
CHAPTER 2. HEW PROCESSING AND PROCEDURES

- 2-1. INFORMATION TO BE FURNISHED. An applicant for Federal assistance under this program will be required to furnish specific information about the proposed project so that eligibility and conformity with requirements on the program can be determined. This information will be furnished on an HEW application form hereinafter discussed. In addition, there are certain required assurances which the applicant must agree to carry out. Processing procedures will differ somewhat on nonprofit facilities, depending on whether the project is to be constructed with Federal assistance under both the HUD mortgage insurance program and the Hospital and Medical Facilities Construction (Hill-Burton) Programs or whether it will be constructed without Hill-Burton assistance.
- a. When the project is to be constructed without Hill-Burton assistance, the applicant should submit the initial HEW application to the State Hill-Burton agency which will issue the certificate of need for the facility. All revisions of the HEW application will be submitted directly to the HEW regional office serving the applicant's area. Simultaneously with the submission of each HEW application to the HEW regional office, a copy will be sent to the State Agency by the applicant. (If the project is a proprietary facility, Previous Participation Clearance, FHA Form 2530 must be obtained from the HUD office prior to submitting HEW initial application.)
- b. When a nonprofit project is to receive Federal assistance under the Hill-Burton Program, the applicant should proceed in accordance with Hill-Burton program instructions, using the appropriate forms and submitting all procedures through the State Agency (Appendix 6).
- (1) Application form and guide material. The Project Construction Application (HEW 537) with instructions is available from the HEW Regional Office or the State Hill-Burton agency. The Public Health Service publishes General Standards of Construction and Equipment for Hospital and Medical Facilities (PHS Publication No. 930-A-7) and other guide material for planning hospitals and other health facilities. The HEW Regional Office or the State Agency will provide copies of this material to assist in planning and constructing projects.

- (2) Application format. The application is divided into an initial application and necessary revisions. Final approval of an application is given only after application and the plans and specifications have been submitted and approved.

- 2-2. PROJECT DESCRIPTION AND PRELIMINARY INFORMATION. The primary purpose of the initial application is to elicit information to determine the eligibility of the proposed project. Before a project can be approved by HEW, a narrative description of the program must be developed as an integral portion of the application.

The program narrative should comprise a general or brief review of the scope of services, as outlined below. It should be a summary of the facility's program, and as such should be as brief as possible, yet sufficiently detailed to adequately describe the program of services. Details of the site, to include its location, size and boundaries should be included. The program narrative should also prove useful to the project sponsor in that it can, through a step-by-step expansion, provide a basis for an organizational plan for the administration of the program of services, as well as provide valuable assistance and guidance to the project architects and engineers in the development of design drawings and specifications.

Since this program narrative guide was developed to assist in the preparation of a narrative for all types of health care services, and not restricted to one type of health care facility, it is not expected that each proposed project contain all of the health services listed; however, where appropriate and feasible, the project sponsor should consider ways by which needed community health services, when not a part of a proposed project, can in fact be provided, such as through formal patient transfer agreements, or through service sharing agreements with other facilities.

- a. Applicant Eligibility and Need for Facility.

- (1) Describe the method for determining the need in the community for the facilities and services to be provided. Include information about the results of any local studies which reflect a need for such facilities and services.

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- (2-2) (2) Describe the geographic and/or political subdivisions now being served by the facility, and describe, as measured in travel time, the accessibility of the facility to the population.
- (3) Describe the efforts that have been made or are being made in areawide or interfacility planning to meet the needs of the community in the most effective and economical manner.

b. Description of Programs to be Conducted in Facility.

- (1) Describe the broad categories of health services to be offered. Where applicable include services such as medical, surgical, obstetrics, pediatrics, psychiatrics, long-term care or extended care and also include:
- (a) Overall bed complement.
 - (b) Bed distribution by services (e.g., medical, surgical, intensive care, psychiatric, long-term or extended care).
 - (c) Allocation of beds by nursing units.
 - (d) Allocation of beds by patient rooms.
 - (e) The number of operating rooms, obstetrical delivery rooms, labor rooms, nurseries, etc.
 - (f) Outpatient and emergency services. Is a formally organized outpatient service planned? If so, will the outpatient service be a satellite, noncontiguous unit organized into clinics? If so, give the types of clinics proposed.
 - (g) Other diagnostic and treatment services -- e.g., dental, radiology, laboratory, physical medicine and rehabilitation, hemodialysis, cardiopulmonary function, etc.
 - (h) Describe the social service and home care programs; the extent of the services to be provided and facilities required.

