions):** A contract between the parties to a real estate transaction to effect a settlement of the transaction in escrow.

**Escrow:** Funds paid by one party to another (the escrow agent) to hold until the occurrence of a specified event, after which the funds are released to a designated individual. In real estate sales transactions, the escrow agent is delivered the Deed by the seller and the down payment funds and access to mortgage funds by the buyer. Release to the opposite parties by the escrow agent is dependent upon performance of certain conditions, usually that the title to the property is made clear to the buyer. In mortgage transactions, an escrow account usually refers to the funds a mortgagor pays the lender at the time of the periodic mortgage payments. The money is held in a trust fund, provided by the lender for the buyer. Such funds should be adequate to cover yearly anticipated expenditures for such items as mortgage insurance premiums, taxes, hazard insurance premiums, and special assessments. (Also called impound accounts.)

**Estopped certificate:** Document in which the borrower verifies the remaining balance and interest rate of a loan.

**Estoppel:** A doctrine of law that prevents a person from asserting rights inconsistent with prior words or conduct.

**Exchange:** When ownership of like-kind properties are transferred between two or more owners; can result in postponement of part or all of the tax for one or more of the parties to the exchange.

## F

**Fair market value:** The amount an appraiser decides a property is worth. The appraiser compares it with others like it that sold recently in the same area. The physical condition of the property also affects its fair market value.

**Feasibility analysis:** Study of the cash flow, profitability potential and overall desirability of a project.

**Federal reversionary interest:** The claim of the Department of Health & Human Services (DHHS) to a continuing interest in real and personal property acquired or constructed with DHHS grant funds. Precludes the sale of property or transfer of title without the consent of DHHS and could require that the DHHS share of the property be repaid to DHHS. Property must be used in a manner consistent with that identified in obtaining the original grant. DHHS will generally provide a subordination to a lender if requested.

**Fee simple absolute:** Entire bundle of rights to use and control real property.

**Fee simple:** In this type of property ownership, the property and the land upon which it is located is owned by a single individual (or business).

**Finance:** To supply money for a purchase. A lender can finance a building with a mortgage loan.

**Financial leverage:** The use of borrowed funds to acquire an asset

**Financial risk:** The possible change in an investment's ability to return principal and income.

**First mortgage:** The mortgage that has first claim to the borrower's assets in the event of a default.

**Fixed expenses or fixed payments:** Expenses or payments that usually stay the same from month to month, such as rent, utilities, salaries, or insurance.

**Fixed Lease:** A lease in which the lessee pays a fixed amount for the duration of the lease. May also be referred to as a Gross Lease.

**Fixed-rate mortgage:** A mortgage in which the interest rate does not change during the entire term of the loan.

**Fixture:** Anything that originally was personal property but which has been attached to real property in such a manner to be regarded by law as part of the real property



**Flood insurance:** Insurance required for properties in federally designated flood areas.

**Forbearance:** The lender's postponement of foreclosure to give the borrower time to catch up on overdue payments.

**Foreclose:** The process of the lender taking a property when the borrower has defaulted on the loan. The lender then sells the property to recoup its loss on the unpaid loan.

**Foreclosure:** A legal term applied to any of the various methods of enforcing payment of the debt secured by a mortgage, or deed of trust, by taking and selling the mortgaged property, and depriving the mortgagor of possession.

**Front foot:** A measure of property by which the distance is measured along the street, highway, stream, or other body of water.

**Fully amortizing mortgage:** A method of loan amortization in which equal periodic payments completely pay the loan.

**Functional obsolescence:** Outdated design, fixtures, and other factors within the structure itself that detract from a building's value.

**Future value:** The amount to which money grows over a designated period of time at a specified rate of interest.

## G

**General partnership:** Form of co-ownership wherein all partners have a voice in the management of a business and unlimited liability for its debts.

**General warranty deed:** A deed which conveys not only all the grantor's interests in and title to the property to the grantee, but also warrants that if the title is defective or has a "cloud" on it (such as mortgage claims, tax liens, title claims, judgments, or mechanic's liens against it) the grantee may hold the grantor liable.

**Good faith deposit:** See Earnest Money.

**Good faith estimate:** A lender is required to give this estimate of a borrower's closing costs to the borrower within three business days of the loan application.

**Grade:** The level of the ground at the structure foundation.

**Graduated payment:** A mortgage loan with monthly payments that start at a lower amount and then increase slowly over the next several years. The monthly payments then stay the same at the higher amount.

**Grantee:** The party in the deed who is the buyer or recipient.

**Grantor:** The party in the deed who is the seller or giver.

**Gross Area:** The entire floor area of a building.

**Gross Lease:** A lease agreement in which the lessee pays a fixed rental amount for the duration of the lease and the lessor (or, property owner) pays the expenses associated with owning the property such as taxes, repairs, insurance and other costs.

