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NEW YORK
state department of
HEALTH

Certificate of Need Financial Feasibility and Cost Assessment

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The Goal of Feasibility Assessment



To perform an objective financial Assessment
is completed on proposed projects to ensure
that:

- The project can be initiated; and
- The facility/enterprise can sustain itself based
on the submitted business plan.



Rationale for Feasibility Assessment



- Financial feasibility review process is used to assess the viability of the enterprise and proposed projects, which centers on the ability to offset expenses with revenues.
- Analysis is designed to shed light on the uncertainty and risk surrounding a capital project and/or business decision to an acceptable level through a thoughtful and structured process.



Why Department of Health Review?



Financial reviews are made up of targeted elements to ensure governance and financial structures are in compliance with the NYS Department of Health policies and regulations, which also consider the applicant's business plan and the market dynamics.

What Projects Are Reviewed

- CONSTRUCTION PROJECTS
- NEW STARTS UPS
- WORKING CAPITAL ASSESSMENTS
- CHANGE OF OWNERSHIP
- FINANCING STRUCTURES



Project Review Measures

- **FINANCIAL CABABILITY:** The reviewer ensures that the applicant has the proper resources and documents to enable a project, including the down payment, working capital, needed borrowing and the other necessary requirements to initiate or take over the operations.
- **FINANCIAL FEASIBILITY:** Review budgets for reasonableness and to ensure revenues meet or exceed expenses in order to maintain a sustainable entity. The goal is to review all the relevant information and test the applicant's assumptions.



Project Measures Expenses



- **REVENUES:** Revenues are tested using accepted benchmarks, utilization, and valid reimbursement methodologies to ensure reasonableness.
- **EXPENSES:** Expenses are assessed using various techniques:
 - Rent - Rent reasonableness letter from third parties.
 - Property - Review certified appraisals or apply lower of cost or market.
 - FTEs - Largest expense typically seen. Review proposed staffing levels, compensation, benefit rates against benchmarks.
 - Supplies and Contractual Agreements - Review for reasonableness against established benchmarks.



Project Measures Debt Instruments



- DEBT INSTRUMENTS - Review term, rate, and amortization to ensure accuracy and market conditions.
 - Bond Offerings - Bond Rating, Issuer/Credit Enhancement, Eligibility.
 - Loan Agreements - Fixed Rate Analysis, Swap Rates, Variable Rates, Amortization Tables
 - Preference - Fixed Rate, Level Debt Service, Self - Amortizing



Items Reviewed by the Bureau of Financial Analysis



(Financial Review)

- Certified Financial Statements
- Projected Operating and Capital Budgets
- Net-Worth Statements
- Pro-Forma Balance Sheet
- Equity Contributions
- Ratio Analysis
- Organizational/Enterprise Relationships
- Utilization
- Debt Structures
- Letter of Interest
- Payor Mix

(Document Review)

- Leases
- Contracts/Agreement
- Administrative Service Agreements
- Asset Purchase Agreements
- Maintenance/Service Agreements
- TELP/DASNY Agreements
- Medicaid Affidavits
- Dept. of State Filing
- Board Resolutions
- Judgments/Legal Agreements
- Governance Structures/Agreements
- Bankruptcy Documents
- Business plans
- Demand Analysis



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Capital Cost Review Process



- Submitted project square foot costs are compared to a DOH database of approved historic project costs by functional group to determine approvability. This database is continuously updated as new projects are approved.
- Construction industry cost trends are used in determining allowable costs. The Department uses multiple independent sources to project future construction cost trends.



Construction Cost & Square Foot Analysis

(Hospitals, D & T Centers, Amb. Surg, Etc.)



- Total Project Costs (TPCs) include “hard cost” items such as construction, site prep, equipment, A/E Fees, and Design/Construction contingencies). TPCs are compared to previously established parameters and guidelines.
- Detailed breakouts of TPCs are provided by the applicant in CON Schedule 10 - Space & Construction Cost Distribution.
- Square foot totals are checked against project narratives, plans and other schedules for consistency.
- Submitted costs outside of established parameters are subject to increased review, analysis and justification.



Examples of Standards / Norms



Square Foot costs

Standards based upon:

- Location - Region of State (Rural, Urban)
- Construction Type - New, Renovations (major gut / minor alteration)
- Functional Space Type - Linac, Emergency Dept., ORs, Medical/Surgical, Administrative, Storage, etc.