- (2-2)
- (i) Describe any preventive medicine programs, such as prenatal and well-baby clinics, TB detection, nutrition and obesity clinics, and inoculation programs.
- (2) Educational and Research Programs.
- (a) What programs are proposed for clinical and basic biomedical research, and research in medical care administration?
 - (b) Describe any formal educational programs for nurses, interns, residents, technicians, therapists, and others. State briefly the scope of the programs and levels of preparation by professional category.
 - (1) Indicate services and facilities -- e.g., teaching spaces, laboratories, offices, library, student living quarters, recreational facilities and supporting areas.
 - (2) Give the approximate size of the student body and faculty.
 - (c) Describe the health education programs for patients, community and personnel.
- (3) Identify all Individual Departmental Functions (as physical and organizational units) -- e.g., administration, medical records, central services, dietary, pharmacy, general stores, housekeeping. These may be grouped by functional similarities suitable to organizational structure and administrative prerogatives, such as diagnostic and treatment services, service departments, nursing services. (Indicate if any of these will receive unusual emphasis or otherwise be specially designed as a result of sharing services with other facilities, or modifications of program through cooperative agreements.)
- (4) Staffing Requirements.
- (a) Show the existing and proposed staffing by position and number of employees for each service.
 - (b) Give the approximate number of physicians who will serve on the medical staff indicating general or special practice.

- (2-2) (5) Working Relationships with Other Facilities.
- (a) Describe in detail existing and proposed plans for coordinating services with other facilities; and any existing or proposed formal working agreements with health or other organizations providing services to the general public.
 - (b) Include a description of any plans to share services or facilities with other institutions. (Existing and proposed referral services should also be included.)
- (6) Physical and Environmental Requirements.
- (a) Interdepartmental relationships.
 - 1 Describe the functional relations between services and program areas, and the general locations of these for maximum effectiveness of interdependent activities.
 - 2 Give the approximate gross square footage of the proposed project and of each functional area, and the total for each department or major division of the facility.
 - 3 Determine the rooms and separate work areas by type and number necessary for the performance of programmed functions.
 - (b) Describe the transportation and distribution systems for moving people, equipment, food, records and waste.
 - (c) Describe the electrical and communication systems to be installed -- e.g., nurse call, paging, central dictation, radio and television, and emergency power.
- c. Initial Application should also Indicate the Proposed financing of the applicant's share of the cost of a project, and the financial responsibility of the applicant for maintenance and operation of the project for a two-year period following

TOTALS						
(2) Clinical Serv.	No. of Beds			% Occupancy		
	Yr.	Yr.	Yr.	Yr.	Yr.	Yr.
Medicine & Surgery	_____	_____	_____	_____	_____	_____
Obstetrics	_____	_____	_____	_____	_____	_____
Pediatrics	_____	_____	_____	_____	_____	_____
Psychiatry	_____	_____	_____	_____	_____	_____
Other (specify)	_____	_____	_____	_____	_____	_____
TOTALS						

4615.1

1(a). Provide the following data for the past three years:

(3) Source of Payment	% of Gross Revenue		
	Yr.	Yr.	Yr.
Blue Cross	_____	_____	_____
Other Insurance	_____	_____	_____
Medicare	_____	_____	_____
Medicaid	_____	_____	_____
Self-Pay	_____	_____	_____
Free Care	_____	_____	_____
Other (specify)	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
TOTALS	100	100	100

Note: In (3) above, exclude bad debts;
include both inpatients and outpatients

4615.1

(4) Revenue and Units of Service by Income Category (Use American

Hospital Association (HAS) Definitions.)

Service (Use Gross Revenues)	Units	Year_____	
		Units	\$
Daily Patient Services	_____	_____	_____
Delivery & Labor Rooms	_____	_____	_____
Operating Rooms	_____	_____	_____
Central Services & Supply	_____	_____	_____
Laboratory	_____	_____	_____
Blood Bank	_____	_____	_____
Radiology	_____	_____	_____
Pharmacy	_____	_____	_____
Inhalation Therapy	_____	_____	_____
Physical Therapy	_____	_____	_____
Occupational Therapy	_____	_____	_____
Outpatient Clinics	_____	_____	_____
Emergency Department	_____	_____	_____
Cafeteria	_____	_____	_____
Miscellaneous	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
TOTALS		_____	_____
Less Discounts, Allowances, Bad Debts, Etc.		_____	_____
Net Revenues		_____	_____

- (5) SSA-1562 "Reimbursable Cost on the Combination Method"
- (6) SSA-1563 "Hospital Statement of Reimbursable Cost"
- (7) Audits performed by Blue Cross
- (8) Annual financial and statistical reports submitted to Blue Cross and Medicaid
- (9) Audited annual financial statements

1(b). Provide the following:

- (1) Schedule of current charges
- (2) Monthly financial and statistical reports submitted to the facility board during the current year.

Hospital Association (HAS) Definitions.)