**Ground Lease:** A lease of the land only. Usually the land is leased for a relatively long period of time to a tenant that constructs a building on the property.

## H

**Hazard insurance:** Insurance that compensates for a loss on a specific property due to damages caused by fire, vandalism, theft, storm damage and certain other natural disasters.

**Highest and best use:** The use of a property that will yield the greatest return on the property.

**HVAC:** Heating, Ventilation, and Air Conditioning.

## I

**Impound account:** See Escrow.

**Improvement:** (1) a structure situated on real property. (2) an activity that increases a property's value such as upgrading an HVAC system or modernizing the facility.

**Index Lease:** A lease in which the rental amount adjusts according to changes in a price index, commonly the consumer price index.

**Index:** The index is the measure of interest rate changes that the lender uses to decide how much the interest rate on an ARM will change over time. Common indices used include Treasury Securities (especially one-year T-Bills), Cost of Funds indexes of member saving & loans and banks (such as the 11th District Cost Of Funds Index), LIBOR (London Interbank Offered rate), Prime Rate, and Certificates of Deposit.

**Industrial revenue bond:** Bonds issued to raise funds for developing commercial buildings for lease or industrial parks.

**Ingress:** A means of entry to a property.

**Inspection:** When a property is constructed or rehabbed, it must be inspected by an individual from a unit of local government to be sure all work is done properly.

**Installment debt:** Debts or accounts that are paid off in monthly payments, or installments, such as credit-card accounts.

**Installment sale contract (land contract, installment contract, and contract for deed):** A contract in which a seller of real estate promises to deliver a deed to the buyer at some time in the future after the buyer has, in an agreed upon number of payments of principal and interest, paid the purchase price in full.

**Insurable interest:** A person's interest in property such that an occurrence of a peril would cause financial loss to that person.

**Insurable value:** The value of the portions of the property that is physically destructible.

**Interest escalation clause:** Provides for variable rate of interest according to a standard index.

**Interest rate cap:** A provision of an ARM limiting how much interest rates may increase per adjustment period. See also Lifetime cap.

**Interest rate:** The lender's rate of return on borrowed funds.

**Interest:** A charge that a borrower pays to a lender to borrow money. Usually it is calculated as a percentage of the amount of the loan.

**Interest-only loan:** A method of loan amortization in which interest is paid periodically over the term of the loan and the entire original loan amount is paid at maturity.

**Involuntary lien:** A lien such as taxes or mechanic's lien imposed without consent of the property owner.

## J

**Joint tenancy:** (1) a form of co-ownership giving each tenant equal interest and equal rights in the property, including the right of survivorship (2) a form of taking title to a property in which two or more owners hold equal shares, acquire the shares concurrently, and have equal rights of possession. The rights of one owner pass to the other owner(s) upon the one's death (Right of Survivorship).

**Junior mortgage:** Any mortgage on a property that is subordinate to a senior mortgage in priority.

## L

**Late charge:** The penalty a borrower must pay when a payment is made after the specified due date.

**Latent defect:** A concealed defect not easily determined from an inspection of the property.

**Lease:** A contract between the property owner and another person to use or occupy the land for a set period of time.

**Leased fee:** The landlord's interest.

**Leasehold:** A possessory legal interest in real property acquired by a tenant (lessee) when he/she enters into a rental agreement with the owner of the property (landlord or lessor).

**Lessor:** A person who rents or leases a property to another. Also referred to as a Landlord.

**Leverage:** The use of borrowed funds to increase the effective rate of return on an investment.

**Liability insurance:** Insurance a contractor buys to protect him/herself and the person who is hired in case someone is hurt or damage is caused during the period of work.

**Lien:** (1) A claim by one person on the property of another as security for money owed. Such claims may include obligations not met or satisfied, judgments, unpaid taxes, materials, or labor (see also special lien) (2) A legal claim on a property that must be paid before a property can be sold (3) An encumbrance in which the land serves as security for the payment of debt or discharge of an obligation.

**Liquidated damages:** A specified sum of money agreed upon by contracting parties that will be received by the other or others if one of the parties commits a breach of the contract.

**Loan balance:** The amount of money remaining to be paid on an amortizing loan at a given time.

**Loan commitment:** See Commitment letter.

**Loan or mortgage value:** The portion of the value of real property recognized by the lender when used to secure a loan.

**Loan origination:** The process whereby a lender initiates a loan with a borrower.

**Loan point:** A charge prepaid by the borrower upon the origination of a loan. One point equals one percent (1%) of the loan amount.

**Loan servicing:** The process of collecting mortgage payments, keeping records, following up on delinquencies, and taking foreclosure actions relating to a mortgage loan.

**Loan To Value Ratio (LTV):** A ratio that expresses the loan balance on a property compared to its appraised value ( $LTV = \text{loan amount} \div \text{property value}$ .) In making a mortgage loan, a lender uses the LTV to ensure that a property is worth more than the loan amount.

