

3rd Annual Certificate of Need Seminar
FINANCE REVIEWS- 2010



Michigan Department
of Community Health



Presentation Summary

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Finance Reviews – General Overview

- MCL 333.22225(2)(b)
- Finance Forms
 - ✓ Non-substantive Reviews
 - ✓ Substantive/Comparative Reviews
 - ✓ Amendments
- Required Documents
- Key Points
- RS Means Cost Calculation
- Future Direction for Finance Reviews
 - ✓ Finance Administrative Rules Draft
 - ✓ Electronic Finance Report
- Bond and HELP Loan Reviews

Finance Review in Public Health Code

MCL 333.22225(2)(b)

“...in order for an application to be approved under this part, an applicant shall also demonstrate to the reasonable satisfaction of the department all of the following:

- (b) With respect to the **financial aspects of the proposed project**, that each of the following is met:
- (i) The capital costs of the proposed project will result in the least costly total annual operating costs.
 - (ii) Funds are available to meet the capital and operating needs of the proposed project.
 - (iii) The proposed project utilizes the least costly method of financing, in light of available alternatives. Ex. Unrestricted cash is the least costly method of financing.
 - (iv) In the case of a construction project, the applicant stipulates that the applicant will competitively bid capital expenditures among qualified contractors or alternatively, the applicant is proposing an alternative to competitive bidding that will achieve substantially the same results as competitive bidding.

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Finance Review continued...

Finance Forms

Finance forms based on type of review:

- Non-Substantive
 - ✓ CON-110-F Finance Components
 - ✓ CON-110-D Acquire, Replace or Relocate Equipment
- Substantive/Comparatives
 - ✓ CON-300 Project Description
 - ✓ CON-1100 General Financing Questions
 - ✓ CON-1110, 1114 & 1118 Revenue & Expense Reports
- Amendments
 - ✓ CON-144 Amendment- Must include amended project description
 - ✓ Required for increased cost, change in vendor, change in source of fund

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Finance Review continued...

Required Documents

Information that will help in your financial review...

- Audited financial statements or the un-audited documents below
 - ✓ Balance sheet
 - ✓ Income statement
 - ✓ Cash flow statement
 - ✓ Notes to the financial statements
 - ✓ Bank statement- within 6 months
- Signed and dated vendor quotes within 6 months
- Lease and purchase agreements
- Other documentation
 - ✓ Pledge/gift letters (must be detailed and already committed)
 - ✓ Loan and bond letters

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Finance Review continued...

Key Points to remember...

- Information must be consistent across forms
- Project description should be detailed – e.g., provide detailed description of physical plant (number of floors used in RS Means calculation)
- Project costs should match project description – e.g., project description includes renovation of existing space but no renovation costs are listed
- New construction and renovation square footage should be listed and consistent across forms

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Finance Review continued...

Key Points to remember...

- Make sure total Project Costs and total Source of Funds equal
- Lease and purchase agreements terms should be consistent with Project Costs listed – Department will calculate project costs using documents to verify line item costs
- CON is valid only for terms of lease agreement accounted for in project cost – e.g., lease is for 10 years with two 5-year renewals, but funding only listed for 10 years – CON is only valid for 10 years
- Covered clinical equipment should not be listed as fixed or moveable equipment

Finance Review continued...

Finance Forms & Information

The screenshot shows the Michigan Department of Community Health website in a Microsoft Internet Explorer browser window. The page title is "MICH - Certificate of Need". The main content area is titled "Essential Links" and contains several sections:

- Advisories:** Get your registration information for the 2008 CON Program Seminar. Includes links for "CON Online Application System" (with sub-points: Register with State of Michigan Single Sign-on, Subscribe to CON COE-Service as 'Applicant' or 'Guest'), "DCH-CON ListServ", and "Contact Us".
- Commission Links:** Meetings, Minutes, and Audio Transcripts; Commission Overview and Members; Standard Advisory Committees (SAC); New Medical Technology Advisory Committee (NEMTAC); Resource Documents.
- Common Links:** Standards Related Documents; Administrative Rules; Part 201; Part 202; Quick Find Index; FOIA Policy; Disclaimer.
- Program Links:** Annual Survey; Electronic Forms; File a CON Application; Financial Review Information; 2008 Program Brochure; Frequently Asked Questions.
- Report Links:** Activity Reports.