	Year_____	
Service (Use Gross Revenues)	Units	\$
Daily Patient Services	_____	_____
Delivery & Labor Rooms	_____	_____
Operating Rooms	_____	_____
Central Services & Supply	_____	_____
Laboratory	_____	_____
Blood Bank	_____	_____
Radiology	_____	_____
Pharmacy	_____	_____
Inhalation Therapy	_____	_____
Physical Therapy	_____	_____
Occupational Therapy	_____	_____
Outpatient Clinics	_____	_____
Emergency Department	_____	_____
Cafeteria	_____	_____
Miscellaneous	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
TOTALS		_____
Less Discounts, Allowances, Bad Debts, Etc.		_____
Net Revenues		_____

- (5) SSA-1562 "Reimbursable Cost on the Combination Method"
- (6) SSA-1563 "Hospital Statement of Reimbursable Cost"
- (7) Audits performed by Blue Cross
- (8) Annual financial and statistical reports submitted to Blue Cross and Medicaid
- (9) Audited annual financial statements

1(b). Provide the following:

- (1) Schedule of current charges
- (2) Monthly financial and statistical reports submitted to the facility board during the current year.

1(c). Provide the following data projected for the first two

years of operation:

(1) Budget to include:

a. Data called for in A (1) through (4) above.

b. For each source of inpatient payment, specify:

Source of Payment	Number of Patient Days	Average Daily Charge	Total Gross Charges	% of Gross Revenue	Total Net Patient Income
Blue Cross		\$_____	\$_____		\$_____
Other Insurance		_____	_____		_____
Medicare		_____	_____		_____
Medicaid		_____	_____		_____
Self-Pay		_____	_____		_____
Free Care		_____	_____		_____
Other (specify)		_____	_____		_____
_____		_____	_____		_____
_____		_____	_____		_____
TOTALS			\$_____	100	\$_____

Source of Payment	Number of Patient Days	Total Gross Charges	Total Net Patient Income	Net Average Per Diem
Blue Cross		\$_____	\$_____	\$_____
Other Insurance		_____	_____	_____
Medicare		_____	_____	_____
Medicaid		_____	_____	_____
Self-Pay		_____	_____	_____
Free Care		_____	_____	_____
Other (specify)		_____	_____	_____
_____		_____	_____	_____
_____		_____	_____	_____
TOTALS		\$_____	\$_____	

c. Other projected income such as endowments, fund drives, etc.

- d. Total operating budgets, with individual departmental expenses to include salaries and wages, supplies and other expenses. Salary and wage detail should show the following departmentally: position(s), unit salary, number of staff in category, and total salary and wages.
- e. Provide detailed proposals supporting proposed expenses for major contractual services. (e.g., laundry, food service, housekeeping, etc.)
- f. Debt service per patient day.
- g. Statement of existing indebtedness.
- h. Where applicable, such as in the case of for-profit hospitals, provision for real estate, income and other taxes.
- i. Reserve for replacement (proprietary only).

Note: Provide statements setting forth basis for assumptions and rationale for projections.

1(d). Attach the following:

- (1) Facility organization chart.
- (2) Listing of board of directors and committees, to include credentials and qualifications of members.
- (3) Composition of planning and development committee, to include credentials and qualifications of members.
- (4) Amortization schedule showing principal and interest payments for mortgage period at the projected interest rate.
- (5) Tables showing projected annual depreciation for buildings, fixed equipment and movable equipment. Indicate projections for purchase of equipment.

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- (2-2) d. The Project Construction Application (HEW 537) includes certain assurances to be signed by the applicant.

THE APPLICANT SHOULD READ CAREFULLY ALL THE REQUIRED ASSURANCES IN THE APPLICATION BEFORE SIGNING.

e. Determination of tentative amount of maximum insurable mortgage. In its processing of the initial application the HEW regional office can determine the tentative amount of the maximum insurable mortgage as follows:

- (1) Using the Guide Form of the HEW Final Approval Letter add Items 5, 7 and 9.
- (2) Divide the total amount by the factor shown in Column 3 below, which is based on a 7% interest rate mortgage:

(1) Construction Period (Months)	(2)* Carrying Charges and Financing (%)	(3)* Factor (100 - Col. 2)
12	8.3	91.7
15	9.3	90.7
18	10.3	89.7
21	11.3	88.7
24	12.3	87.7
27	13.3	86.7
30	14.3	85.7
33	15.3	84.7
36	16.3	83.7

*Note for nonprofit facilities each percentage in Column 2 should be increased by 2.0 and each percentage in Column 3 reduced by 2.0 to reflect AMPO in nonprofit proposals where applicable (or a lesser percent if so desired by the applicant).