## M

**Managing risk:** The steps taken by an investor or manager to control or reduce investment risk.

**Margin (also known as Spread):** The number of percentage points the lender adds to the index rate to calculate the ARM interest rate at each adjustment.

**Margin:** The set percentage the lender adds to the index rate to determine the interest rate of an ARM.

**Market approach:** The process of comparing the subject property to equivalent properties sold recently to arrive at an estimate of value for a property being appraised.

**Market interest rate:** Interest rate currently demanded by lenders and investors.

**Market value:** Price that a property should be purchased by a buyer in a competitive and open market under "fair sale" conditions e.g., there is sufficient marketing time, no coercion, typical financing availability, arms-length negotiation and knowledgeable buyers and sellers.

**Marketable title:** A title that is free and clear of objectionable liens, clouds, or other title defects. A title which enables an owner to sell a property freely to others and which others will accept without objection.

**Maturity:** The date a note or mortgage must be paid in full.

**Mechanic's lien:** A lien that can be filed by mechanics or material suppliers; it is against real property created by statute for the purpose of securing payments for services performed or materials furnished in the construction or repair of buildings or making other improvements to land.

**Meridian:** Map lines running north and south to locate land under the governmental survey system.

**Metes and bounds:** A method of legal description using measurements, boundaries, and directions.

**Moratorium:** A period of time when a lender may waive interest and/or principal payment on a loan.

**Mortgage agreement:** A document signed by a borrower and a lender giving the lender the right to take the property if the borrower does not repay the loan.

**Mortgage banker:** A company that originates mortgages exclusively for resale in the secondary market.

**Mortgage broker:** A company matches borrowers with lenders for a fee

**Mortgage commitment:** A written notice from the bank or other lending institution saying it will advance mortgage funds in a specified amount to enable a buyer to purchase a property.

**Mortgage note (also known as Promissory Note or Note):** (1) A legal document obligating a borrower to repay a loan at a stated interest rate during a specified period of time. The agreement is secured by a mortgage, serves as proof of an indebtedness, and states the manner in which it shall be paid. The note states the actual amount of the debt that the mortgage secures and renders the mortgagor personally responsible for repayment (2) A legal document that pledges a property to the lender as security for payment of a debt.

**Mortgage:** A lien or claim against real property given by the borrower to the lender as security for money borrowed. Under government-insured or loan-guarantee provisions, the payments may include escrow amounts covering taxes, hazard insurance and special assessments. Mortgages generally run from 10 to 30 years, during which the loan is to be paid off.

**Mortgagee:** The lender in a mortgage agreement.

## N

**Negative amortization:** Amortization means that monthly payments are large enough to pay the interest and reduce the principal on your mortgage. Negative amortization occurs when the monthly payments do not cover all of the interest cost. The interest cost that isn't covered is added to the unpaid principal balance. This means that even after making many payments, you could owe more than you did at the beginning of the loan. Negative amortization can occur when an ARM has a payment cap that results in monthly payments not high enough to cover the interest due.

**Net lease:** A lease agreement in which the tenant pays rent plus all taxes, insurance, repairs and other costs.

**Nominal interest rate:** The interest rate stipulated in an agreement.

**Nonconforming use:** A use of land that lawfully existed before a zoning ordinance that is legally continued after the effective date of the ordinance, even though the use no longer conforms to the new zoning regulations.

**Non-recurring closing costs:** See Closing costs.

**Note:** A document on which a borrower promises to repay a loan. Also called promissory note.

**Note:** The economic life of a building decides the recapture rate. If a building has an economic life of 50 years, then the recapture rate is 2% per year. Yields available to investors decide the rate of return. If a life insurance company is lending commercial loans at a 9% interest rate, the rate of return is 9% interest. You decide the cap rate by combining the recapture rate and the rate of return. You use the cap rate in the income approach to valuation. A cap rate is essentially a discount rate used to find the present value of a series of future cash flows. If a building produces \$50,000 in net income and the cap rate is 11%, the value is \$454,545.

**Notice of default:** A formal written notice to a borrower that a default has occurred and that legal action may be taken.

**Nuisance:** The wrongful interference by one person with the use and enjoyment of real estate owned by another.

## O

**Offer:** A purchase proposal to the seller of a property, telling the amount a certain buyer would pay and other conditions that would have to be met before the proposed sale.

**One action rule:** In any loan secured by real property, the creditor cannot undertake any personal judicial action against the borrower of the promissory note evidencing the loan until the creditor has foreclosed initially on all the real and personal property.

**Open-end mortgage:** (1) a mortgage agreement that allows the mortgagor to borrow additional funds in the future without rewriting the mortgage (2) a mortgage that provides for the borrowing of additional funds.

