

CERTIFICATE OF NEED GENERAL FINANCING QUESTIONS

Michigan Department of Health & Human Services

CERTIFICATE OF NEED

South Grand Building
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<p>AUTHORITY: PA 368 of 1978, as amended COMPLETION: Is Voluntary, but is required to obtain a Certificate of Need. If NOT completed, a Certificate of Need will NOT be issued.</p>	<p>The Department of Health & Human Services is an equal opportunity employer, services and programs provider.</p>
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GENERAL INFORMATION:

1. Identify the reporting year: <input type="checkbox"/> CALENDAR <input type="checkbox"/> FISCAL	From:	To:
2. In the case of a construction or renovation project, will this project result in a temporary loss of ancillary services or beds during the construction period? <input type="checkbox"/> NO (<i>skip to Item 3</i>) <input type="checkbox"/> YES (<i>If yes, complete Items 2a – 2d</i>)		
a. Department(s) affected		
b. The anticipated duration of the loss		
c. The percent of normal capacity lost		
d. The amount of lost revenue		
3. If the project involves a lease, provide justification for leasing rather than purchasing.		
4. Has additional debt (long-term or short-term) been incurred since the fiscal period for which financial statements were submitted? <input type="checkbox"/> NO (<i>skip to Item 5</i>) <input type="checkbox"/> YES (<i>If yes, complete Item 4a</i>)		
a. If answer to Item 4 is " YES ," provide the term, rate of interest, and payoff period for each loan that was not accounted for in the audited financial statements requested in Section 13.00.		

FINANCIAL CRITERIA INFORMATION:

5. With respect to the financial aspects of the proposed (i.e., chosen) project, please provide the complete basis for stating that each of the following is met:

a. The capital costs of the proposed project will result in the least costly total annual operating costs [Section 22225(2)(b)(i)]. Include at least the following:

i. Alternatives considered

ii. Total capital costs of each alternative

iii. A statement of assumptions for each alternative considered

iv. Explain and give complete details and reasons as to why you believe your proposed project is the least costly project in terms of capital costs and available alternatives.

FINANCIAL CRITERIA INFORMATION: (Continued)

b. Funds are available to meet the capital and operating needs of the proposed project [Section 22225(2)(b)(ii)].

i. That funds are available to meet the capital needs of the proposed project. Include at least the following:

(a) Audited or unaudited financial statement

(b) **Note:** Nursing home and new health facilities must provide proof of cash reserves and availability of funding. This may be in the form of a letter from a bank stating cash reserves are available or a letter from a lender stating they would be interested in funding this project if a Certificate of Need is approved.

ii. That funds are available to meet the operating needs of the proposed project. Include at least the following:

(a) That the project will "break even" within a three-year period. Provide all assumptions. Information provided in response to this question must be consistent with the information provided on the revenue and expense statement forms.

(b) If projections of revenue and expense do not show sufficient operating revenue to cover operating expenses the applicant **must** state where the funds will come from to cover operating losses.

FINANCIAL CRITERIA INFORMATION: (Continued)

c. The proposed project utilizes the least costly method of financing, in light of available alternatives [Section 22225(2)(b)(iii)].*

i. A statement of assumptions concerning the availability of various funding sources and projected terms of each loan for each financing alternative considered.

Alternatives:

(a) Financial Alternative Chosen:

(b) Financial Alternative Rejected:

* If cash is the funding source, the financing method cannot be amended after a final CON decision has been issued. If cash is NOT the funding source, explain why cash is not an available alternative.

d. Explain and give complete rationale and assumptions considered and an analysis of each alternative, including at least the following:

i (a) Financing and related debt issue costs.

(b) Earnings on unexpended loan proceeds

(c) Cash outflow required for debt service

- d. 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 [Section 22225(2)(b)(iv)].

Note: A construction project includes projects involving both new construction and renovation/remodeling.

If Competitively Bid:

If the project will be competitively bid, please complete the information below, sign, and return this form.

Pursuant to Section 22225(2)(b)(v):		

(Legal Applicant/Entity)		
stipulates that the applicant will competitively bid the covered capital expenditure, related to the proposed construction project among qualified contractors, or alternatively, that evidence has been presented in CON Application Number _____ that an alternative to competitive bidding will result in the least costly method for implementing the project has been chosen.		
Signature of Authorized Agent	Name (Printed or Typed)	Date

If NOT Competitively Bid:

- If an alternative to competitive bidding has NOT been chosen, the applicant must present evidence satisfactory to the Department that the alternative will result in the least costly method of implementing the project. Please explain and give complete details and reasons.

PROJECT COSTS DEFINITIONS

"Capital expenditure" means expenditure for a single project, including cost of construction, engineering, and equipment that under generally accepted accounting principles is not properly chargeable as an expense of operation. Capital expenditure includes a lease or comparable arrangement by or on behalf of a health facility to obtain a health facility, licensed part of a health facility (i.e., a licensed Hospital Long-Term-Care Unit or licensed Psychiatric Unit), or equipment for a health facility, if the actual purchase of a health facility, licensed part of a health facility, or equipment for a health facility would have been considered a capital expenditure under this part. Capital expenditure includes the cost of studies, surveys, designs, plans, working drawings, specifications, and other activities essential to the acquisition, improvement, expansion, addition, conversion, modernization, new construction, or replacement of physical plant and equipment.