(To compensate for any change in the maximum interest rate the above columns 2 and 3 may be adjusted either up or down by .0625 for each 3 month interval cumulatively for each 1/2 of 1% change in the interest rate - Increased interest rate - column 2 would be increased and column 3 decreased; Decreased interest rate - column 2 would be decreased and column 3 increased.)

The percentage figure in Column 2 includes mortgage interest, mortgage insurance premium, HUD-FHA application, commitment and inspection fees, the FNMA commitment, purchasing and marketing fee, and Allowance to Make Project Operational (AMPO) (where applicable). Not included are real estate taxes, fire and hazard insurance (usually in the construction contract) and title and recording expense.

Upon publication of any change in the maximum interest rate, a new table of factors will be issued based upon the new rate.

f. Approval of Initial Application. After approval of HEW initial application, the Regional Office advises the applicant to submit formal application, FHA Form 2013-HOSP. to HUD through approved lender, at the same time advising the State Agency that it is in order to issue a Certificate of Need to the sponsor.

2-3. REVISED APPLICATION: THE AGREEMENT: Certain cost and other information must be submitted after bids have been opened and approved and before the construction contract is awarded. In straight-loan projects, this information replaces the revised application. In combined projects this information is submitted with the Revised Application. This information establishes a basis for initial mortgage insurance approval and an agreement whereby the applicant agrees to construct the project in accordance with the approved application. After this approval, the applicant will be notified concerning the procedure of making an amended application to HUD for mortgage insurance.

In addition to cost figures shown on this part of the application, carrying charges and financing during construction will be added. These later costs will be calculated precisely by the HUD Office concerned prior to final approval of the loan.

2-4. REVISED APPLICATION OR EQUIPMENT: COMPLETION OF PROJECT. When construction of the project is completed, the applicant submits a revised application and/or substitute information reflecting final project costs. Total mortgage amount endorsed will be the original insurable amount, or 90% of the actual total project cost, whichever is less. After a final inspection of the project by the HEW Regional Office, HUD will be notified that (final) endorsement of the mortgage is in order.

2-5 DESIGN OF THE PROJECT AND CONTRACT REQUIREMENTS.

a. Predesign Conference. The design of a project should begin with the scheduling of a predesign conference. The conference should be attended by the applicant, the project architect, and representatives of the State agency and the Regional Office. It is recommended that the conference agenda include a written program which sets forth the requirements of the facility, specification content, the need for current cost

estimates, and the responsibilities of all concerned with the project.

- b. Construction standards and minimum requirements. The General Standards of Construction and Equipment for Hospital and Medical Facilities are contained in the Public Health Service Publication No. 930-A-7. A thorough study of these standards by the applicant and his architect is necessary before the design of the project is started. These standards constitute the minimum requirements for construction. Other recommended design guide material is available from the HEW Regional Office. Consultation services on the technical and administrative aspects of the functional program in existing facilities, or the proposed programs for new facilities, are available upon request to the HEW Regional Office.
- c. Submission of drawings, specifications, and other material. To assist the applicant in pursuing an orderly routine in the development of the project, the drawings and other design material shall be submitted to the HEW Regional Office in three stages:
 - (1) First stage - schematics. When the building site has been selected, the next planning step takes the form of small scale schematic drawings. The information contained in the narrative program (described under paragraph 2-2) will be translated into terms of required areas and their functional relationship. Based on the narrative program and studies by the applicant's architect, the results should be a fairly accurate concept of the final form of the facility. This plan should be studied in detail by all concerned and necessary changes should be made at this time. Schematic drawings are to be submitted with the initial Application.

After the schematic drawings have been agreed upon, a reasonably accurate estimate of the project cost can be made. This estimate should include the cost of construction of the building(s), fixed and movable

(2-5) equipment, architect's and consultant's fees, inspection and supervision, parking areas, grading, walks, roads and landscaping, and contingencies.

- (2) Second stage - preliminaries. After the schematic drawings and initial cost estimates have been approved,

the plan should be developed to a larger scale indicating major items of equipment for the building. During the preliminary stage, the architect and his consulting structural, mechanical, and electrical engineers will have been studying the program requirements to determine the most economical and practical systems of foundations, structural framing, plumbing, heating, electrical distribution, ventilation, and air-conditioning. They must determine which type of fuel is most economical, which types of elevators and control devices will be most satisfactory, which materials are most suitable from the point of view of economy, function, and maintenance. These questions must be decided before proceeding with the third stage (working drawings). Each floor plan should show the square feet of space and the number of beds required, and should indicate the function of each room.