**Operating expenses:** (1) ongoing expenses such as real estate taxes, insurance premiums, utilities, salaries, etc. (2) cash outlays necessary to operate and maintain a property.

**Opportunity cost:** The “cost” of selecting one alternative is the benefit foregone from the next best alternative.

**Option:** A contract given by the owner of a property to another person, giving the latter a right to buy or lease the property at a certain price within a specified period of time.

**Optionee:** A person who holds an option.

**Optionor:** An owner who gives an option to another person.

**Origination fee:** A fee for processing a mortgage application.

**Origination fee:** A fee paid to a lender for processing a loan application; it is stated as a percentage of the mortgage amount, or points.

**Origination:** The process that a lender goes through to get complete and correct information about a loan applicant's income and credit.

**Overhang:** The portion of a roof extending beyond the walls.

**Owner financing:** A purchase in which the seller provides all or part of the financing (also referred to as seller financing).

## P

**Package mortgage:** A mortgage that includes personal property as part of the security.

**Partially amortized:** The payments do not repay the loan over its term and thus a lump sum mortgage loan (balloon) is required to repay the loan.

**Participation mortgage:** A loan in which two or more lenders participate.

**Partnership:** An association of two or more persons to carry on a business for profit as co-owners.

**Party wall:** A wall erected on the line between two adjacent properties for the use of both parties.

**Payment cap:** A provision of some ARMs limiting how much a borrower's payments may increase regardless of how much the interest rate increases; may result in negative amortization.

**Percentage lease:** A lease in which the rent amount is based on a percentage of gross sales (monthly or annually) made by the tenant.

**Percentage lease:** A lease whereby the fee paid is a percentage of the income from business done on the premises.

**Percentage rent:** The additional rent (over a base amount) paid by tenants to owners based on tenant sales over a specified dollar amount.

**Personal property:** Same as chattel i.e., tangible and intangible items capable of being owned that are not real property.

**Physical depreciation:** Physical deterioration and concurrent loss in property value caused by wear, tear, and decay.

**PITI:** The components of a monthly mortgage payment covering principal, interest, taxes, and insurance.

**Plat:** A map or chart of a lot, subdivision or community drawn by a surveyor showing boundary lines, buildings, improvements on the land, and easements.

**Plot plan:** A drawing showing the placement of a building on a site with precise locations, dimensions, and elevations.

**Plottage:** The increase in value of land by assembling smaller properties into one larger site.

**Point of beginning:** The starting point in a metes and bounds legal description.

**Point or points:** A one-time charge the lender adds to a mortgage loan. A point is 1% of the mortgage loan amount.

**Point:** A charge of 1% of the loan amount made at origination of mortgage.

**Points:** See Discount Points.

**Positive leverage:** Borrowed funds are invested at a rate of return higher than the cost of the funds to the borrower.

**Potential rental income:** The total amount of rental income for a property if it were 100% occupied and rented at competitive market rates.

**Prefabricated home:** Home built or partially assembled prior to delivery to the building site.

**Premium:** Amount above the face value of a loan.

**Prepayment:** Payment of a mortgage loan, or part of it, before the due date. Mortgage agreements often restrict the right of prepayment either by limiting the amount that can be prepaid in any one year or charging a penalty for prepayment. The practice of charging money for an early payoff of the existing mortgage loan varies by state, type of lender, and type of loan. Prepayment penalties are forbid-

den on various loans including loans from federally chartered credit unions, FHA and VA loans, and some other home-purchase loans.

**Prepayment penalty:** A fee charged to a borrower who pays off a loan before it is due.

**Prepayment privilege:** The right of a borrower to pay a mortgage ahead of the scheduled due date.

**Prequalification:** The process of determining how much money a prospective borrower will be eligible to borrow before a loan is applied for.

**Present value:** (1) the sum of all future benefits accruing to the owner of an asset when such benefits are discounted to the present by an appropriate discount rate (2) the current value of future benefits or the discounted value of future payments.

**Price:** The dollar amount that was offered, asked, or actually paid for a property.

**Prime rate:** The interest rate charged by lenders to their best rated customers.

**Principal:** In finance, the basic element of the loan as distinguished from interest and any other charges. It is the amount upon which interest is calculated and paid. In brokerage, the person giving authority to an agent to act on his behalf.

**Promissory note:** A written promise of a person (maker) to pay a specified sum of money to another person (payee) in accordance with terms and conditions agreed upon by the parties.

**Promissory Note:** See Mortgage Note.

**Property inspection:** The physical examination of a building by a licensed inspector to see if its structure is sound and if its mechanical systems, such as plumbing and heating, are working.

**Proration:** A division of taxes, interest, and insurance so that the seller and the buyer pay the portion covering their respective period of ownership.

**Proration:** Allocation of costs and income between the buyer and seller of real estate at the time of the transaction closing, based upon the time of ownership of each.



