

AN ALERT FROM THE BDO HEALTHCARE PRACTICE

BDO KNOWS: HEALTHCARE



► SUBJECT

CALIFORNIA OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT ISSUES POLICY OF INTENT NOTICE TO GUIDE HEALTHCARE PROVIDERS SUBMITTING FINANCIAL CAPACITY REPORTS UNDER SENATE BILL 90

Reports to Demonstrate Hospitals' Financial Bandwidth for Implementing Construction Plans Designed to Meet Earthquake Retrofit or Replacement Requirements

► SUMMARY

The California Office of Statewide Health Planning and Development recently issued a Policy Intent Notice for the Senate Bill (SB) 90 Financial Capacity Reports. SB 90 provided an extension of up to seven years where hospital owners submitted a letter of intent stating whether they plan to rebuild, replace, retrofit or remove all acute-care beds and services from Structural Performance Category-1 (SPC-1) buildings, which "pose a significant risk of collapse and a danger to the public after a strong earthquake." Hospital owners that requested an extension must submit financial capacity reports by January 1, 2015 reflecting the facility owner's financial capacity to move forward with construction plans for SPC-1 buildings to ensure seismic safety compliance.

► DETAILS

When submitting financial capacity reports, both individual facilities and hospital provider groups, must provide the following:

- **Affirmative Statement:** Affirms the facility has the financial capacity to move forward the construction plans submitted pursuant to Health and Safety Code Section 130060(g)(2) (D) and must be signed by the CFO, CEO and/or an individual authorized to obligate the corporation.
- **Financial Capacity Summary:** Reflects how the facility will finance the construction outlined in the plans prior to the expiration of the facility's SB 90 extension.

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- **Demonstration of Financial Capacity:** Submit one or any combination of the following:
 - **For investment-grade rated facilities planning to incur debt to comply with SB 90:**
Investment-grade rated (BBB-/Baa3 or above) facilities can submit documents from the rating agency confirming the facility's investment-grade rating will be maintained after the additional debt is incurred to finance the construction identified in the plans submitted pursuant to Health and Safety Code Section 130060(g)(2)(D).
 - **For non-investment-grade rated facilities planning to incur debt to comply with SB 90:**
Facilities not credit rated or rated below BBB-/Baa3 by a rating agency, must demonstrate the financial capacity to service the debt needed to finance the construction outlined in the construction plans submitted pursuant to Health and Safety Code Section 130060(g)(2)(D) with a minimum of 1.25:1 debt service coverage ratio over the period of the extension by providing either (i) internally prepared financial projections that are affirmed by an independent CPA firm or (ii) a feasibility study from an independent CPA firm.
 - **For facilities not incurring debt to comply with SB 90:**
Facilities intending to pay the cost (or any portion of the cost) of the construction identified in the construction plans submitted pursuant to Health and Safety Code Section 130060(g)(2)(D) out of operating cash must provide the previous five years of annual cash flow statements and current cash balance (via complete audited annual financial reports) to demonstrate the financial capacity to finance the construction reflected in the construction plans submitted pursuant to Health and Safety Code Section 130060(g)(2)(D).

▶ BDO INSIGHTS FOR INDIVIDUAL FACILITIES & HOSPITAL PROVIDER GROUPS

- **Begin reviewing financials immediately.** January 1, 2015 is right around the corner. It's important that facilities begin to analyze forecasts today to ensure they're prepared to substantiate their financial capacity to pursue construction plans by January 1. This is more crucial today than ever due to the significant complexity of financial projections in a rapidly evolving healthcare landscape combined with the untried assumptions associated with many of the changes provider organizations have made to business and care models in response to the Affordable Care Act.
- **Consider the sustainability of business and operating models.** Business models and lines, strategic partnerships and new business ventures should all be evaluated to identify potential opportunities to help expand financial capacity and allow for the necessary construction to ensure seismic safety compliance.
- **Engage advisors that can affirm financial projections or conduct feasibility studies in compliance with SB 90.** It's critical to have a trusted advisor that can help providers navigate the complex process of developing a financial capacity report under SB 90. BDO is a proven and trusted partner that has conducted feasibility studies and examinations of financial forecasts for bond offerings in excess of \$5 billion for healthcare organizations.

BDO HEALTHCARE INDUSTRY PRACTICE

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- Acute care
- Ancillary service providers
- Health maintenance organizations (HMOs)
- Home care and hospice
- Hospitals
- Integrated delivery systems
- International health research organizations
- Long-term care
- Physician practices
- Preferred provider organizations (PPOs)
- Senior housing, including CCRCs

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