- (a) The architect should now review the cost estimate and advise the applicant if adjustments in the budget are required.
 - (b) During this planning phase, the architect should have given all those concerned with the project ample opportunity to study the drawings and to make comments and recommendations. The design team may now proceed with the development of final working drawings and specifications.
- (3) Third stage - working drawings. The working drawings are the final stage of the design process. These are the drawings upon which the contractor will base his bid. It is of the utmost importance that they represent in every instance and in great detail exactly what is to be constructed. This will minimize misunderstandings, claims for extras, and change orders during the construction period.
- (a) The final working drawings should comply with the requirements contained in Public Health Service regulations. Separate drawings shall be prepared for each of the branches of work: (1) architectural, (2) structural, (3) mechanical, and (4) electrical.

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- (2-5) (b) The working drawings, together with the specifications, are the most important documents constituting the contract. They translate concept

into accomplishment. On their quality depends exactness in estimating and effectiveness in building what was planned. Their careful preparation is the best insurance for trouble-free execution of the work.

- (c) Upon completion of the working drawings, a revised estimate of cost for the work should be prepared by the architect to alert the applicant on the amount of financial obligation he must be able to meet.

d. Contract Specifications.

Content of specifications. The title sheet shall contain the name of the project, its location, type of work, name and address of the owner, the architect, the consultant (if applicable), the date of specifications, a brief description of the work, and shall indicate whether public advertisement or selective bidding is to be used. An index should be included.

- (1) Instructions to Bidders. The instructions to bidders shall include detailed information regarding various legal or established requirements in connection with the preparation, submission, and consideration of proposals, and for the construction of the project. Time for completion, liquidated damages, if specified, the handling and return of bid deposits, and details relating to bidding and contract award shall also be included. If the Schedule of Drawings is not set forth as a separate section of the specifications, it should be included in these instructions.
- (2) Bid forms. A separate bid form shall be included for each part of the work for which a bid is requested. The bid forms shall contain all pertinent agreements including all addenda relative to the contract which the bidder should acknowledge when filing his proposal. When alternate bids and/or unit prices are required, they should be made a part of the proposal. The amount and type of bid deposit should also be stated.

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- (2-5) (3) Form of contractor-owner agreement. For the advance information and knowledge of bidders, the construction contract form which must be a "lump sum" type shall be

contained in the specifications.

- (4) Supplemental general conditions. General conditions should be supplemented when exceptions or additional information are required in connection with the project and may include such items as conditions relating to the geographical area, laws, codes, and regulations of area in which the building is located.
- (5) Alternates. A reasonable number of alternate prices may be requested in the bidding documents. The reason for requesting alternate prices are (1) to allow a decision between two materials or methods of different value and (2) to adjust the bids received so that the contract sum will fit within the budget.
- (6) Technical specifications. The technical portions of the specifications are the requirements and instructions for all trade sections or divisions of the work describing the materials, workmanship, and equipment required for the construction of the project.
- (7) Addenda. Addenda to the drawings and specifications consist of notices or bulletins sent to bidders to notify them of any necessary corrections, interpretations, or changes in the requirements of the drawings and specifications. Addenda must have the approval of the State agency and the regional office and be issued in time to reach bidders prior to their submission of bids.
- (8) Approval and format. The Public Health Service Regulations --Part 53, require an assurance that the applicant will obtain approval of final working drawings and specifications from the Public Health Service before the project is advertised or placed on the market for bidding.

e. Mandatory Requirements to be Specified.

- (1) Time for completion. The specifications must stipulate a time of completion, either in calendar days or as a fixed date, for each construction contract included in the project. This is an important item and is used, among other things, to assure that all bidders are competing on an equal basis.

- (2-5) (2) Labor standards. The Labor Standards which include the Copeland Act, Anti-Kickback Regulations, the Davis-Bacon Act, and the assurance of non-discrimination in contract employment for all contractors, subcontractors, and vendors as required by Executive Order 11246, dated September 24, 1965, shall be incorporated in the specifications without change.
- (3) Wage determination applicability. Applicants must obtain wage determinations for inclusion in the bidding documents. The request should be submitted through the State agency to the regional office six weeks before the bid opening date.
- (a) The request should contain the following information:
- 1 Name of facility, project number and location including county;
 - 2 Type of project, i.e., new hospital, nursing home;
 - 3 Estimated value of construction contracts;
 - 4 Description of project, type of building, number of stories, number of elevators, and whether the building is air conditioned;
 - 5 Name and address of project architect;
 - 6 Approximate date project will be advertised for bids, bid opening date, and proposed date for award of contract;
 - 7 Listing of other projects that are under construction or have recently been constructed in the area, including type of building, cost and the contractor's name and address.
- (b) The wage determinations are effective for 120 days from date of issuance. If not used within that time period, a redetermination must be requested.
- (4) General conditions. The Public Health Service General Conditions, AIA Document 201-/SC, Federal Supplement to General Conditions, or any other general conditions

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developed by an acceptable organization are to be made a part of the specifications. Public Health Service General Conditions are available from the State agency. If they are not used, the following must be incorporated into the general conditions:

- (a) The paragraph quoted below must be incorporated into the general conditions and also appear at the beginning of each section or division of the specifications:

"Notwithstanding any reference in the specifications to any article, device, product, material, fixture, form, or type of construction by name, make or catalog number, such reference shall be interpreted as establishing a standard of quality and shall not be construed as limiting completion; and the Contractor, in such cases, may at his option use any article, device, product, material, fixture, form or type of construction which in the judgment of the Architect expressed in writing is equal to that specified."