**Purchase Agreement:** See Agreement of Sale.

**Purchase and sale agreement:** A written contract signed by the buyer and seller stating the terms and conditions under which a property will be sold.

**Purchase money mortgage:** A mortgage taken by the seller as part of the purchase price.

## Q

**Quitclaim deed:** A deed which transfers whatever interest the maker of the deed may have in the particular parcel of land. A quitclaim deed is often given to clear the title when the grantor's interest in a property is questionable. By accepting such a deed the buyer assumes all the risks. Such a deed makes no warranties as to the title, but simply transfers to the buyer whatever interest the grantor has (see Deed).

## R

**Rate lock:** See Lock-in.

**Raw land:** Land with no improvements.

**Real Estate Agent:** A person licensed to negotiate and transact the sale of real estate on behalf of the owner.

**Real estate settlement procedures act:** A consumer protection law that requires lenders to give borrowers advance notice of closing costs.

**Real estate:** Land including the buildings or other improvements upon the land. Also includes the airspace above the parcel and the contents below the surface.

**Real property:** Real estate.

**Recasting:** Changing the terms of a loan while retaining the same loan.

**Recording:** Filing a document with the appropriate public official in order to provide notice.

**Recurring closing costs:** See Closing Costs.

**References:** Names and phone numbers of previous customers of a contractor. It's a good idea to call contractors' references before hiring so as to make sure he/she has done good work in the past.

**Refinancing:** The process of paying off one loan with the proceeds from a new loan secured by the same property.

**Rent with option to buy:** See Lease-Purchase Mortgage Loan.

**Rent:** A monthly amount paid to an owner (or landlord) for use of the property.

**Rentable area:** The actual square foot area for which the tenant will pay rent. Compare with gross area and usable area.

**Repossess:** The process of taking back a property by a lender or seller, when the borrower or owner does not make payments due on the property.

**Restrictive covenants:** Private restrictions limiting the use of real property. Restrictive covenants are created by deed and may "run with the land," binding all subsequent purchasers of the land, or may be "personal" and binding only between the original seller and buyer. The determination whether a covenant runs with the land or is personal is governed by the language of the covenant, the intent of the parties, and the law in the state where the land is situated. Restrictive covenants that run with the land are encumbrances and may affect the value and marketability of title. Restrictive covenants may limit the density of buildings per acre, regulate size, style, or price range of buildings to be erected, or prevent particular businesses from operating.

**Right-of-way:** The right to cross over or under another person's property for ingress, egress, utility lines, or sewers.

**Riparian rights:** Rights of an owner of property abutting water to use the water and have uninterrupted flow.

**Rollover mortgage:** A loan having a call date earlier than the full amortization period.



**Run with the land:** When easements or restrictions do not expire when ownership is transferred.

## S

**Sales cost:** The brokerage commissions and fees, and any additional transaction costs that are incurred during the sale of the property.

**Sales price:** The total amount paid to the seller at time of sale.

**Sales proceeds after tax:** The sale proceeds before tax minus the tax liability on the sale.

**Sale proceeds before tax:** The sale price minus the sale costs and the mortgage loan balance.

**Sales agreement:** See Agreement of sale.

**Sales comparison approach:** A way to determine market value by comparing a subject property to properties with the same or similar characteristics.

**Second mortgage:** A mortgage that has rights that are subordinate to the rights of the first mortgage holder.

**Security:** See collateral.

**Seller Financing (or, seller take-back financing):** An agreement in which the owner of a property provides financing, often in combination with an assumed mortgage.

**Senior mortgage:** A mortgage, usually a first mortgage, having priority over another.

**Septic tank:** An underground tank used for sewage treatment where city sewerage is not available.

**Setback:** A distance from the curb to the building. Often a minimum setback is specified by ordinance or code.

**Settlement attorney:** A lawyer who organizes the closing on a house sale, by preparing necessary papers, paying fees, and conducting the settlement meeting between seller and buyer.

**Settlement costs:** See closing costs.

**Settlement sheet:** The computation of costs payable at closing which determines the seller's net proceeds and the buyer's net payment.

**Settlement:** See Closing.

**Shared Appreciation Mortgage (SAM):** A mortgage loan agreement in which the lender shares in the appreciation of the real property.

**Simple interest:** Interest charged only on the outstanding principal.

**Site:** A plot of ground upon which anything is, has been, or will be located.

**Site:** Parcel of land developed to the point that it is ready for construction of a building or other improvements.

**Special Assessments:** A special tax imposed on property, individual lots, or all property in the immediate area, for road construction, sidewalks, sewers, street lights, etc.

