641—203.8(135) Financial and economic feasibility.

203.8(1) *Purpose and scope.*

a. These standards are measures of some of those criteria 1[1](a to q) found in Iowa Code section 135.64. Criteria 1[1](a to q) which are measured by a standard are cited below:

Financial feasibility subrule 203.8(3), paragraph *"b,"* criteria 1[1] *"b," "c," "p"*; subrule 203.8(3), paragraph *"c,"* criteria 1[1] *"f," "p"*; subrule 203.8(3), paragraph *"d,"* criteria 1[1] *"c," "f," "p," "q."*

Economic feasibility subrule 203.8(4), paragraph *"a,"* criteria 1[1] *"e," "f," "g," "i," "p," "q."*

b. Certificate of need applications which are to be evaluated against these financial and economic feasibility standards include institutional health facilities, as defined in Iowa Code section 135.61.

203.8(2) *Definitions.*

a. Project. The remodeling, replacing or equipping of existing buildings, as well as the building or equipping of new structures.

b. Financial feasibility. The applicant's demonstration that it has the money, or that it can reasonably expect to obtain moneys equal to the estimated project costs, to any debt associated with the project, and to the annual expenses of providing the service, as well as the demonstration of overall institutional financial strength.

c. Financial ratio analysis. Evaluation of the financial position of an organization through creating indexes of income, revenue, assets, liabilities, etc. Financial ratios can be classified into liquidity, capital structure, activity and profitability ratios. Financial ratios measure financial feasibility.

(1) Net margin. The net income (after taxes if the applicant is not tax-exempt) minus nonoperating revenue divided by gross revenue.

(2) Net operating margin. Net income (after taxes if the applicant is not tax-exempt) minus nonoperating revenue divided by total operating revenue.

(3) Current asset ratio (current ratio). Current assets divided by current liabilities.

(4) Debt ratio. Total long-term debts divided by total fixed assets.

(5) Debt service coverage. The total of net income, interest expense, amortization of financing costs, and depreciation plus amortization and interest divided by the annual debt service.

(6) Days revenue in accounts receivable. Gross accounts receivable divided by gross patient revenue divided by 365.

d. Debt financing. Any portion of the cost of projects to be financed through borrowing either at the time the project is undertaken or at anytime subsequent thereto.

e. (Gross) revenue. Total of operating and nonoperating revenues.

f. Nonoperating revenues. Revenues not related to patient care or normal day-to-day operations, including unrestricted gifts, unrestricted endowments, income from the sale of a fixed asset, unrestricted income from a restricted or unrestricted fund, rental of facilities not used in operation, etc. (restricted funds are specifically excluded, unless expended during the accounting period, in which case they are accounted for either as operating or nonoperating revenues).

g. Operating revenues. Net patient service revenues (patient revenues minus deduction for charity, contractual and bad debt allowances) and other operating revenues.

h. Excess (or deficiency) of gross revenues over (or under) expenses. Net income.

i. Excess (or deficiency) of operating revenues over (or under) expenses. Net operating income.

j. Economic feasibility. The applicant's demonstration that its project will provide for the allocation of scarce resources within a community in a manner that is of maximum benefit to that community, in other words demonstration that the project will be cost-effective and will contain health care costs to the greatest extent possible.

k. Expense. An expired cost (cost = price paid for operations and assets, including leased assets vis-a-vis cash outlay, indebtedness incurred, or cash equivalent) incurred directly or indirectly in earning revenue. Expenditures may be expended over many years.

l. Asset. Economic potentials from which future benefits are expected to result, include leased capital equipment.

m. Liabilities. Debts or obligations.

n. Gross patient revenues. Patient service revenues before allowances for bad debt and charity and contracts.

o. Debt service. The payment of matured interest and principal; the outlay needed, supplied, or accrued for meeting such payments during any given accounting period; a budget or operating statement heading such items.

p. Current assets. Liquid assets which can be expected to directly or indirectly be converted into cash within one year or the operating cycle, whichever is longer (includes leased assets).