- (b) Representatives of the Secretary, HHS, and the State agency shall have access to the work site.

- (c) The following requirements apply to the Section 242 Hospital Program:

1 When the estimated cost of construction or rehabilitation is \$500,000 or less and no Hill-Burton Grant or HHS guaranteed loan is involved, the mortgagor shall furnish assurance of completion of the project in the form of a personal indemnity agreement (Personal Undertaking Form FHA 2459), signed by the principal individual(s) responsible for construction or rehabilitation of the project.

- * 2 In the absence of personal indemnity agreement when the estimated cost of construction or rehabilitation is more than \$500,000 and in all cases involving Hill-Burton Grants or HHS guaranteed loans, the mortgagor shall furnish payment and performance bonds each in the minimum amount of 100 percent of the accepted price. The standard forms to be used are No. 2452, Performance Bond-Dual Obligee and No. 2452-A, Payment Bonds.

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- (2-5) (d) The contractor shall obtain and maintain insurance for himself and all subcontractors to include coverage for:
- 1 Statutory workmen's compensation and employer's liability.
 - 2 Bodily injury liability (\$300,000/\$500,000).

4615.1

- 3 Property damage (\$100,000/\$300,000).
 - 4 Owner's protective liability for bodily injury (\$300,000/\$500,000), property damage liability (\$100,000/\$300,000).
- (5) Fire and extended coverage. The contractor shall insure the building or other work included in the contract against loss or damage by fire and against loss or damage covered by the standard extended coverage insurance endorsement. The policies shall have attached thereto a standard mortgage clause making loss payable to the mortgagee and the secretary as their interests may appear, and certificates of the insurance company as to the amount and type of coverage, and the terms of policies shall be delivered to the owner before any partial payment is made. The policy shall provide for the inclusion of all other contractors, subcontractors, and others employed on the premises as named insured.
- (6) Competitive specifying. All manufacturers of materials and equipment of comparable quality should have an opportunity to receive consideration under competitive bidding conditions that are fair to the manufacturer, the owner, and the contractor. All bidders must be offered a definite basis for competitive bidding. The project specifications shall describe each item of material and equipment in terms sufficiently clear to assure that all bids made in compliance therewith will be for products of substantially the same quality. Conditions or limitations within the specifications which are designed to limit bidding to only one of several known sources of supply may violate the principles of competition. The HEW regional office should

be consulted for further information regarding acceptable methods of specifying materials and equipment.

2-6. BIDS, AWARDS, CONTRACTS, AND MODIFICATIONS.

- a. Bidding procedures. Construction contract awards shall be based on competitive bids. In obtaining competitive bids, either of the following methods may be used:
- (1) Open bidding: public advertisement in suitable newspapers (advertisements must appear prior to the release of bidding material to any bidder).

1/73

Page 2-18

HUD-Wash., D. C.

4615.1

- (2-6) (2) Selective bidding: selection of and invitation to three or more competent bidders to submit bids. When bids are obtained from a selective list, care should be taken to ensure that each of the invited bidders is willing to bid.

THERE CAN BE NO IDENTITY OF INTEREST BETWEEN THE SPONSOR/
MORTGAGOR AND THE CONTRACTOR.

- b. Bid openings. Bids shall be opened publicly at the time and place stated in the invitation for bids, and the owner shall furnish the HUD Regional Office with three copies of a tabulation of all bids received.
- c. Inspection of bids. The applicant shall make the original bidding documents available for inspection by authorized representatives of the Secretary, HEW.
- d. Low bid exceeds application estimate of eligible costs. When the bids received are higher than the estimated cost shown in the approved application, the applicant may:
- (1) Demonstrate to the satisfaction of the Secretary, HEW, that additional financial resources are available to pay the increased cost.
 - (2) On the basis of revised plans and specifications, solicit bids from the original contractors; however, prior to readvertising, the revisions must have the approval of HEW.
 - (3) Negotiate, within reasonable limits; i.e., approximately five percent with the low bidders on items of construction.