**Special lien:** A lien that binds a specified piece of property, unlike a general lien, which is levied against all one's assets. It creates a right to retain something of value belonging to another person as compensation for labor, material, or money expended in that person's behalf. In some localities it is called "particular" lien or "specific" lien (see lien)

**Special warranty deed:** A deed in which the grantor conveys title to the grantee and agrees to protect the grantee against title defects or claims asserted by the grantor and those persons whose right to assert a claim against the title arose during the period the grantor held title to the property. In a special warranty deed the grantor guarantees to the grantee that he has done nothing during the time he held title to the property which has, or which might in the future, impair the grantee's title.

**Specifications:** A detailed description of the size, shape, materials, and other details of a building or remodeling project.

**Spot zoning:** Zoning that sets aside certain areas for purposes different from the general area requirements.

**Step up lease:** A lease in which the rental amount paid by the lessee increases by a preset rate at predetermined intervals.

**Subcontractor:** A contractor that a contractor hires. If you hire a contractor to remodel your kitchen, for instance, he/she might hire a plumber as a subcontractor.

**Subject property:** The property under analysis or appraisal.

**Subject-to purchase:** When one purchases subject to a mortgage, the purchaser agrees to make the monthly mortgage payments on an existing mortgage, but the original mortgagor remains personally liable if the purchaser fails to make the monthly payments. Since the original mortgagor remains liable in the event of default, the mortgagee's consent is not required to a sale subject to a mortgage. Both "assumption of mortgage" and "purchasing subject to a mortgage" are used to finance the sale of property. They may also be used when a mortgagor is in financial difficulty and desires to sell the property to avoid foreclosure.

**Sublease:** The transfer of a legal interest in leased premises by a tenant to another person that is less than the tenant's leasehold interest.

**Subordinate:** To make a mortgage subservient to another mortgage.

**Surrender:** Reconveyance of property or lease to mortgagee or landlord.

**Survey:** A drawing or map showing a property's boundaries, any places the property may have been improved or changed, rights of way, and other physical features.

**Survey:** A map or plat made by a licensed surveyor showing the results of measuring the land with its elevations, improvements, boundaries, and its relationship to surrounding tracts of land. A survey is often required by the lender to provide assurance that a building is actually sited on the land according to its legal description.

**Survey:** (1) the process that determines the shape, area, and position of a parcel of land by locating its boundaries (2) a measurement of land by a registered surveyor.

**Surveyor:** A professional who checks the boundaries of a property.

## T

**Takeout commitment:** Promise by a lender to provide a permanent loan to pay off a construction loan.

**Tax assessor:** A government employee who determines a property value for tax purposes.

**Tax credit:** Allowable reduction in the amount of income tax owed.

**Tax deferred exchange:** Trade of like-kind property that does not trigger recognition of taxable gain at the time of the exchange.

**Tax lien:** A charge against property that makes it security for unpaid taxes.

**Tax:** An enforced charge imposed on persons, property, or income, to be used to support the state. The governing body in turn utilizes the funds in the best interests of the general public.

**Term loan:** A loan having the entire principal due at maturity.

**Term:** The length of time in which a loan is to be repaid. A 30-year mortgage loan has a 30-year term.

**Terms:** All conditions placed on a loan, including the interest rate, any finance charges, and the length of the loan.

**Time value of money (TVM):** (1) an economic principle recognizing that a dollar today has greater value than a dollar in the future because of its earning power (2) relation of value at one time to value at another through discounting or compounding at a certain interest rate.

**Title company:** A company that specializes in insuring title to property.

**Title insurance:** Insurance that protects lenders and/or property owners against loss of their interest in property due to legal defects in title. Title

insurance may be issued to a “mortgagee’s title policy.” Insurance benefits will be paid only to the “named insured” in the title policy, so it is important that an owner purchase an “owner’s title policy”, if he/she desires the protection of title insurance.

**Title search or examination:** A check of the title records, generally at the local courthouse, to make sure the buyer is purchasing a house from the legal owner and there are no liens, overdue special assessments, or other claims or outstanding restrictive covenants filed in the record, which would adversely affect the marketability or value of title.

**Title search:** A check of public title records to ensure that the seller is the legal owner of the property and that there are no liens or other outstanding claims.

**Title:** (1) as generally used, the rights of ownership and possession of particular property. In real estate usage, title may refer to the instruments or documents by which a right of ownership is established (title documents), or it may refer to the ownership interest one has in the real estate (2) proof of ownership of a property. A clean title is one that shows no liens against it.

**Topography:** The nature of the surface of land, such as level, rolling, and so forth.

**Tract:** An area of land.

**Transfer tax:** Tax levied on deeds, usually based upon the purchase price and payable upon recording of the deed.

**Triple-net lease:** A lease in which the tenant pays, in addition to rent, all expenses related to the operation of the property.

**Trust deed:** See Deed of Trust.

**Trustee:** A party who is given legal responsibility to hold property in the best interest of or “for the benefit of” another. The trustee is one placed in a position of responsibility for another, a responsibility enforceable in a court of law (see Deed of Trust).

