

City of Alexandria, Virginia

MEMORANDUM

DATE: OCTOBER 21, 2009

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER *J*

SUBJECT: REQUEST FROM ARLANDRIA NEIGHBORHOOD HEALTH SERVICES (ANHSI) FOR CITY SUPPORT OF THE ANHSI LOAN FOR ACQUISITION OF PROPERTIES ON CLIFFORD AVENUE

ISSUE: Consideration of Request from Arlandria Neighborhood Health Services (ANHSI) for City Support of the ANHSI Loan for Acquisition of Properties on Clifford Avenue

RECOMMENDATION: That City Council authorize the City Manager, subject to the approval of the City Attorney's Office, and contingent upon the receipt of a \$2.9 million federal capital grant, to execute a City loan guarantee in an amount not to exceed \$2.5 million for the Alexandria Neighborhood Health Services Inc (ANHSI).

DISCUSSION: In August I advised Council that ANHSI was applying for an ARRA (competitive federal stimulus grant) of \$3 million to rehabilitate properties at 417, 419, and 421 Clifford Avenue that they hope to acquire to meet critical space shortages and to expand their services to the medically underserved population. We met with ANHSI representatives to discuss how the City could support their acquisition of the properties to be rehabilitated. ANHSI expects to receive a decision on the federal grant application by October 31.

The attached October 6, 2009, letter from ANHSI outlines their expansion plans and request for City support of their loan for property acquisition (Attachment). ANHSI operates in close partnership with the City, the Health Department and INOVA Alexandria Hospital, and we rely on them to be part of the safety net for the uninsured.

In order to acquire and renovate and expand the Clifford Avenue sites into an operable clinic, ANHSI will need approximately \$5.8 million. If the federal grant application is successful, \$2.9 million of these funds will come from the federal government, leaving \$2.9 million to be provided by ANSHI. This amount also represents the funds that ANSHI will need to purchase and close on the property.

Because ANHSI operates as a federally-funded community health center with an expanded operation that is relatively new, there has not been the chance for ANSHI to build a substantial endowment or equity to be able to apply towards the purchase of the proposed Clifford Avenue property. However ANHSI has raised about \$0.4 million which can be applied towards the property acquisition.

With a \$2.5 million funding gap, ANHSI first came to the City to request a \$2.5 million loan from the City to fill the funding gap and therefore allow the property acquisition to occur. ANHSI's initial plan was to fund-raise over the next two or three years in order to raise the funds to pay the City back the proposed loan. However, given the current economic and budget climate, and the size of the loan request, City staff indicated to ANHSI that such a loan would not be feasible.

In lieu of a loan from the City, staff recommended to ANHSI that they seek the \$2.5 million loan from the private sector, with the possibility of the City guaranteeing repayment of the loan to the lending entity. Given ANHSI's relatively newly expanded status, and lack of significant equity, a loan from a private sector financial institution would come at a higher interest rate than a loan that had a City guarantee behind it. Given the City's strong financial position, and AAA/Aaa bond ratings, the risk of non-payment to a lender to ANHSI drops significantly. Therefore a lender would price a loan to ANHSI more favorably saving ANHSI approximately 250 basis points (i.e., 2.5%) or \$62,500 per year on a \$2.5 million loan. Over a three-year period, this savings could total some \$187,500.

ANHSI has been seeking competitive loan terms from a number of banks, and it is clear that a City guarantee would result in significant savings to ANSHI. The loan would be secured by the property ANSHI is acquiring, with the City guaranteeing the first trust loan on the property. No second trusts are currently contemplated, and the City would have the right to approve or disapprove of any second trust on the property. ANSHI would also develop a fund-raising plan with a timetable of funds raised, with a plan to fully raise \$2.5 million in three years if not sooner, and to pay back the loan guaranteed by the City as quickly as possible. The loan would be for a five year-period, thereby leaving some room in the fund-raising schedule for loan-payback.

While there are many other meritorious non-profits in the City who borrow funds on occasion, a loan guarantee by the City would not be recommended probably in nearly all other situations. The difference with ANSHI is that their function in providing primary outpatient health care to low-income individuals and families, is one that the City is relying upon increasingly to serve many of the City's residents who otherwise might have been historically served by the City's Health Department. With the State budget reductions in the health care area, the City has had to shift some public health clinic functions to ANHSI, and has arranged for ANSHI to use the Casey Clinic facility to provide services. With ANHSI serving a quasi-City function, a City guarantee of a private sector loan to them is in the City's interest and will ensure the continuity of care for those City residents for whom ANSHI is now their health care lifeline. Also, this City loan guarantee will help leverage \$2.9 million in federal capital grant funds to ANHSI.