The negotiations can be at the discretion of the applicant; however, the State agency and the HUD Regional Office should approve all such negotiations since they could, if extensive enough, change the project concept.

- e. Contracts. Construction work shall be performed by the "lump sum" (fixed price) method. The work may be let under one contract, or bids may be received separately for major branches of the work. In either case, the contract shall be awarded to the responsible bidder submitting the lowest acceptable bid.

4615.1

- f. Submission of bids and contracts for approval. No award of contract shall be made until the final part of the application has received the approval of the HUD Regional Office.
 - g. Disqualification of certain bidders. Anyone furnishing design and/or supervisory services on a project must be disqualified as a bidder on such projects. The acceptance of such a bid would be in violation of the requirements of competitive bidding since the firm or individual providing such service is in a preferred position.
 - h. Preaward conference. Prior to award, the low bidder and known subcontractors may be required to attend a preaward conference for the purpose of formulating an affirmative action program relating to equal employment opportunity during the construction of the project. Applicants are advised to contact the HEW Regional Office before taking bids or awarding contracts for any project to determine whether a preaward conference should be held. This requirement may be accomplished at the time as the Preconstruction Conference (Paragraph 2-9 below).
- 2-7. PROPRIETARY FACILITIES. Proprietary facilities are required to make payments into a reserve fund for replacements of equipment. To calculate the annual payment to the reserve, HEW will take 10% of the amount of the equipment included in the replacement cost. This figure will be stated to the HUD office in the HEW Final Approval Letter.
- 2-8. CONSTRUCTION OF THE BUILDING. The applicant is responsible, for completing the work in accordance with the approved plans and specifications and for securing compliance with labor standards. A full-time applicant's (or architect's) representative is recommended; the cost of his service is allowable for Federal

participation.

- 2-9. PRECONSTRUCTION CONFERENCE. Immediately after signing all building construction contracts, the applicant should arrange for a meeting of the Regional Office personnel with the architect, clerk-of-the-works, consultant, prime contractor, and the principal subcontractors. This discussion of the responsibilities of the various parties will help to overcome misunderstandings and problems which may arise during construction. On joint projects, representatives of other agencies may wish to attend the meeting. (The purposes of the Preaward Conference may be accomplished prior to these Preconstruction Conference items, at the same meeting.)

1/73

Page 2-20

HUD-Wash., D. C.

4615.1

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- 2-10. ALLOWABLE AND NONALLOWABLE COSTS. Summarized in Appendix 4. A necessary modification of Item 12 of this Appendix (Space for Private Practice of Medicine) to be consonant with a specified intent of Section 242 of the National Housing Act as added by Section 1501 of the Housing and Urban Development Act of 1968, i.e., to encourage the group practice of medicine, is reflected therein.
- 2-11. LABOR STANDARDS. Securing compliance with labor standards will require the applicant to:
- a. Check weekly payrolls to assure that they contain the required information and that Labor Standards are properly certified and are accompanied by the required Anti-Kickback affidavits.
 - b. Verify that wages are not less than those shown on the wage determination, that all classifications employed are listed therein, and that the requirements are met if apprentices are employed.
 - c. Assure that a copy of the wage determination is posted at the site in a place where it can be easily seen by the workers.
 - d. Maintain and preserve all payrolls, affidavits, and other pertinent data during the life of the contract and for five years after completion of construction or until a Federal audit is made.
 - e. Withhold sufficient payment from the contractor, in the event of an alleged labor standards violation, in accordance with the provisions of the labor standards.

f. In the case of a violation, submit a report describing the violation and its settlement to the HEW Regional Office (in accordance with the labor standards).

2-12. COMPLETION DATE. The date of completion for determination of actual costs is established by HEW. The mortgagor must submit to HEW a revised Hill-Burton application reflecting the final, actual, project costs including all carrying charges, and financing and discounts up to the date of completion as established by HEW. These costs will be reviewed by HEW. (See Paragraph 3-4.b. (2).)

4615.1

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- 2-13. POSTCONSTRUCTION OPERATIONS. The applicant shall arrange for a final inspection by submitting a request to the Regional Office when the construction work is complete.
- a. As-built drawings, showing all changes, deviations, and corrections, particularly relocations of electrical, mechanical, and other utility services, should be prepared and maintained by the applicant.
 - b. The applicant shall inspect the project prior to the expiration of the guarantees contained in construction contracts so that any defects resulting from the use of inferior materials, equipment, or workmanship may be corrected.
 - c. ATTENTION IS DIRECTED TO THE ASSURANCES SET FORTH IN THE APPLICATION REGARDING COMPLIANCE WITH MINIMUM STATE STANDARDS FOR MAINTENANCE AND OPERATION AND FOR THE PROVISION OF FREE PATIENT CARE TO THE EXTENT FEASIBLE.
- 2-14. INCOMPLETE OFF-SITE AND ON-SITE FACILITIES. In the case of incomplete on-site and off-site facilities, approval of the final advance of mortgage proceeds may be given when the incomplete items are minor in nature, all off-site utilities such as sewer, water, electrical and gas facilities are installed and connected, and adequate facilities for ingress and egress are provided, and a cash escrow for completion of the facilities is deposited with the mortgagee under an appropriate agreement. Except for landscaping and exterior improvements which cannot be completed because of weather, the amount of the escrow must be at least twice the HEW Regional Office's estimated cost of completion to assure an incentive to complete the work taking into consideration a possible rise in cost. The escrow for landscaping and exterior improvements must not be less than the estimate of cost of completion by the HEW Regional Office. It is not anticipated

