



Certificate of Need Program
P.O. Box 47852
Olympia, Washington 98502-7852

Nursing Home Projects - Financial Feasibility

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B. FINANCIAL FEASIBILITY (WAC 246-310-220)

Applicants must complete one of the following sections as appropriate: Section I, Section II, Section III, or Section IV. **All applicants must complete Section V.**

Instructions for completion of cost reporting forms required for submission of certificate of need applications for nursing home projects

A complete application for a Certificate of Need will include the information requested in the "Application Information Requirements for Health Care Facility Certificate of Need Applications Nursing Home Related Projects." When completed, the enclosed forms will satisfy the information requirements in the Application Information Requirements under B, Financial Feasibility Section III 9(b) i, ii, iii, iv, v, vi, except that an application should list start-up costs separately, and should also identify the anticipated period of deficit operations before the project is utilized at a break-even point.

NOTE: All financial statements must be for nursing home operations only

"Non-Inflated" Projections

All projections for the first through third years of operation shall be shown in "non-inflated" collars based on the last complete fiscal year. Do not show increased costs due to anticipated inflationary trends. These "non-inflated" costs should show all anticipated costs resulting from increased staffing, supplies, utilities, etc., and should also show anticipated interest expense and depreciation expense.

Explanation of Column Headings

"Actual" - These columns apply to existing nursing homes proposing the addition of beds or total replacement of an existing facility. "Actual" must be by fiscal year, in accordance with the way books are kept.

"Estimate" - This column applies to existing nursing homes and shall show estimated operational figures for the current twelve months of operation of the facility.

"Projected" - means each twelve months of operation through at least three full fiscal years following completion of the project.

The dates requested (directly beneath column headings discussed above) refer to the actual dates of the fiscal year for historical data, and the anticipated dates for each fiscal year of operation.

SECTION I:

Applicants proposing to construct a new nursing home or replace an existing nursing home on the same or a new site, should complete this section for the development of the building cost per bed and reasonable land cost.

The information requested in Section I must be provided by a licensed architect or engineer.

Indicate the name, address, and telephone number of the licensed architect or engineer that completed this section:

NAME:

ADDRESS:

PHONE:

Proposed Site Address: _____ Zip Code: _____

The following Part I, Reasonable Building Cost Guidelines, and Part II, Reasonable Land Cost Guidelines, will be utilized to determine whether or not the building cost per bed and land cost are reasonable. These guidelines are based on WAC 388-96-745.

PART I -- Reasonable Building Cost Guidelines

1. The Marshall Valuation Services (*updated August 1993*) Section I, pages 3-12, describes the building class (A, B, C, and D) and the building quality (excellent, good, average, and low cost) of the building. Based on this description, state the building class and building quality that is proposed for construction by this project. Applicants proposing to add beds at an existing nursing home should also state the building class and building quality of the existing nursing home.

For New Construction:

Class _____ Quality _____ Number of Beds _____

For Existing Construction:

Class _____ Quality _____ Number of Beds _____

2. Indicate the total number of square feet of construction that is proposed including walls, partitions, stairwells, etc. Total Square Feet _____
3. The Marshall Valuation Services (updated August 1993) Section I, pages 3-12, describes the type of materials that can be utilized to construct the frame, floor, roof, and walls of a building. Based on this description, indicate the type of materials that would be utilized in the following major components of the proposed building.

<i>ITEM</i>	<i>TYPE OF MATERIAL</i>
Frame	
Floor	
Roof	
Wall Structures	
Exterior Finish	
Interior Finish	
Lighting, Plumbing, and Mechanical	
Heating and Cooling	

4. Indicate the total cost of constructing the new nursing home, replacing the existing nursing home, or constructing a bed addition at the nursing home. In cases where a nursing home/boarding home facility shares a common foundation and roof, the cost of the shared items shall be apportioned to the nursing home based on the Medicare program methodology for apportioned costs to the nursing home service. Construction costs shall include the following:

ITEM	COST
<i>a.</i> Land Purchase	\$
<i>b.</i> Utilities to Lot Line	\$
<i>c.</i> Land Improvements	\$
<i>d.</i> Building Purchase	\$
<i>e.</i> Residual Value of Replaced Facility	\$
<i>f.</i> Building Construction	\$
<i>g.</i> Fixed Equipment (which is not included in construction contract)	\$
<i>h.</i> Movable Equipment	\$
<i>i.</i> Architect and Engineering Fees	\$
<i>j.</i> Consulting Fees	\$
<i>k.</i> Site Preparation	\$
<i>l.</i> Supervision and Inspection of Site	\$
<i>m.</i> Costs Associated with Securing the Source(s) of Financing (include interim interest during construction)	
1. Land	\$
2. Building	\$
3. Equipment	\$
4. Other	\$
<i>n.</i> Washington Sales Tax	\$
1. Land	\$
2. Building	\$
3. Equipment	\$
4. Other	\$
<i>o.</i> Other Projected Costs - itemize	\$
1.	\$
2.	\$
3.	\$
4.	\$
<i>p. TOTAL ESTIMATED CAPITAL COST (ACTUAL/REPLACEMENT COST)</i>	\$