203.8(3) *Financial feasibility analysis.*

a. The applicant will provide financial feasibility analysis of the project's (facility's) past and projected costs, as requested by the Iowa department of public health.

b. The applicant shall show evidence of sound financial planning.

(1) If the sponsor has a long-range institutional plan, the project should be consistent with it. If the sponsor has no long-range institutional plan, the applicant shall demonstrate that the proposal helps meet the long-range needs of the community.

(2) The project should be consistent with the sponsor's three-year capital expenditure plan which all hospital and skilled nursing facilities must have.

c. The applicant shall demonstrate the financial feasibility of the services (institution) at completion and, shall show evidence of sound historical, financial, and operational management.

(1) The net operating margin should be positive. If a net loss is projected following completion of the project, an explanation of source funds should be given. Institutions funded by tax levy or endowment shall demonstrate that money from those sources has been historically applied to cover operating expenses if those institutions have a negative net operating margin.

(2) The net margin should be positive. If net loss is projected an explanation of source funds should be given.

(3) The past and projected current ratio should be at least 2:1.

(4) Past and projected debt service coverage ratio should be at least 2:1.

(5) The debt financing of a project should not increase the debt ratio above .8 unless debt service payments will derive from sources other than operating revenues.

(6) Days revenues in accounts receivable should not have been more than 65 days.

(7) If third party payment can be expected for the project, then some documentation indicating that the type of project which is proposed is generally third party reimbursable should be provided.

d. Sponsors shall show evidence of past efficient utilization. Standards (1) and (2) below apply to hospital project applications for:

—Construction of new acute care beds;

—Modernization or renovation of acute care beds/patient nursing units;

—Conversion of acute care beds from one service use to another;

—Addition to the square footage space of the hospital, where it might be architecturally feasible and cost-effective to convert excess bed space.

(1) Hospitals should have been no lower than 5 percent below the implicit target occupancy rate according to the bed need formula for the last year. Additionally hospitals with lower than target occupancy rates should show a trend during the last three years of increasing occupancy rates. This 5 percent refers to deviation on a scale of 1-100 percent and not to 5 percent of the target occupancy rate itself. Long-term care facilities should have had a 90 percent average occupancy for the last three years.

(2) Hospitals should have an average length of stay by service no greater than 10 percent above the average of their size category for the last three years.

Standards (1) and (2) above do not amend rule 641—203.1(135) acute bed care need methodology. But are additional measures of financial viability which supplement rule 641—203.1(135).

(3) Prior to the project's initiation, the full-time equivalent employees per adjusted patient day as reported in the most recent American Hospital Association Hospital Statistics should be no greater than 110 percent of the state average for hospitals of similar size. Categories of hospitals of similar size are:

Beds
6-24
25-49
50-99
100-199
200-299
300-399
400-499
500+

Adjusted patient day as used here is defined in Hospital Statistics, AHA, 1978.

Nursing homes shall meet regulations for licensure personnel requirements.

(4) Prior to initiation of a project, the cost per patient day of a hospital should be within 10 percent of the state average for hospitals within that size category. (See standard 203.8(3)*"d"*(3) for size categories.) An applicant's costs, which are incurred as a result of shared service contracts with other entities, and which are not charged to patients within the applicant's facility should not be included in the estimation of costs per patient day.

203.8(4) *Economic feasibility.*

a. The project as proposed shall be cost-effective.

(1) The applicant should demonstrate that the project represents the most cost-effective alternative. Such alternatives include, among others, new construction versus renovation and new service versus shared or contracted services.

(2) The applicant should demonstrate that of the financing methods available, the financing method chosen is the least costly alternative.

(3) Applicants shall demonstrate that construction or renovation costs are reasonable when compared to similar projects of the most recent year.

(4) The net operating margin should not exceed a percentage sufficient to provide for the organization's financial requirements, as defined in "Financial Requirements of Health Care Institutions and Services" (American Hospital Association, S031, February 1979), and limited by existing reimbursement payors.

(5) Facilities should show evidence that they have considered alternate energy sources within their institutions; and energy efficiency in project construction design.

b. Reserved.

This rule is intended to implement Iowa Code section 135.74.

[1] Iowa Code section 135.64(1).