

Study of Market Need and Financial Feasibility

J.B. Nathan

**Senior Financial Analyst, Office of Insured Health Care Facilities,
HUD**

William Tan

Director, Division of Facilities and Loans, HRSA, HHS



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.)

- **FAST Track**

- ❖ **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!**