Navigation elements include a search bar, "Departments/Agencies", "Online Services", and "Surveys" on the right. A "Michigan.gov" logo is at the top right. The browser address bar shows "http://www.michigan.gov/mich/1,1607,7-132-2945_5106--00.html".

[CON 1100](#)

[CON Homepage](#)

[CON-1001](#)

[CON-1110](#)

Forms link

Information

Finance Review continued...

2010 RS Means Calculation

Project Location	Zip Codes	Location Factor	Hospital 2-3 Story	Hospital 4-8 Story	Med Offc 1 Story	Med Offc 2 Story
Ann Arbor	481	0.98	399.01	394.06	199.77	272.10
Battle Creek	490	0.92	374.58	369.93	187.54	255.44
Bay City	487	0.92	374.58	369.93	187.54	255.44
Detroit	482	1.03	419.36	414.16	209.97	285.98
Flint	485-485	0.97	394.94	390.04	197.73	269.32
Gaylord	497	0.84	342.01	337.76	171.23	233.23

Max cost per sq. Ft. —→ 407.15 402.10 203.85 277.65

CONTINGENCIES: - Must be 12% or less of the total of the following items

New Construction
 Renovations & Remodeling
 Fixed Equipment
 Architect/Engineering Fees

Architect/Engineering Fees: - Must be 13% or less of the total of the following items

New Construction
 Renovations & Remodeling
 Fixed Equipment

Future Direction for Finance Reviews

- Administrative Rules for Finance Reviews
- Electronic Finance Report in E-serve

Draft CON Administrative Rules

Key Points for Finance Reviews

R 325.9210 Finance review procedures

- Audited financial statements for existing providers that includes balance sheet, income statement, cash flow statement, and notes to the financial statements
- Evidence of secured capital funding for new providers
- Signed vendor quote dated within six months of application submission for applications involving medical equipment
- All applicable lease and purchase agreements
- Designated funds must specify what type of funds are used (e.g., cash, bond, etc.)

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Proposed Finance Section continued...

- The market value for any asset must be verified by an unrelated party
- An applicant utilizing future operations (e.g. capital operating lease) as a source of funds must demonstrate the following:
 - ✓ current bank or financial institution statement or balance and dated within 30 days of submission of the application,
 - ✓ third party verification of a bank loan, HELP loan, or other equivalent source of funding.

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Proposed Finance Section continued...

- The department's finance review must be conducted using the completed application and any other information the department considers relevant to the decision and under all applicable provisions in the certificate of need review standards and the code, including information which becomes available or developments which occur after the date an application is deemed complete.
- This rule does not limit the department's authority to consider all available financial information relevant to the department's review of an application.

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Bond and HELP Loan Reviews

- State law requires Michigan Finance Authority (MFA) to assure any bond item has CON approval, where applicable, prior to issuance of any bond or HELP loan request.
- Eligible borrowers and items determined by MFA
- CON review is only to determine if a CON was required for the line items listed in the bond request.
 - ✓ If a line item does require a CON, then a review is done to determine if a CON was granted and, if so, was bond financing used as a Source of Funds.
 - ✓ If bond financing was not identified as a Source of Funds, then the project must be amended and approved prior to issuance of any bond waiver letter or the project must be 100% complete using the funding source as described in the approval letter.

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Bond and HELP Loan Reviews continued...