NOTIFICATION TO APPLICANT - LEASE

Operating lease(s) will be valid for the term of the lease(s) only (including renewable options) and the applicant will be required to file another certificate of need to renew a lease(s.) In the case of Capital equipment lease(s) in which the applicant purchases the equipment, the certificate of need is valid until the applicant replaces the equipment. However, if the applicant does not purchase the equipment at the end of the original lease(s) and instead renews the lease(s), a new CON will be required.

INSTRUCTIONS FOR COMPLETION OF PROJECTS COSTS

1. Complete each line item as shown on the form. For those items not applicable enter 0 or N/A.
2. All estimated costs including the effects of inflation must be based on the projected midpoint of construction.
3. New Construction and Renovation & Remodeling must be broken down into clinical and non-clinical costs and recorded under the appropriate line on page 9 of this form. In computing the cost per square feet in the development of project cost section on page 10, please combine the clinical and non-clinical costs.
4. "Fixed equipment" means equipment that is affixed to and constitutes a structural component of a health facility, including, but not limited to, mechanical or electrical systems, elevators, generators, pumps, boilers, and refrigeration equipment. These costs must be included in new construction and/or remodeling/renovation costs. Those items determined not to be part of new construction or renovation will be considered depreciable fixed equipment and must be identified in the line for Fixed Equipment on Page 9 of this form.
5. Both Capital and Operating Leases must be listed as an asset and liability based on the definition of Capital Expenditure provided under CON Law. The lease cost is calculated by taking the annual lease payment multiplied by the number of years of the lease including any renewal options. Use the base rental rate, ignoring any additional rent increases.
6. Do not offset interest during construction with interest income during construction. Net interest during construction must be included on Page 17 of this form, the Depreciation and Amortization Schedule.
7. If you are unable to provide a detailed breakdown of financing and related debt issue costs, then provide an estimate as a percentage of total loan amount.
8. The Total Project Costs must equal the Total Sources of Funds on Page 15.
9. Provide assumptions and rationale for each line item. In absence of detailed assumptions, the analysts reviewing the project will make their own assumptions based on data provided in this and other sections of the application.
10. Review data on project costs for computation errors and for conflict with data reported on other forms. For example:
 - a. Do Project Costs and Depreciation and Amortization Schedule on Page 18 agree?
 - b. Do Total Project Costs and Total Sources of Funds agree?
 - c. During preparation of a Certificate of Need application, figures and assumptions are sometimes revised. If you have made such revisions, have these changes been entered on all affected forms?
11. For all projects involving initiation or replacement of cardiac catheterization laboratories, CT scanners, Lithotripsy Units, MRI scanners, MRT units, and PET scanners, attach a copy of a vendor signed and dated vendor quotation that was issued within the past six (6) months.

PROJECT COSTS (Use Whole Dollars Only)		Comments
1. New Construction - Clinical ([] sq. ft.)	\$ []	[]
2. New Construction – Non Clinical ([] sq. ft.)	\$ []	[]
3. Renovation and Remodeling - Clinical ([] sq. ft.)	\$ []	[]
4. Renovation and Remodeling – Non Clinical ([] sq. ft.)	\$ []	[]
5. Architect/Engineering Fees	\$ []	[]
6. Contingencies	\$ []	[]
7. Feasibility Study/Surveys	\$ []	[]
8. Site Preparation	\$ []	[]
9. Fixed Medical Equipment	\$ []	[]
10. Fixed Non-Medical Equipment	\$ []	[]
11. Covered Clinical Equip (PET, MRI, etc.) – Lease term (if applicable) []	\$ []	[]
12. Movable Equipment (Medical and Non-Medical)	\$ []	[]
13. Fees (consulting, legal, banking, etc.)	\$ []	[]
14. Space Lease Cost – Term:	\$ []	[]
15. Land Purchase	\$ []	[]
16. Building Purchase	\$ []	[]
17. Interest During Construction	\$ []	[]
18. Other (explain): []	\$ []	[]
19. Other (explain): []	\$ []	[]
20. Other (explain): []	\$ []	[]
21. TOTAL PROJECT COSTS	\$ []	

Note: Submit copies of lease agreements, purchase agreements, vendor quotes, etc.

COST PER SQUARE FOOT CALCULATIONS:

New Construction: (\$ [] / [] sq. ft. = \$ [] per sq. ft.)

Renovation & Remodeling: (\$ [] / [] sq. ft. = \$ [] per sq. ft.)

Note: Please combine Clinical & Non-Clinical Costs and areas in calculation.

DEVELOPMENT OF PROJECT COSTS

Please provide assumptions and rationale used for project cost line item(s) as needed in developing the cost estimates.

