Roate, George 12-105 **RECEIVED**

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HEALTH FACILITIES & SERVICES REVIEW BOARD

From: Joseph Van Leer [JVanLeer@Polsinelli.com]
Sent: Tuesday, February 05, 2013 3:04 PM
To: Roate, George
Cc: Kara Friedman
Subject: Metroeast Endoscopic Surgery Center Revision (Proj. No. 12-105)
Attachments: Metroeast Endoscopic Surgery Center CON Revision.pdf

George,

Attached please find a few minor revisions to Metroeast Endoscopic Surgery Center's CON Application. Note that as reflected in the application, the affiliated medical practice already has the endoscopy equipment that will be utilized if the freestanding endoscopy center is established. Assuming the CON permit is granted, the endoscopy equipment will be transferred to the applicant entity. This equipment has a current book value of $64,188. While there was a slight increase in the net book value of that equipment, we have adjusted the consulting and other fees line item to keep the total project cost the same. Also included are projected financial statements and financial viability ratios for the applicant. If you should have any questions, please do not hesitate to call or email. Thanks,

Joe

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Project Costs and Sources of Funds

Complete the following table listing all costs (refer to Part 1120.110) associated with the project. When a project or any component of a project is to be accomplished by lease, donation, gift, or other means, the fair market or dollar value (refer to Part 1130.140) of the component must be included in the estimated project cost. If the project contains non-reviewable components that are not related to the provision of health care, complete the second column of the table below. Note, the use and sources of funds must equal.

Project Costs and Sources of Funds			
USE OF FUNDS	**CLINICAL**	**NONCLINICAL**	**TOTAL**
Preplanning Costs			
Site Survey and Soil Investigation			
Site Preparation			
Off Site Work			
New Construction Contracts			
Modernization Contracts			
Contingencies			
Architectural/Engineering Fees			
Consulting and Other Fees	$47,164		$47,164
Movable or Other Equipment (not in construction contracts)*	$64,188		$64,188
Bond Issuance Expense (project related)			
Net Interest Expense During Construction (project related)			
Fair Market Value of Leased Space or Equipment	$1,002,290		$1,002,290
Other Costs To Be Capitalized			
Acquisition of Building or Other Property (excluding land)			
TOTAL USES OF FUNDS			
SOURCE OF FUNDS			
Cash and Securities	$47,164		$47,164
Pledges			
Gifts and Bequests			
Bond Issues (project related)			
Mortgages			
Leases (fair market value)	$1,002,290		$1,002,290
Governmental Appropriations			
Grants			
Other Funds and Sources (NBV of Existing Equipment)	$64,188		$64,188
TOTAL SOURCES OF FUNDS	**$1,113,642**		**$1,113,642**

NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT-7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

* This reflects the net book value of existing equipment that will be transferred to the Applicant when the project is complete. The net book value figure is low because many items are fully depreciated.

The following Sections DO NOT need to be addressed by the applicants or co-applicants responsible for funding or guaranteeing the funding of the project if the applicant has a bond rating of A- or better from Fitch's or Standard and Poor's rating agencies, or A3 or better from Moody's (the rating shall be affirmed within the latest 18 month period prior to the submittal of the application):

- **Section 1120.120 Availability of Funds – Review Criteria**
- **Section 1120.130 Financial Viability – Review Criteria**
- **Section 1120.140 Economic Feasibility – Review Criteria, subsection (a)**

VIII. - 1120.120 - Availability of Funds

The applicant shall document that financial resources shall be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of sufficient financial resources from the following sources, as applicable: **Indicate the dollar amount to be provided from the following sources:**

$47,164	a) Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to: 1) the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and 2) interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion;
_____	b) Pledges – for anticipated pledges, a summary of the anticipated pledges showing anticipated receipts and discounted value, estimated time table of gross receipts and related fundraising expenses, and a discussion of past fundraising experience.
_____	c) Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts;
$1,002,289 (Lease FMV)	d) Debt – a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including: 1) For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated; 2) For revenue bonds, proof of the feasibility of securing the specified amount and interest rate; 3) For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.; 4) For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment; 5) For any option to lease, a copy of the option, including all terms and conditions.
_____	e) Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent;
_____	f) Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt;
$64,188*	g) All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project.
$1,113,642	**TOTAL FUNDS AVAILABLE**

* This reflects the net book value of existing equipment that will be transferred to the Applicant when the project is complete. The net book value figure is low because many items are fully depreciated.