## U

**Underimprovement:** A property not being used to its fullest and best potential.

**Underwriting:** (1) Evaluating borrower creditworthiness and ascertaining risks involved prior to deciding whether or not to make a loan (2) the process of analyzing a borrower’s finances and credit in order to decide whether or not to make a loan. The underwriter is the person who has authority to approve a loan.

**Unsecured credit:** Any credit that is not secured by property (such as a house). A credit card is unsecured credit compared with a mortgage loan which is secured.

**Usable area:** Rentable area less certain common areas that are shared by all tenants (corridors, storage, bathrooms, etc.).  
Usable area = rentable area - common areas.

**Usury laws:** State laws limiting the maximum interest rate which can be charged on loans.

**Usury:** Interest on a loan at a rate higher than allowed by law.

## V

**Variable expenses:** Costs, such as utilities, that vary with a building’s occupancy rate.

**Variable-Rate Mortgage (VRM):** A mortgage loan for which the interest varies according to an index (see adjustable rate mortgage).

**Variance:** In zoning, the right to deviate from the use of land prescribed by an existing zoning ordinance.

**Verification:** The process of making sure or verifying that all of a borrower’s loan application information is accurate.

## W

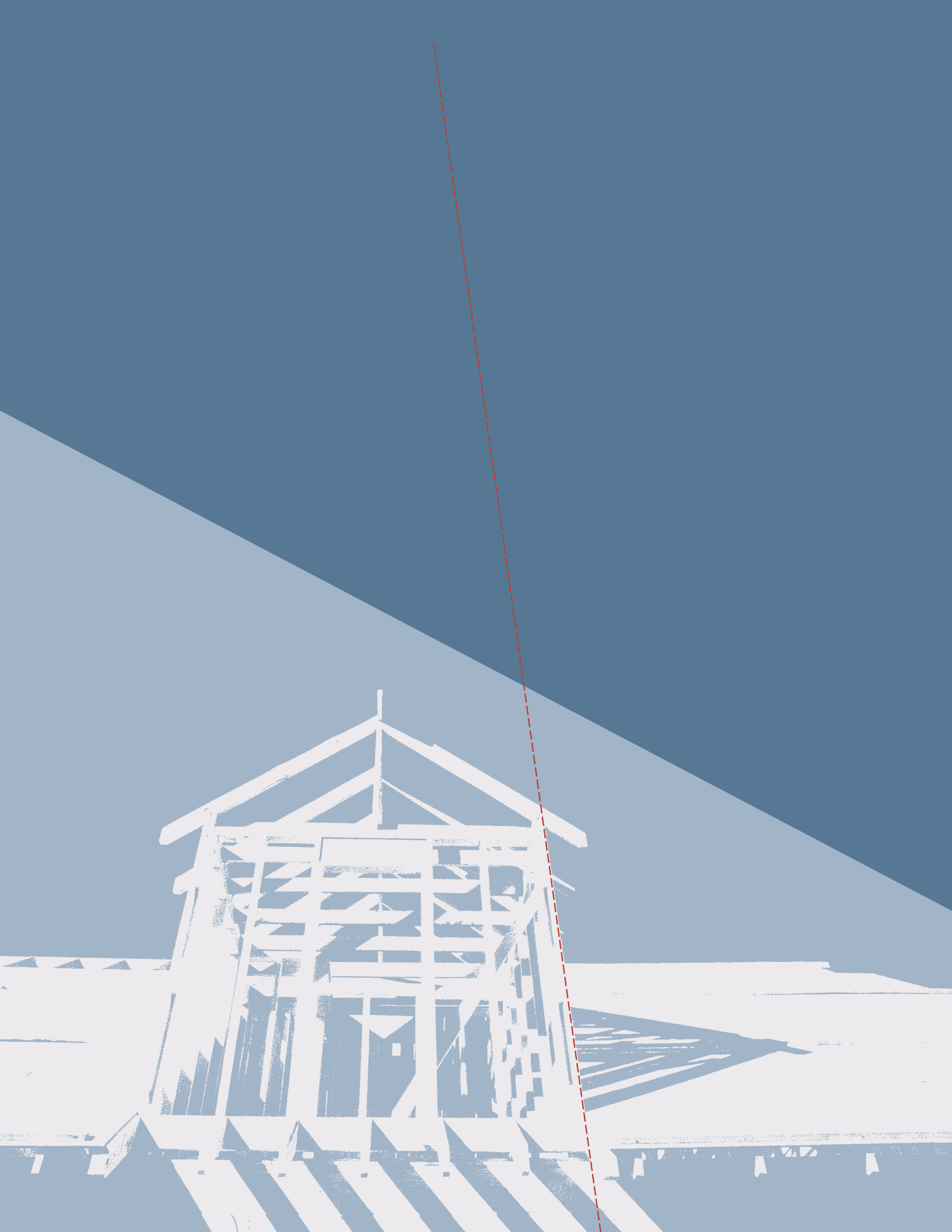
**Wiring diagram:** A diagram of the electrical wiring in a property, showing where all the circuits and plugs are.