that there will be changes during construction. If the applicant desires to make a change which constitutes a significant betterment on HUD insured mortgage projects, the change order must be reviewed and approved by the HEW Regional Office.

2-15. EQUIPMENT.

- a. Applicant's responsibility. It shall be the responsibility of the applicant to prepare a list of and to select and purchase all necessary equipment for the complete functioning

1/73

Page 2-22

HUD-Wash., D. C.

4615.1

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- (2-15) of all services included in the project. Consumable items, disposable items, and items of current operating expense such as fuel, food, and drugs are considered supplies and shall not be included in the project equipment list.
- b. Classification. Equipment items shall be classified in two main groups:
 - (1) Fixed (realty) equipment is defined as equipment which is permanently affixed to the building or which must be connected to a service distribution system designed and installed during construction for the specific use of the equipment. It includes items such as extractors, walk-in refrigerators, inter-communication systems, and built-in casework.
 - (2) Movable (nonrealty) equipment is defined as all items of equipment which are not considered to be fixed equipment. It includes items such as operating tables, obstetrical tables, anesthesia apparatus, wheeled equipment, portable paging systems, etc.
 - c. Purchase. Items of fixed equipment not included in the construction contract are to be purchased competitively, except where justification is submitted in writing by the applicant and approved by the State agency and the HEW Regional Office.
 - (1) Movable equipment may be purchased on the open market, by securing quotations, or through competitive bidding procedures.
 - (2) Applicants who do not include all fixed equipment in the construction contract and let separate contracts for furnishing and installing certain items of fixed

equipment must include in such separate contracts all provisions for contract security, insurance, and compliance with labor standards except that labor standards need not be included for contracts under \$2,000.

- d. Equipment lists. Separate lists of equipment are to be submitted by the applicant as soon as possible after the award of the construction contract for (a) all fixed equipment purchased outside the construction contracts, and (b) all movable equipment.

4615.1

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- (2-15) (1) Fixed equipment which is not to be included in the construction contract shall be shown on the preliminary stage of the plans (second stage) to ensure its coordination with the architectural, mechanical, and electrical phases of the work.
- (2) The purposes of the equipment lists are:
- (a) To provide the applicant with a mechanism for systematically determining the equipment needed for the facility; and
- (b) To provide the HEW Regional Office with the information necessary to determine that the equipment is essential to and adequate for the services provided by the facility, and that the items to be purchased are of reasonable cost and allowable for inclusion in the estimated replacement cost.
- (3) The approved equipment lists shall not be used as a means of policing the selection and purchase of equipment by applicants. In the purchase of equipment, the applicant may make substitutions, omissions, or changes in quantity of items, provided that the nature and extent of the services are not materially affected by the changes.
- (4) The cost of all movable equipment should include equipment on hand and equipment to be purchased. Costs shall be shown for all equipment except equipment on hand or equipment purchased through the construction contract.
- (5) When rooms, such as bedrooms, are to be identically equipped, the equipment list should show the equipment

planned for one room only and identify the additional rooms which are to be so equipped. Cost estimates should be projected for equipment to be purchased for all rooms. A recapitulation for equipment items by departments should also be submitted.

- (6) If more than one project is involved in the approved application, the equipment list should be prepared for the entire facility under construction. If an item of equipment will serve more than one project, the total cost of the item is to be shown, and the amount to be charged to each project shown in the designated columns. The applicant shall indicate by attachment to the equipment list the basis for the proration of the cost among projects.

1/73

Page 2-24

HUD-Wash., D. C.

4615.1

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- (2-15) e. Amending the equipment list. The applicant should amend the equipment list for either of the following purposes:
 - (1) To add additional items not included on the original approved list.
 - (2) To reflect a change in the list made necessary by a change in the scope of the project or a change in the services to be provided.

Equipment lists may be amended by submitting revised pages showing the items deleted, changed, or added.

Page 2-25 (and 26)

1/73

HUD-Wash., D. C.