APPEND DOCUMENTATION AS ATTACHMENT-39, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

IX. 1120.130 - Financial Viability

All the applicants and co-applicants shall be identified, specifying their roles in the project funding or guaranteeing the funding (sole responsibility or shared) and percentage of participation in that funding.

Financial Viability Waiver

The applicant is not required to submit financial viability ratios if:

1. **All of the projects capital expenditures are completely funded through internal sources**
2. **The applicant's current debt financing or projected debt financing is insured or anticipated to be insured by MBIA (Municipal Bond Insurance Association Inc.) or equivalent**
3. **The applicant provides a third party surety bond or performance bond letter of credit from an A rated guarantor.**

See Section 1120.130 Financial Waiver for information to be provided

APPEND DOCUMENTATION AS ATTACHMENT-40, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

The applicant or co-applicant that is responsible for funding or guaranteeing funding of the project shall provide viability ratios for the latest three years for which **audited financial statements are available and for the first full fiscal year at target utilization, but no more than two years following project completion.** When the applicant's facility does not have facility specific financial statements and the facility is a member of a health care system that has combined or consolidated financial statements, the system's viability ratios shall be provided. If the health care system includes one or more hospitals, the system's viability ratios shall be evaluated for conformance with the applicable hospital standards.

Provide Data for Projects Classified as:	Category A or Category B (last three years)			Category B (Projected)
Enter Historical and/or Projected Years:	2010	2011	2012	2014
Current Ratio	N/A*	N/A*	N/A*	10.45
Net Margin Percentage	N/A*	N/A*	N/A*	65%
Percent Debt to Total Capitalization	N/A*	N/A*	N/A*	N/A**
Projected Debt Service Coverage	N/A*	N/A*	N/A*	N/A**
Days Cash on Hand	N/A*	N/A*	N/A*	189
Cushion Ratio	N/A*	N/A*	N/A*	N/A**

Provide the methodology and worksheets utilized in determining the ratios detailing the calculation and applicable line item amounts from the financial statements. Complete a separate table for each co-applicant and provide worksheets for each.

2. Variance

Applicants not in compliance with any of the viability ratios shall document that another organization, public or private, shall assume the legal responsibility to meet the debt obligations should the applicant default.

APPEND DOCUMENTATION AS ATTACHMENT 41, IN NUMERICAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

* The Applicant is a newly-formed entity which has not commenced operations and has no operating history.

** These criteria are inapplicable because the Applicant does not have or anticipate taking on any no long-term debt.

Section I, Identification, General Information, and Certification
Project Costs and Sources of Funds

Project Costs and Sources of Funds			
USE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Consulting and Other Fees	$47,164		$47,164
Net Book Value of Moveable Equipment [1]	$64,188		$64,188
Fair Market Value of Leased Space	$1,002,290		$1,002,290
TOTAL USES OF FUNDS	**$1,113,642**		**$1,113,642**

[1] This reflects the net book value of existing equipment that will be transferred to the Applicant when the project is complete. The net book value figure is low because many items are fully depreciated.

Section I, Identification, General Information, and Certification
Cost Space Requirements

		Gross Square Feet		Amount of Proposed Total Gross Square Feet That Is:			
Dept. / Area	Cost	Existing	Proposed	New Const.	Modernized	As Is	Vacated Space
REVIEWABLE							
ASTC	$1,113,642		2,634		2,634		
Total Clinical	$1,113,642		2,634		2,634		
NON REVIEWABLE							
Administration, Waiting Room, Reception, Medical Records							
Total Non-clinical							
TOTAL	$1,113,642		2,634		2,634		

Section IX
Criterion 1120.130, Financial Viability

Copies of projected financial statements and financial viability ratios for Metroeast Endoscopic Surgery Center, LLC are attached at Attachment – 41.