- Requests should be submitted in a timely manner to allow for Department review. At a minimum, we request at least 30 days to review bond/HELP loan requests.
- Requests should be provided in the following format to assure expedited review:
 - ✓ List individual line items by facility, clinical areas, non-clinical areas, equipment only and year project was done
 - ✓ Also provide address of each facility
 - ✓ Provide CON No. where applicable
- Review of capital expenditure projects only apply to licensed health facilities (hospitals, nursing homes, psych hospitals, surgery centers)

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Sample Waiver Letter

This is in response to your request dated October 1, 2009, for capital expenditures totaling \$4,000,000 for Hospital System A, the corporate parent of Hospital A (\$1,000,000), Hospital – B (\$2,000,000), Hospital C (\$1,000,000), and the need for Certificate of Need (CON) review/approval. Based on the information, as submitted, it appears that the items:

- ✓ do not fall under the Department's definition of "covered capital expenditure;"
- ✓ fall below the covered capital expenditure thresholds for clinical service areas, of a single project;
- ✓ do not meet the definition of initiation, replacement, or expansion of a "covered clinical service";
- ✓ already have Certificate of Need approval listing bond financing or HELP loan as a source of funds; and/or
- ✓ the location does not meet the definition of a "health facility" as defined under Part 222 of P.A. 368 of 1978, as amended.

Therefore, none of the items requires further Certificate of Need review and approval.

This waiver is not to be construed as an approval from Health Facilities Evaluation Section or Radiation Safety Section. The applicant is required to contact the Michigan Department of Community Health, Bureau of Health Systems, Division of Health Facilities and Services at (517) 241-3408 or Radiation Safety Section at (517) 241-1989 prior to proceeding with the project to determine if plan review, issuance of a construction permit, and/or an opening survey is required.

A change in the scope of the project (s), or other information not provided as part of the current package, may require further review. In either of these events, it is the requestor's responsibility to seek review and CON approval where necessary.

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Michigan Finance Authority

- Created by Executive Order in May 2010
- Combined the power and duties of several authorities including the former Michigan State Hospital Finance Authority
- Operated by a Board of Directors
- Housed within the Department of Treasury
- Offers low cost competitive financing

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Michigan Finance Authority

The MFA provides financing for a broad range of borrowers with programs for:

- ✓ Municipalities
- ✓ Public, private, and charter schools
- ✓ Healthcare providers
- ✓ Private non-profit colleges and universities
- ✓ Loans to college students

Other 'as needed' bonding functions of the MFA include:

- ✓ Tobacco revenue securitization
- ✓ Private non-profit K-12 school facilities
- ✓ Underground storage tank financing assistance
- ✓ State land bank
- ✓ Forest finance

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MFA Staff Resources

- The Bureau of Bond Finance coordinates the preparation of transactions to be considered by the MFA while ensuring program requirements are met and borrowers receive the lowest cost of funds.
- Finance team members:
 - ✓ Assist borrowers in selecting a financing plan
 - ✓ Coordinate application process
 - ✓ Perform financial reviews
 - ✓ Work with the Attorney General's office, Michigan Department of Community Health, bond counsel, underwriters, financial advisors, and bond trustees
 - ✓ Review documents
 - ✓ Ensure sufficiency of pledged revenues and loan security
- The Bureau of Bond Finance also provides ongoing program and borrower support.

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Michigan Finance Authority Health Care Programs

- Governed by the Hospital Finance Authority Act of 1969
- Purpose is to lend money to non-profit hospitals and health care providers
- Provide access to capital markets at competitive interest rates
- Issue bonds and loan the proceeds to healthcare institutions

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Michigan Finance Authority Healthcare Programs

- Eligible borrowers include:
 - ✓ Private, non-profit hospitals
 - ✓ Acute care, teaching, specialty, rehabilitation, and psychiatric hospitals
 - ✓ Healthcare clinics including federally qualified health centers
 - ✓ Diagnostic facilities
 - ✓ Critical access hospitals
 - ✓ Multi-site health systems
 - ✓ Public hospitals (City, County, or Authority) – as of October 6, 2008 per P.A. 294 of 2008

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Certificate of Need

- All healthcare projects financed through MFA must either have a Certificate of Need (CON) or a waiver from the Michigan Department of Community Health stating a CON is not required for the project.
- Under P.A. 38 of 1969, the MFA cannot grant final loan approval until a proposed project has received either a CON or waiver.
- The MFA provides access to capital and relies on the Department of Community Health's CON process for detailed project review and approval.
- Intent to use bond financing for project costs must be included in the CON.

