Study of Market Need and Financial Feasibility

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Report Structure

• Four types of reports
  - Type refers to content of report
  - Can result in significant cost savings
  - Can result in reduction in time to obtain report
Report Structure (cont.)

• Four Types of Reports
  ◆ Study of Market Need and Financial Feasibility
  ◆ Study of Financial Feasibility (only)
  ◆ Fast Track Study of Market Need and Financial Feasibility
  ◆ Fast Track Study of Financial Feasibility (only)
Report Structure (cont.)

- Three Authentication Levels
  - Examination
  - Compilation with Special Procedures
  - Self-prepared
Report Structure (cont.)

- Guidelines include criteria for determining the **type** and **level** of the report.

- Guidelines provide for lender notification at or near pre-application meeting.
Report Structure (cont.)

• Parts of the Report:
  - Accountant’s report consistent with AICPA and 242 financial forecast guidelines
  - Financial Statements
  - General Information
  - Significant Demand Forecast Assumptions
  - Demonstration of Need
  - Significant Financial Forecast Assumptions
  - Other information
  - Appendices with Financial and Statistical Tables (FAST tables)
Report Structure (cont.)

• Minimum qualifications for consultant and certification form

• Areas for Special Focus
  ❖ New or expanded services
  ❖ Negative financial/utilization trends
  ❖ When trend line differs from assumptions
  ❖ Presence of highly competitive market
  ❖ Establishment of new hospital
Key Changes in Feasibility Study

Changes Clarify:

- **Study includes five years historical info**
- **Study is for proposed mortgaged entity only**
  - Permits consolidated statements IF
    - Separate statements for mortgaged entity included
    - These statements reconciled to consolidated statements
Feasibility Study Changes (cont.)

Changes Clarify:

- **Economic impact to be included**
  - Construction jobs/ permanent jobs
- **Operating income**
  - Depreciation/ interest expense
- **Non-operating income includes**
  - Investments
  - Unrestricted contributions
Feasibility Study Changes (cont.)

Other Changes:

• Ratio report moved to FAST tables
• Clear explanation of relationships to related entities is required
  - Should match proposed project
• Sensitivity study tailored to the uniqueness of the project
Feasibility Study Changes (cont.)

For other project costs not on the HUD 92013-HOSP Form:

• Clear description is required
  ▶ Listing of expenses and source for payment
    ▪ Letters of credit for negative arbitrage
    ▪ Non asset bonds and other issuance obligations
    ▪ Additional interest or penalties for delay in final endorsement
    ▪ Additional deposits/costs for bonds or wrap, credit enhancements, etc.
Feasibility Study Changes (cont.)

For potential bond costs that can be passed through to the hospital:

• Must show potential costs in feasibility study
  - E.g. increased cost from delay in final endorsement

• Include other pass through costs
  - Likely costs
  - General risks
Criteria for Type of Report

- Presumed Needed
  - Critical Access Hospital
  - Existing 242 applying for 241
    - Expansion of beds may require justification
  - Sole Community Hospital
  - Rural Referral Centers
Criteria (cont.)

- **FASTTrack**
  - Financially strong
    - Support debt based upon historical performance
  - Must demonstrate Need (unless presumed)
  - Study may be compiled or self-prepared
    - Reduced cost
  - $30 million ceiling does not apply
Fast Track (cont.)

- **Historical proforma Balance Sheet, Statement of Operations, & Cash Flows**
  - Superimpose additional assets, debt, interest expense, depreciation & amortization expense, MRF funding on last two audited years
  - Submit with preliminary review material and as part of application.
Fast Track (cont)

- Acceptance to FAST track not limited to financial criteria alone
- Other factors
  - New or expanded services
  - Financial or utilization trends
  - Competition
QUESTIONS?

Please write them down for the upcoming Q&A Session!