PROJECTED STATEMENT OF OPERATIONS
Accrual Basis

	Year 1	Year 2
Number of Cases	2,142	2,249
Revenues	$ 924,637	$ 999,995
Operating Expenses		
Leased employee costs	187,000	191,675
Drugs and supplies	65,577	70,116
Facility Rent and RE taxes	34,608	35,646
Repairs and Maintenance	15,000	15,450
Insurance	5,000	5,150
Linen	8,600	8,858
Utilities	6,200	6,386
License and permits	5,500	5,665
Accounting Fees	2,500	2,575
Legal Fees	2,000	2,060
Other	10,000	10,300
Total Operating Expenses	341,985	353,881
Depreciation	154	154
Net Income (loss)	$ 582,498	$ 645,960

PROJECTED STATEMENT OF CASH FLOWS

	Year 1	Year 2
Cash From Operating Activities		
Net Income	$ 582,498	$ 645,960
Add (subtract):		
Depreciation and Amortization	154	154
(Inc.) dec. in Accounts Receivable	(115,580)	(9,420)
Change in Accounts Payable	28,599	891
Cash from (used for) Operations	495,671	637,585
Cash from Investing & Financing Activities		
Owner Cash Contributions	100,000	
Owner Distributions	(450,000)	(600,000)
Cash (used for) from Invest. & Finance Activities	(350,000)	(600,000)
Beginning Cash	-	145,671
Ending Cash	$ 145,671	$ 183,256

PROJECTED BALANCE SHEET

ASSETS	Year 1	Year 2
Current Assets:		
Cash and equivalents	$ 145,671	$ 183,256
Accounts Receivable	115,580	124,999
Total Current Assets	261,251	308,256
Fixed Assets:		
Furniture and equipment (10 years)	$ 1,540	$ 1,540
Accumulated Depreciation	(154)	(308)
Total Fixed Assets	1,386	1,232
Total Assets	$ 262,637	$ 309,488
LIABILITIES & SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts Payable	$ 28,599	$ 29,490
Total Current Liabilities	28,599	29,490
Member's Equity		
Paid in capital	101,540	101,540
Net Income	582,498	645,960
Owner distributions	(450,000)	(600,000)
Retained Earnings	-	132,498
Total Member's Equity	234,038	279,998
Total Liabilities and Equity	$ 262,637	$ 309,488

Ratio Analysis - Year 2

	Ratio	Calculation			Actual	Target
1	**Current Ratio**	Current Assets / Current Liabilities				
			Current assets	308,256	10.45	> 1.5
			Current liabilities	29,490		
2	**Net Margin Percentage**	Net Income / Net operating revenue				
			Net Income	645,960	65%	> 3.5%
			Net operating revenue	999,995		
3	**Debt to Total Capitalization**	Long-term debt / (long-term debt + net assets)				
			Long-term debt	-	NA	< 80%
			Net Assets	279,998		
4	**Debt Service Coverage**	(Net Income + Depreciation + Interest) / (Current Year Principal + Interest)				
			Net Income + Depreciation + Interest	646,114	NA	> 1.75
			Current Year Principal + Interest	-		
5	**Days Cash on Hand**	Cash / ((Operating Expenses - Depreciation)/365)				
			Cash	183,256	189	> 45 days
			Operating Expenses - Depreciation / 365	970		
6	**Cushion Ratio**	Cash / (Current Year Principal + Interest)				
			Cash	183,256	NA	> 3.0
			Current Year Principal + Interest	-		

Section X, Economic Feasibility Review Criteria
Criterion 1120.310(c), Reasonableness of Project and Related Costs

1. As shown in Table 1120.310(c) below, the project costs are below the State Standard.

Table 1120.310(c)			
	Proposed Project	**State Standard**	**Above/Below State Standard**
Consulting and Other Fees	$47,164	No State Standard	N/A
Moveable Equipment	$64,188	$353,802 per Room $353,802 x 1 = $353,802	Below State Standard
Fair Market Value of Leased Space	$1,002,290	No State Standard	N/A