

**DEPARTMENT OF HEALTH CARE ACCESS AND INFORMATION  
CAL-MORTGAGE LOAN INSURANCE PROGRAM**

**EXHIBIT A  
FINANCIAL FEASIBILITY STUDY GUIDELINES AND CERTIFICATION**

A financial feasibility study demonstrates, among other things, that loan proceeds, together with cash flow of the facility, are sufficient to complete the project and to cover annual debt service requirements.

A financial feasibility study consists of historical and prospective financial statements and other pertinent information that present, to the best of the Borrower's (Applicant's) knowledge and belief, a facility's expected financial position, results of operations, and changes in financial position. A financial forecast is based on the Applicant's assumptions reflecting conditions it expects to exist and the course of action it expects to take.

In addition to management's expected outcome, the feasibility study should include sensitivity analyses as appropriate or as requested by staff (e.g., elimination of Medicare capital pass through, changing market interest rates, variance in utilization, reduction in grants or contracts, etc.).

The fundamental purpose of a financial feasibility study is to assist staff in evaluating an Applicant's ability to repay borrowed funds. Specifically, it compares the relative size of positive cash flow to principal and interest payments on the proposed debt.

Please note that all information and documentation submitted are considered public records under the California Public Records Act and are open to inspection and copying by anyone.

All financial feasibility studies prepared for the application are to be incorporated into the Official Statement or Private Offering Memorandum either by reference or in their entirety. If the study is only to be referenced, the name of the preparing feasibility firm and the date of the study are to be cited.

The feasibility study must be prepared by a firm with expertise in health facility financial consulting. The firm should have sufficient resources and expertise to perform the study and render an opinion. While Health and Safety Code Section 129095 allows the Applicant to choose its consultants, in order to avoid any potential conflict of interest, the feasibility study should be prepared by someone other than the corporation's auditing firm of record.

Failure to follow these guidelines may adversely affect the recommendation for approval of loan insurance. Furthermore, submitting a financial feasibility study following these guidelines does not guarantee approval of loan insurance.

Tables of data, where appropriate, should be expressed in actual amounts and percentage of change.

*The financial feasibility study is to describe the assumptions underlying the financial analyses, in addition to analysis of historical and forecasted financial statements.*

## **A. Instructions for Assumptions and Rationale:**

### **Background and Description:**

1. History and background of the Applicant and the onsite management company operating the facility, if any.
2. Existing Facility: If the project is a renovation or expansion, provide an overview of the size, services provided, occupancy rate, and service area of the existing facility; if the Applicant owns and/or operates other health facilities, briefly describe them as well.
3. New Facility/Project: Describe the project components, including the physical facility, size, services provided, service area (if different from existing facility), expected utilization of services added by the project, and sources of new revenue for the project.

### **Project Costs and Financing:**

4. Provide a detailed sources and use of equity and loan proceeds.
5. The construction cost "detail" should be provided by the design architect, a cost estimator, or the general contractor who will perform or manage the actual construction. Validation of construction costs by an independent cost estimator is important to the credibility of the project budget. The construction cost should include a contingency allowance. (Staff may require an additional contingency based on the facts and circumstances of the project.)
6. Provide a conceptual design and accompanying narrative describing how the proposed square footage is appropriate to current and mid-range future space needs of the facility. For replacement projects, describe why the existing site is inadequate and how the replacement facility will alleviate the problem.
7. Provide a square footage cost for the space. How does this project's costs compare to costs with other similar types of facilities in the area. Describe any major cost variations.

### **Historical and Forecast of Facility Utilization:**

8. The historical utilization should be shown for the facility overall and for the specific services involved with the project. For example, if the project includes increasing Ob-Gyn beds, the historical and projected occupancy rates should be shown.
9. If the Applicant is a clinic, provide historical and projected encounters, as well as yearly encounter documentation for each physician and mid-level medical full-time employee (FTE) equivalent.
10. The Applicant should explicitly state how the forecast utilization will be achieved. It is not sufficient to assume future utilization will equal historical utilization. This section should contain demographic data, patient/payor mix, average length of stay, and other information sufficient to justify the utilization assumptions.
11. Document the historical record and current plan for provider recruitment and retention (e.g., Kaiser, county health departments, medical groups, etc.).