Attach architect estimate if available or documentation detailing the method of estimating construction and renovation costs. The MDHHS is using the "Means Square Foot Costs" as a guide for cost/sq. ft. for labor and materials. The Department **may** approve costs above the "Means Square Foot Costs" only if the applicant can substantiate, with creditable documentation acceptable to the Department, factors that increase cost such as substitution of building materials or systems for those used in the Means Square Foot Costs model; custom designed finishes, fixtures, and/or equipment; special structural qualities (e.g., allowance for earthquake, future expansion, high winds, long spans, unusual shape); special foundations and substructures to compensate for unusual soil conditions; an abnormal shortage of labor or materials; isolated building site or rough terrain that would affect transportation of personnel, material, or equipment; or unusual climatic conditions during the construction process. Any final project costs over the maximum will be disallowed.

SOURCES OF FUNDS (Use Whole Dollars Only)	
1. Unrestricted Cash	\$ <input type="text"/>
2. Designated Funds	\$ <input type="text"/>
3. Restricted Funds	\$ <input type="text"/>
4. Mortgages/Loans (FHA, HUD, etc.)	\$ <input type="text"/>
5. Bond Issue	\$ <input type="text"/>
6. Other Funds (i.e., grants, etc.)	\$ <input type="text"/>
7. Capital/Operating Lease	\$ <input type="text"/>
8. Gifts, Bequests, Donations, and Pledges	\$ <input type="text"/>
9. Interest Income During Construction	\$ <input type="text"/>
10. Other (explain): <input type="text"/>	\$ <input type="text"/>
11. Other (explain): <input type="text"/>	\$ <input type="text"/>
12. Other (explain): <input type="text"/>	\$ <input type="text"/>
13. TOTAL SOURCES OF FUNDS	\$ <input type="text"/>

Note: Submit copies of financial statements, donation reports, etc.

NOTE: CHANGES FROM THE ABOVE STATED SOURCES OF FUNDS REQUIRE MICHIGAN DEPARTMENT OF HEALTH & HUMAN SERVICES, HEALTH FACILITIES SECTION, APPROVAL.

1. Attach the following information:
 - i. documentation detailing progress of pledges and
 - ii. letter detailing donation/pledge amount, on company letterhead and signed by an authorized representative of the applicant organization.
2. Attach documentation detailing the method of calculation, including
 - a) assumed interest rate;
 - b) initial amount available for investment;
 - c) average amount outstanding or anticipated drawdown schedule; and
 - d) earnings on reserve account, if applicable.
3. Attach the following documents as applicable to this application:
 - a) copy of proposed Purchase/Sale/Transfer Agreement,
 - b) copy of proposed Lease Agreement, and/or
 - c) copy of Valid Vendor Quotation.
4. "Total Sources of Funds" must equal "Total Project Costs" (from Page 9).

LEASE ARRANGEMENTS

Does this project involve any capital or operating lease(s)?	
<input type="checkbox"/> YES (complete this page) <input type="checkbox"/> NO (skip to Page 10)	
Capital Leases	
1. Please describe the property.	
2. Term of the lease	3. End of term fair market value \$
4. Useful life	5. Annual payment \$
6. Capitalized value \$	7. Purchase price / beginning of term fair market value \$
8. Stated or implicit interest rate %	
Operating Leases	
9. Please describe the property.	
10. Term of the lease	11. Annual payment \$
12. Purchase price / beginning of term fair market value \$	

AUDITED FINANCIAL STATEMENTS

Attach a copy of audited financial statements. If audited financial statements are not available, provide unaudited current financial statements including a balance sheet, income statement, statement of cash flows and any notes to accompany the financial statements. New entities must provide a current balance sheet, a projected income statement for the first year of operations, a projected statement of cash flows for the first year of operations, and any notes to accompany the financial statements.

DEPRECIATION AND AMORTIZATION SCHEDULE

1. Report depreciation and amortization for the first full year of operation of this project. Only those costs of the proposed project that are capitalized using generally accepted accounting principles must be reported. In #4 below, identify any project costs that will not be depreciated or amortized (e.g., land purchase.)

2. When making entries in the cost column, enter each item separately as provided for on the form. Categories listed that have more than one item to report must be detailed in the space provided for "other" entries.

2. If net interest is reported, explain how it was computed.

3. Please use the straight-line method of depreciation only.

(Use Whole Dollars Only)

First Year:	Depreciation Method	Cost of Assets	Useful Life	Annual Amount of Depreciation.
Building to be Purchased		\$		\$
New Construction Costs		\$		\$
Renovation/Remodeling		\$		\$
Fixed Equipment		\$		\$
Movable Equipment		\$		\$
Net Interest During Construction		\$		\$
Financing and Other Related Debt Costs		\$		\$
Other (<i>Specify</i>)		\$		\$
Other (<i>Specify</i>)		\$		\$
Other (<i>Specify</i>)		\$		\$
Total Capitalized Costs		\$		\$

4. Enter information for which additional space is required here. *(Use additional pages as needed.)*
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