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Use of Bond Proceeds

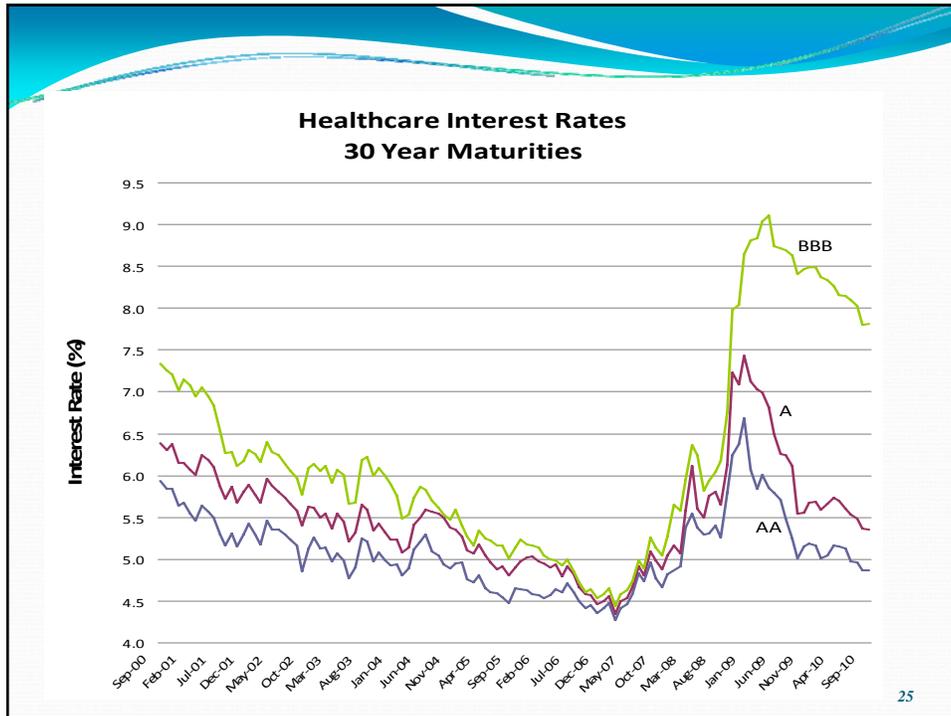
- Acquisition of property, plant, equipment
- Refinancing or refunding of indebtedness
- Project costs
- Costs of Issuance
- Debt Service Reserve Fund
- Capitalized Interest

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Rating Agency Credit Scale – Long Term Bonds

	Moody's	S&P	Fitch	Description
Investment Grade	Aaa	AAA	AAA	Prime, Maximum Safety
	Aa1	AA+	AA+	High Grade, High Quality
	Aa2	AA	AA	
	Aa3	AA-	AA-	
	A1	A+	A+	Upper Medium Grade
	A2	A	A	
	A3	A-	A-	
	Baa1	BBB+	BBB+	Lower Medium Grade
	Baa2	BBB	BBB	
Baa3	BBB-	BBB-		
Non Investment Grade	Ba1	BB+	BB+	Speculative Elements
	Ba2	BB	BB	Speculative
	Ba3	BB-	BB-	
	B1	B+	B+	
	B2	B	B	
	B3	B-	B-	
	Caa1	CCC+	CCC	Substantial Risk
	Caa2	CCC	-	In Poor Standing
	Caa3	CCC-	-	
	Ca	-	-	
	C	-	-	May be in Default
	-	-	DDD	Default
	-	-	DD	
-	D	D		

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Questions & Comments

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