**Historical and Forecast of Revenues:**

12. Provide forecast revenue data for the facility overall, as well as the new service(s) added by the project. The forecast should be supported by a discussion of how the revenue items were determined, including assumed rates of increase in charges and contractual allowances. Changes in revenue due to cost containment, utilization trends, and payor mix should be explicitly addressed, as well as the impact of existing contractual relationships, as described in the following "Effects of Contractual Allowance, Discounts, and Capitation" section.
13. Delineate the patient revenues by source (including Medicare, Medi-Cal, county probation, regional centers for the developmentally disabled, residential care, personal care, accommodation fees, etc.) and percentage of total patients/residents.
14. If the clinic is a Federally Qualified Health Center (FQHC), or an FQHC Look-Alike, identify the current and prior prospective payment rate approved by Medi-Cal.
15. Delineate all grants by source. If the feasibility study assumes any inflation rate for grant income per year, explain.
16. Identify and age accounts receivable by source.
17. If contributions are equivalent to or higher than ten percent of revenue, provide detailed historical and forecast contribution data. The forecast should be supported by a discussion of how the contribution amount(s) were determined and identify source(s).

**Historical and Forecast of Expenses:**

18. Provide detailed historical and forecast expense data, and identify the expenses associated with the service(s) added by the project. The presentation should include a breakdown of FTE's.
19. The forecast should be supported by a discussion of how the expense items were determined, including assumed rates of inflation for labor, utilities, supplies, etc., and any changes that will occur from different methods of operation.

**Historical and Forecast of Working Capital Requirements:**

20. Identify the explicit assumptions used to determine working capital requirements. For example, was it calculated as a percentage of operating expenses and revenues? By another method?

**Long-Term Debt and Debt Service Coverage:**

21. Prepare a Debt Service Coverage Schedule with three (3) years' historical and five (5) years' forecasted ratios.

**Effects of Contractual Allowance, Discounts, and Capitation:**

22. Medi-Cal: If you are a contracting hospital, provide the current term of your contract and allowed daily rate of reimbursement; if you are a contractor to a Medi-Cal hospital, describe the nature of the contract.
23. Medicare: Describe the basis of reimbursement under Medicare; if you are providing Medicare as a health maintenance organization (HMO) or a comprehensive medical plan (CMP), please describe.
24. Provide the estimate of total Medicare patient days and revenue assumed in the revenue projections over the forecast period. Compare this to historical expenses.

26. Third-Party Payors: Identify insurance companies or employers with whom you have preferred provider organization (PPO) arrangements, or HMO, or independent practice association (IPA) contracts. Describe the terms of reimbursement under these contracts or the discount percentage and the percentage of revenue each contract generates. Also, if the facility, alone or with others, offers a PPO directly to employers, describe the nature of that arrangement.
27. Provide the estimate of total patient days and revenue assumed in the revenue projects for each type of contract or arrangement over the forecast period.

**Per Diem Revenue by Historical and Forecast Years:**

28. Include a table of per diem revenue by historical and forecast years. The patient days used in the calculation should be the same as the following section. Calculate the percentage increase from year-to-year. Explain the differences between historical and forecast rates of increase, and any deviation between future increases and assumed revenue increases.

**Per Diem Expense by Historical and Forecast Years:**

29. Include a table of per diem expense by historical and forecast years. Provide the total patient days (actual and assumed) used to calculate per diem expense. Calculate the percentage increase from year-to-year (historical and forecast). Explain any difference between historical and forecast rates of increase, as well as any deviation between future increases and assumed expense inflation.

**Routine Cost Per Diem and Medicare Limit Per Diem for Historical and Forecast Years:**

30. For skilled nursing facilities (SNF), include a table of routine cost per diem and Medicare limit per diem for historical and forecast years. This should be completed if it receives Medicare reimbursement by methods other than diagnosis-related groups (DRG's) or CMP/HMO contracts.