The main conditions to a November 30 closing on the Clifford Street property, and receiving the City loan guarantee would include:

1. A satisfactory environmental conditions report,
2. A satisfactory property physical condition or engineer's report for the one building to be kept;
3. A loan of \$2.5 million with terms acceptable to the City and to ANHSI,
4. Indication from the City that necessary land use approvals could likely occur,
5. Award of the \$2.9 million federal grant; and
6. Appraisal of property "as improved:" with a Loan-To-Value of no more than 75%.

FISCAL IMPACT A City loan guarantee of this type is one that does not have a budgetary, debt ratio, or balance sheet implication on the City's finances, but would be disclosed in the footnotes of the City's Comprehensive Annual financial Report (CAFR) along with various other long-term liabilities and obligations (such as multi-year leases).

ATTACHMENT: October 6 Letter from ANHSI President Gene Kendall, President

STAFF:

Michele Evans, Deputy City Manager

Mark Jinks, Deputy City Manager



CITY MANAGER'S OFFICE
ALEXANDRIA, VA
Alexandria Neighborhood Health Services, Inc.

2 East Glebe Road, Alexandria, Virginia 22305
(703) 535-5568 • Fax: (703) 778-0351 • E-mail: klanglykke@anhsi.org

October 6, 2009

By Hand

James Hartmann
City Manager, City of Alexandria
301 King Street
Alexandria, VA 22314

Dear Mr. Hartmann:

The board of directors, staff and patients of Alexandria Neighborhood Health Services, Inc. (ANHSI) are grateful to the City of Alexandria for its support of the essential primary health care services provided by ANHSI to residents of Alexandria and surrounding neighborhoods. We are committed to ongoing partnerships with City agencies and particularly with the Alexandria Health Department, and look forward to working closely with both the City administration and the Health Department to assure improved access to care for low income uninsured and underinsured Alexandrians.

In order to fulfill its commitment to meet the growing need for affordable, quality health care, ANHSI must acquire additional space. Over the past three years, the number of ANHSI patient encounters has grown by 97 percent, from 16,250 in FY 2006 to over 32,000 in FY 2009. This substantial growth has occurred within the same facility footprint of 7,665 square feet on Executive Avenue and at 2 East Glebe Road.

We now have a unique opportunity to solve our critical space shortages. Property on Clifford Avenue that can meet our most pressing needs has become available, and federal stimulus funding may be available to allow us to transform this property into a highly functional, modern health clinic. In order to make this a reality, as explained below, we need assistance from the City.

Our plans involve purchasing property at 417/419 and 421 Clifford Avenue (just down the street from our Glebe Road site), closing our two current

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sites on Executive Avenue and the site on Mt. Vernon Avenue, and retaining our facility on 2 East Glebe Road. The functions now performed at 2 East Glebe (adult and women's health) would move to the new Clifford Avenue facility, our pediatric services would move from Executive Avenue to East Glebe, and our mental health services (now provided on Executive Avenue) would be performed at both the new Clifford Avenue and East Glebe sites to better integrate primary care and mental health. We would maintain our newest site at Casey Health Center and our dental sites at 4480 King Street and at the Arlington Health Department at 3033 Wilson Boulevard.

The purchase and renovation of the Clifford Avenue property would enable us to (i) to acquire 10,500 square feet of new usable space, (ii) obtain an additional 11 exam rooms (bringing the total of exam rooms to 24), (iii) increase the overall space available to ANHSI in the Arlandria area for the delivery of health care by almost 100 percent (from today's 7,600 to 15,000 square feet), and (iv) increase our efficiency by reducing the number of facilities that ANHSI manages from four (two on Executive Avenue, one on Mt. Vernon Avenue and one at East Glebe Road) to two (East Glebe and Clifford Avenue). We estimate that this increased space and efficiency would allow us to care for an additional 3,500 patients in the first year of operations alone.

The closing conditions of the contract to purchase Clifford Avenue include a feasibility period that will end on October 31 at which time a decision whether to proceed with the purchase will be made by our board of directors, followed by a November 30 closing date. Closing is dependent on satisfying five conditions: (1) non-existence of environmental contamination (a Phase II report is to be submitted by October 15); (2) satisfactory report on the property's physical condition/structure; (3) favorable financing for the purchase; (4) capacity to obtain all required City permits (a parking special use permit will be needed); and (5) award of a federal grant for renovation and construction (decision expected by October 31).

