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GOVERNOR

STATE OF CONNECTICUT
DEPARTMENT OF MENTAL RETARDATION

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Community Residential Facility Revolving Loan Fund For Capital Repairs and Improvements

Introduction:

Public Act 96-186 amended the Community Residential Facility Revolving Loan Fund to allow the Department to make loans to non-profit organizations for the purposes of capital repairs and improvements to community based residential facilities. By statutory definition, a community based residential facility is a CLA licensed for up to six beds.

The initial funding of this program results from the transfer of $2 million into the Department's existing revolving loan fund. This funding was previously authorized for fiscal years 1996 and 1997 as *grants-in-aid* funding for capital repairs and improvements. The transfer of the grant-in-aid funding into the revolving loan fund will convert the grant-in-aid funds into a loan program. Utilizing the funds as a revolving loan fund perpetuates the program into future years because loan payments are added back into the loan program and re-lent. In the mid-90's the funding was reduced from $2 million to $1 million. Additionally, on August 6, 2004, the Bond Commission authorized $2 million for the Revolving Loan Fund for Capital Repairs and Improvement Loans.

Eligibility:

To be eligible for a loan, agencies must be:

~ ***private, non-profit*** corporations which are ***tax exempt under section 501(c)(3)*** of the IRS Code;

~ ***qualified*** to do business in the State of Connecticut; and

~ loans can only be made for homes that are operated as ***licensed residential programs.***

The amendment to the Public Act allows capital improvement loans for homes that are owned by agencies as well as homes that are leased by the agency. However loans can be made for leased homes ***only if*** the lease is a ***capital lease***. Generally, a capital lease is a lease that

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results in the ownership of the property by the tenant agency after a specified period of time. Operating leases, leases that agencies pay rent without any future ownership rights, ***do not qualify*** for capital improvement loans from the Revolving Loan Fund program.

Restrictions:

Capital improvement loans cannot be used to;

~ payoff or refinance any existing capital improvement loans, or any other debt on the property;

~ fund improvements to a property owned by a private agency that is leased to the state for a residential program operated and staffed by state employees;

~ fund leasehold improvements to homes rented under an operating lease.

Terms of Loans:

The repayment period for a capital improvement loan must be consistent with the life of the asset, particularly the reimbursement life (period) recognized by DSS in the room and board rate calculation. Loan repayments ***will not*** be amortized for periods that exceed the number of years recognized in the room and board rate computation. Loan repayments should not be amortized over periods that are shorter than the DSS rate setting life because agency cash flow shortfalls could result. The interest rate applied to these loans will be 6%.

Under this Public Act loans can be between $3,000 and $40,000. The amendment allows the Department to make loans "upon the execution of a promissory note". Each capital improvement project will be documented by a separate loan applicable only to the improvements funded for the specific property which the improvements were made to. A capital improvement loan can not encompass improvements made to several properties. Each capital improvement project must be approved by DSS and DMR through the Capital Development process, before a disbursement of loan funds will be made. Loans can be made for 100% of the cost of improvements.

Administrative and general costs, accounting and legal costs potentially applicable to a capital improvement, will not be funded by these loans. It is the intent of this capital improvement fund to fund improvements needed to properties, not provide revenue streams for administrative costs.

Capital improvement loans will be documented by a promissory note. A standardized promissory note has been developed by the Attorney General's office. It will be the only note (the only form) utilized in this loan program. It is not subject to modification or substitution.

The promissory notes will be executed at the Department's Central Office, ***after*** the project has been completed, and after the project has been accepted by the Department. Acceptance by the Department will be based on a site visit to verify that the project has been completed, and to verify that the project conforms to the project described in the approved loan request. Any modifications of a capital improvement project funded by the revolving loan fund must be approved, in writing, by the Department ***<u>in advance</u>*** of the modification being made to the project.

Most capital improvement loans documented by promissory notes will not require a lien against the property. This will expedite the process, and will minimize the expense and the time required by a real estate closing. However, the Department does have the authority to require a loan be secured against the real estate, should the Department determine it is in the best interest of the State. The State's lien against a property can be subordinate to a first mortgage on the property.

Outstanding capital improvement loan balances will be required to be paid off at the time of:

~ loss of licensure for cause which results in termination of any DMR funded programs being operated at the residential setting;

~ the sale of a property owned by the agency; and

~ the transfer of a residential program to another site when there is no plan by the Department to replace a residential program at the property.

The requirement to repay outstanding loan balances for improvements at homes where the programs have been transferred applies to programs that are located in homes owned by the agency, as well as homes under a capital lease.

<u>Loan Application Process:</u>

Applications for capital improvement loans must be made on the Department's application. Applications must be submitted to the DMR region where the home is located. Applications for a loan will include a project budget, a project description, and a project plan outlining a tentative timeline for the project. Each capital repair and improvement loan must be documented three bids, and each loan will require related party disclosure(s), before the loan will be finalized by a disbursement of funds to the agency.

Regions will determine the projects that they will propose to be funded. Health and life safety projects as well as projects to assist in DMR emergency placements will be given first priority. Based on the region's approval of the project, and the availability of capital improvement loan funds, the approved application will be submitted to the Department's Central Office for review and final approval.

The Central Office review will take into consideration the agency's financial position, and the agency's financial ability to repay the loan. Depending on the availability of funds, the Department may not fund 100% of an agency's proposed project.

Upon approval by the Central Office, agencies will be notified in writing that their loan request has been approved, and the amount that has been approved. Once the project has been completed, a final accounting must be provided the Department's Central Office to document the final costs of the project total the approved loan amount. The Department will only fund the actual amount expended on the project, up to the maximum amount approved by the Department.

Once the final costs of the capital improvement project has been determined, the project has been accepted by the region, and the agency has executed a promissory note with the Department, the loan proceeds will be disbursed at the Department's Central Office.

Loan Repayment:

Repayment of loans will be one month in arrears. The first payment will begin on the first of the month, after the loan has been outstanding for 30 days. As an example if a loan is disbursed on July 10th, the first payment will be due on September 1st. A loan disbursed on July 10th will be outstanding 30 days on August 10th; September 1st is the first month following the loan being outstanding 30 days. The accrual of interest will begin on the day following the date of the loan disbursement.

Loan repayment checks will be sent to the Department's Central Office. Loan coupon books will be provided by the Department. All loans will be due on the first of the month, payable by the 15th of the month. A 5% late payment charged will be assessed all loans received after the 15th of the month.

Applications and Funding

Applications are on the DMR Web page, or they may be obtained by contacting Ed Morettini at the Department of Mental Retardation, (860) 418-6023. Loan applications should be submitted to:

Ed Morettini, Budget Director
Department of Mental Retardation
460 Capitol Avenue
Hartford, CT 06106