**Lease vs. Purchase Analysis:**

31. Prepare a schedule of continuing to lease the facility versus purchasing the facility.

**Refinancing Project:**

32. If the Applicant is refinancing existing debt, identify the amount of savings by year as well as a percent of the present value savings.

**B. Instructions for Historical & Forecast Financial Statement:**

1. Provide three (3) years' historical and five (5) years' proforma statements for the balance sheet, income and expense statement, cash flow statement, and statement of changes in fund balance.
2. The balance sheet should reflect any reserves that are required (e.g., debt service, insurance, refund, charity, fill-up, capital improvements, etc.).
3. For the Income & Expense Statement, also include the percent of changes over the preceding year.
4. For all historical and forecast years, show the following ratios and data:
  - a. Current Ratio
  - b. Days in Patient Accounts Receivable
  - c. Days Cash on Hand
  - d. Equity Ratio

- e. Asset to Long Term Debt Ratio
- f. Operating Margin
- g. Days Payable
- h. Debt Service Coverage

**C. Demand Analysis:**

1. Provide a strengths, weaknesses, opportunities, threats (SWOT) analysis summarizing the project's strengths, weaknesses, opportunities, and threats.
2. Describe how the service/market area was determined.
3. Describe the demographic and economic factors of the service/market area relating to income, housing, employment, transportation, and population.
4. Identify any existing or proposed competing facilities within the service/market area. Describe and compare the market share, size, historical utilization, distance from the facility and fee structure (including entrance fees and monthly service fees, if applicable).
5. Identify Cal-Mortgage insured facilities providing competing services in the primary and secondary service areas.
6. In forecasting utilization for multi-level continuing care retirement communities/residential care facilities for the elderly (CCRC/RCFE) facilities, describe the marketing plans including sales person's method of compensation and any health or asset screening procedures (if applicable).
7. Provide maps and other relevant documentation, which illustrate that the proposed facility is located in the target population and is in reasonable proximity to referring providers.
8. Describe how the market share and competition will change as a result of the proposed project.

**D. Additional Requirements:**

**Clinics:**

1. Indicate the clinic's linkage with local hospitals and commonly used specialty providers.
2. What are the clinic's hours of operation? Are there plans for Saturday and evening hours? If not, please explain?
3. Describe the clinic's financial system(s) for documenting cost accounting and describe the billing and collection system.

**Multi-Level Health Facility (CCRC/RCFE):**

4. Provide documentation as to how the Applicant intends to meet the financial risks associated with:
  - a. Initial fill-up of the facility.
  - b. Health care costs for short term acute care or rehab SNF care.
  - c. Turnover or expiration within a mature facility.
  - d. Resident asset depletion or charity care.
5. Describe how the facility proposes to cover the cost of health care for residents whose health plan (HMO) will direct them to a different HMO designated SNF for post-operative or convalescent care.

**CERTIFICATION OF FEASIBILITY CONSULTANT**

The undersigned (hereafter "Consultant"), certifies that:

- Consultant was retained by \_\_\_\_\_ (hereafter "Applicant") to prepare a financial feasibility study to be submitted as part of the Applicant's Application to the Cal-Mortgage Loan Insurance Program of the Department of Health Care Access and Information ("Cal-Mortgage");
- Consultant has no affiliation, relationship, or financial interest in the Applicant or any financial advisor, underwriter, or other party connected with the Application or any prospective loan resulting therefrom;
- The fee charged by Consultant for the preparation of the financial feasibility study submitted with the Application, was determined in arm's length negotiation and no portion of that fee represents payment for any other direct or indirect services;
- No part of Consultant's fee is dependent on the issuance of a letter of commitment by Cal-Mortgage, or a closing of a loan to the Applicant;
- The entire fee charged by the Consultant for preparation of the financial feasibility study and any additional scenarios, stress tests, or other work related to such financial feasibility study shall be due and payable whether or not Cal-Mortgage issues a commitment for loan insurance or any loan resulting therefrom closes; and
- No part of Consultant's fee is refundable to any party.

Consultant understands that Cal-Mortgage will rely on the financial feasibility study in granting its commitment for loan insurance. The undersigned certifies under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_

By: \_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Name and Title of Consultant)