The purchase price for the Clifford Avenue property is \$2,850,000, and we estimate that there will be about \$50,000 in closing costs. Thus, approximately \$2.9 million is required at closing. ANHSI will cover \$400,000 of this sum, and will borrow the remaining \$2.5 million. We will launch a capital campaign with the goal of raising at least \$2,500,000 over two to three years to retire the loan.

The cost of renovating the Clifford Avenue property will be covered by the Facilities Investment Program (FIP) that is administered by the Health Resources and Services Administration (HRSA) of the federal Department of Health and Human Services. This is stimulus funding available on a competitive basis to community health centers around the country to improve and expand space available for the provision of primary health care. ANHSI believes that our proposal for \$2,910,915 is very competitive, and we are confident that an award will be forthcoming.

We have received three commercial loan proposals, and this is where ANHSI seeks the City's assistance. Each of the loan proposals, in return for interest and repayment terms that ANHSI would be able to fulfill, is conditioned on a City loan guarantee. Two of the proposals have offered draft term sheets with reasonable terms and conditions, and we plan to work closely with both institutions to improve their proposals. We hope to finalize terms with one of these banks early next week, and will then immediately forward a copy of the bank's loan commitment to you.

Were the City to provide a loan guarantee, ANHSI would anticipate that the following conditions to the guarantee would apply: ANHSI's receipt of the federal grant for renovation of the Clifford Avenue property; a demonstration, to the satisfaction of the City, of ANHSI's ability to make the interest and principal payments during the loan term; a demonstration, to the satisfaction of the City, of ANHSI's ability to pay the full balance at the end of the loan term; and ANHSI's agreement to indemnify the City in the event the City is required to make payment of any outstanding principal or interest amounts.

Parking appears to be the only significant zoning or site issue. This presents a risk factor for ANHSI's purchase of this property as a decision on a parking special use permit (SUP) will not be made until after January 1, 2010. We have initiated a parking study and expect to have the results by October 15. We plan to meet with the Planning and T&ES departments soon after October 15 to discuss the study and our SUP application.

On behalf of ANHSI's board of directors, staff and patients, I thank you for your consideration of our request. Please contact me or Kristin Langlykke if we can provide you with any additional information from our end.

Sincerely,



Gene Kendall
President, ANHSI Board of Directors

cc: Michele Evans
Mark Jinks

15
10-27-09



Michele Evans/Alex
10/26/2009 12:16 PM

To Jackie.Henderson@alexandriava.gov,
Gloria.Sitton@alexandriava.gov
cc Valerie Moore/Alex@Alex, Mark Jinks/Alex@Alex,
lisa.kaplowitz@vdh.virginia.gov
bcc

Subject Re: FW: Letter of Support for ANHSI (Docket Item #15)

Jackie or Gloria,
Would you please forward to Council? This relates to an October 27 docket item.
Thanks
Michele
"Candio, Christine" <Christine.Candio@inova.org>



"Candio, Christine"
<Christine.Candio@inova.org>
10/26/2009 09:56 AM

To <Michele.Evans@alexandriava.gov>
cc

Subject FW: Letter of Support

Dear Michele,

I would greatly appreciate it if you would forward the attached Letter of Support for ANHSI to the City Council Members.

Thank you.

Christine Candio, RN, FACHE
Chief Executive Officer, Inova Alexandria Hospital
Senior Vice President, Inova Health System
4320 Seminary Road
Alexandria, VA 22304
703-504-3169 - office



703-504-3700 - fax Letter of Support.pdf



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MEMORANDUM

TO: Alexandria City Council Members

FROM: Christine M. Candio, RN, FACHE
Chief Executive Officer

DATE: October 26, 2009

RE: Letter of Support

It is with pleasure that I write this letter of support for Arlandria Neighborhood Health Services, Inc. as part of their effort to secure additional funding in order to position themselves to continue providing the valuable services needed in our community. ANHSI and Inova Alexandria Hospital have a long standing positive working relationship and a common goal of caring for all in our community.

In today's challenging economic environment, it is essential to have community based organizations like ANHSI who work in partnership with others including Inova Alexandria Hospital to ensure patient access for the entire continuum of health care and medical care services. With many changes anticipated in the delivery of health care services as result of potential federal health care reform, Inova Alexandria Hospital looks forward to our continuing partnership with ANHSI in ensuring access and quality care for the diverse population that we all serve.

As Chief Executive Officer of Inova Alexandria Hospital, we fully support ANHSI's endeavor to secure a new building location, which will better meet the social and medical needs of the most vulnerable citizens in our City.

Thank you.

CMC/dm