## Z

**Zoning ordinances:** The acts of an authorized local government establishing building codes, and setting forth regulations for property land usage.

**Zoning:** A county or city law stating the types of use to which properties can be put in specific areas.

**Zoning:** The division of an area or community by a government into districts or zones with regulations as to the use of land varying from one zone to another.



# Bibliography

The Architect's Handbook of Professional Practice, 13th Edition, The American Institute of Architects, Joseph A. Demkin, AIA, Executive Director, John Wiley & Sons, Inc. 2001

Creating a Business Plan for a Community Health Center Capital Project: A "How-To" Manual, prepared by the Community Health Center Capital Fund and Capital Link.

Business Planning in Four Steps and a Leap, written by Northern Initiatives of Marquette, Michigan, [www.northerinitatives.com](http://www.northerinitatives.com)

Business Planning Guide and Handbook, written by Neighborhood Reinvestment Corporation (Washington, D.C.)

How To Prepare an Effective Business Plan: A Step-by-Step Approach, by Robert Howell and Robert Delaney

The Successful Business Plan: Secrets and Strategies by Rhonda Abrams, The Oasis Press/PSI Research Grants Pass, OR (1993)

The Business Plan Workbook, by Gary A. Cooper, Prentice Hall, Englewood Cliffs, NY (1989)

Capital Project Case Study: Great Brook Valley Health Center, Worcester, MA, prepared by the Massachusetts League of Community Health Centers and the Community Health Center Capital Fund in collaboration with Capital Link (Boston, MA), [www.caplink.org](http://www.caplink.org)

The School Design Primer: A How-To Manual for the 21st Century, The Little Institute for School Facilities Research, Little and Associates Architects (1996)

Developing a Health Center: A Guide for Health Center Staff and Boards on Managing the Design and Construction Process, prepared by Primary Care Development Corporation ([www.pcdcnyc.org](http://www.pcdcnyc.org)) and Capital Link ([www.caplink.org](http://www.caplink.org))

Charter School Facilities: A Resource Guide on Development and Financing, prepared by NCB Development Corporation ([www.ncbdc.org](http://www.ncbdc.org)) and the Charter Friends National Network ([www.charter-friends.org](http://www.charter-friends.org))

Handbook on Project Delivery, published by The American Institute of Architects, California Council, Sacramento, CA (1996)

## Web Resources

The American Institute of Architects,  
([www.aia.org](http://www.aia.org))

The Association for Community Design,  
([www.communitydesign.org](http://www.communitydesign.org))

The Design Advisor,  
([www.designadvisor.org](http://www.designadvisor.org))

The Associated General Contractors of America  
([www.agc.org](http://www.agc.org))

The Center for Universal Design  
([www.design.ncsu.edu](http://www.design.ncsu.edu))

The Design Linc Resource and Information Center  
([www.designlinc.com](http://www.designlinc.com))

United States Department of Agriculture, Rural  
Development Community Facilities Loan Program  
([www.rurdev.usda.gov](http://www.rurdev.usda.gov))

Bureau of Primary Health Care  
([www.bphc.hrsa.gov](http://www.bphc.hrsa.gov))

Department of Housing & Urban Development  
([www.hud.gov](http://www.hud.gov))

California Health Facilities Financing Authority,  
"HealthCap Loan Program"  
([www.treasurer.ca.gov/chffa](http://www.treasurer.ca.gov/chffa))

Capital Link  
([www.caplink.org](http://www.caplink.org))

National Community Capital Association  
([www.communitycapital.org](http://www.communitycapital.org))

The Foundation Center  
([www.fdncenter.org](http://www.fdncenter.org))

Primary Care Development Corporation  
([www.pcdc.org](http://www.pcdc.org))

Local Initiatives Support Corporation  
([www.liscnet.org](http://www.liscnet.org))

NCB Development Corporation  
([www.ncbdc.org](http://www.ncbdc.org))

The Enterprise Foundation  
([www.enterprisefoundation.org](http://www.enterprisefoundation.org))

The Kresge Foundation  
([www.kresge.org](http://www.kresge.org))





The Annie E. Casey Foundation



NCB Development Corporation  
[www.ncbdc.org](http://www.ncbdc.org)



**NCB Development Corporation**

1725 Eye Street, NW, Suite 600  
Washington, DC 20006  
(202) 336-7680

**NCB Development Corporation**

1333 Broadway, Suite 602  
Oakland, CA 94612  
(510) 496-2200  
[www.ncbdc.org](http://www.ncbdc.org)



**The Annie E. Casey Foundation**

701 St. Paul Street  
Baltimore, MD 21202  
(410) 547-6600  
[www.aecf.org](http://www.aecf.org)