Additional Consideration Given To:

- Non-Typical Construction - Restricted site access, high rise additions, sloped sites, high water table, projects within operational facilities.
- Operational Efficiencies - Geothermal, dual fuel, green construction, etc.
- Demonstration Projects - New technologies, treatment therapies
- Special Features - Ventilator beds, bariatric room features, etc.





Nursing Home Cost Review



- Reimbursable nursing home project costs are assessed based on region, project scope and number of beds proposed.
- A maximum allowable regional cost per bed (bed cap) has been established which determines the approvable reimbursable project cost.
- New Construction: A new or replacement nursing facility can be eligible for up to 100% of the bed cap allowance
- Renovation: Capital Reimbursement for renovation projects are substantially lower depending upon the extent of the construction and changes to the facility.



Capital Reimbursement Methodologies



Provider Type	Capital Rate Setting Methodology	
Hospitals	Inpatient	Outpatient
	Actual rate year capital after a 44% reduction in Major Moveable Equipment (MME)	Two year lag of historical capital after 44% reduction in MME
Nursing Home	Cost based reimbursement methodology with two year lag (e.g., 2012 rates reflect 2010 allowable costs for real property, moveable equipment) <ul style="list-style-type: none"> •Proprietary Homes: Mortgage interest /amortization /return on/of equity •Voluntary/Public Homes: Mortgage interest and depreciation 	
Diagnostic and Treatment Centers	Two year lag of historical capital no adjustment for MME FQHCs: Average 1999 and 2000 capital per Federal statute (appeals allowed for capital increases)	





Capital Cost Trends for Hospitals and Nursing Homes



- Hospitals: Medicaid allowable capital costs have increased from \$780 million (2006) to \$930 million (2010) or by an annual average of 4.4 %
- Nursing Homes: Medicaid allowable capital costs have remained relatively stable from \$609 million (2008) to \$601 million (2011)

Note: Total allowable costs for the same periods above for Hospitals are approximately \$2.6 billion and \$3.1 billion respectively, and for Nursing Homes approximately \$812 million and \$801 million respectively



45% of NHs and Hospitals have Negative Three Year Average Operating Margins that are Below the National Average



Three Year (2008-2010) Average Operating Margins	Hospitals	Nursing Homes	Total
# Facilities with Average Negative Operating Margins below the National Average (Financially Challenged)	73	291	364
# Facilities with Average Positive Operating Margins below the National Average	106	173	279
# Facilities with a Positive Operating Margin above the National Average	15	154	169
Total	194	618	812

National Average 6.4% 3.6%





Financially Challenged Hospitals are more highly leveraged and Nursing Homes are more dependent on Medicaid resources



	Facilities with Negative Three Year Average Operating Margins Below the National Average (Financially challenged)	
	Hospitals (73)	Nursing Homes (291)*
Debt to Capitalization Ratio (Total Long Term Liabilities/(Total Assets + Total Long Term Liabilities))	44%	27%
Age of Physical Plant	13 years	15 years
Medicaid Utilization	30%	76%

*65% of such NHs have 2012 capital per diems that are below the statewide average capital per diem of \$20.00
 160 of the 291 NH's will benefit from the new pricing methodology





Medicaid Capital Reimbursement in a Managed Care Environment

- Managed care plans and facilities negotiate payment rates.
- DOH creates FFS rates as benchmarks.
- DOH has asked CMS for authorization to carve out capital from managed care payments to nursing homes. If authority is granted, capital reimbursement will continue to be paid as a cost-based pass-through on a FFS basis.



Financial Monitoring Tools



- DOH is creating a tool to assess hospital and Nursing Home financial status and importance to community access.
- Methodology ranks facilities based on deviation from the Regional and Statewide means.
- Uses:
 - Waiver funding
 - Alert system for financially troubled facilities
 - CON reviews



Financial Monitoring Tools: Financial Metrics



- Profit Margin Metric
- Cash on Hand Metric
- Capital Structure Metrics (Long Term Debt to Assets, etc.)



Financial Review Options



- Focus financial review resources on weaker hospitals; maintain current processes for nursing homes.
- Assessment of enterprise/system performance and impact; not just project.
- Flexibility with debt structures for high performing hospitals.

Thank You