5. Provide a copy of a signed non-binding cost estimate or contractor's estimate of the project's land improvements, building construction cost, architect, and engineering fees, site preparation, supervision, and inspection of site, Washington State sales tax, and other projects costs (items c, f, i, k, m, n, and o above).
6. The reasonableness of building construction cost is based on the data shown in the table shown on the next page entitled, "Cost Guidelines for New Building and Improvements Plus Increments for Additional Beds." Reasonable building costs will be determined by:
 - a. Locating the class of construction (A, B, C, or D) and quality of construction (good, average, low) in the table, multiply the number of beds proposed by the appropriate per bed base cost;
 - b. Identify the appropriate base cost for the facility (using the same class and quality of construction);

c. Additional incremental allowances are allowed for projects requesting beds between 75-120 and projects of over 120 beds.

c1. For projects greater than 74 beds, but less than 121 beds, multiply the appropriate per bed incremental allowance (using the same class and quality of construction) by the number of additional beds between 75 to 120: **or**

c2. For projects greater than 120 beds, multiply the appropriate per bed incremental allowance (using the same class and quality of construction) by the number of additional beds over 75, but less than 120, then multiply the appropriate incremental allowance by the number of beds over 120 and add these two figures together.

7. The figures from 6a, 6b, and 6c, when applicable, are added to determine the construction cost lids. Final lid values will be adjusted for inflation using the actual change in the appropriate cost indexes.

Reasonable Cost Guidelines For The New Building, Plus Increments For Additional Beds

Building Class	For 0 -- 74 Bed Facilities	For 75 - 120 Bed Facilities		For 121+ Bed Facilities	
	Add per bed	Add this base	Per additional beds over 74	Add this base	Per additional beds over 74
a. Good	51,222	3,790,442	48,964	6,042,793	43,022
a. Average	41,822	3,094,834	39,978	4,933,842	35,127
b. Good	49,257	3,645,006	47,085	5,810,935	41,371
b Average	40,736	3,014,461	38,940	4,805,710	34,214
c. Good	36,499	2,700,943	34,890	4,305,894	30,656
c. Average	28,159	2,083,794	26,918	3,322,023	23,651
c. Low	22,143	1,638,554	21,167	2,612,213	18,598
d. Good	33,728	2,495,865	32,241	3,978,954	28,328
d. Average	26,104	1,931,660	24,953	3,079,488	21,925
d. Low	20,630	1,526,606	19,720	2,433,744	17,327

ADD FOR COMMON USE AREAS

	Building Class	Add entire amount	Add this base	Add for additional beds over 74	Add this base	Add for additional beds over 120
118.845	a. Good	289,625	289,625	2,971	426,297	2,377
97.035	a. Average	236,744	236,474	2,426	348,065	1,941
114.285	b Good	278,513	278,513	2,857	409,940	2,286

94.515	b. Average	230,333	230,333	2,363	339,025	1,890
84.685	c. Good	206,377	206,377	2,117	303,765	1,694
65.335	c. Average	159,221	159,221	1,633	234,357	1,307
51.375	c. Low	125,201	125,201	1,284	184,282	1,028
78.255	d. Good	190,707	190,707	1,956	280,701	1,565
60.565	d. Average	147,597	147,597	1,514	217,247	1,211
47.865	d. Low	116,647	116,647	1,197	171,692	957

8. The above estimated building costs per bed may be adjusted when the following circumstances apply to the project.
- a. Construction changes required by Facilities and Services Licensing Section, Office of Resource Development, and/or Department of Health in the course of approving the building plans for the project.
 - b. Four story or higher construction.
 - c. Unusual labor or climatic conditions at time of construction that were not foreseeable by management.
 - d. Cost savings realized in other components of the project such as equipment or operating costs.
 - e. Where more than one major construction type is present, an average facility type shall be computed by weighing relative costs of the framing, floor, roof, and walls.

Applicants requesting adjustments to the guidelines for responsible building cost per bed shall provide written justification and a financial analysis showing the rationale for the adjustments.

PART II -- Reasonable Land Cost Guidelines

1. The land cost guidelines are for land that is utilized by the nursing home service. When an applicant proposes to construct a new nursing home/boarding home facility, the amount of land utilized by the nursing home services should be calculated based on Medicaid program methodology for apportioning costs to the nursing home for reimbursement purposes. Based on the above factors, the cost of land, plus cost of utilities to lot line for the proposed nursing home would be: \$ _____
2. Indicate the number of square feet of land that would be utilized for the nursing home service: _____ square feet
3. Indicate the cost per square foot for the utilized by the nursing home service: \$. _____
4. Exceptions to square foot cost lids (WAC 388-96-745 (7)) may be allowed to a maximum of ten percent (WAC 388-96-754(8)). An adjustment shall be granted only if requested by the applicant. Applicants requesting adjustments to the guidelines for reasonable land costs shall provide written justification and an analysis showing the rationale for the adjustments.
5. Exceptions to land area lids (WAC 388-96-762) may be allowed. An adjustment shall be granted only if requested by the applicant and meet the criteria defined in WAC 388-96-762(3). Applicants requesting adjustments to the guidelines for area land lids shall provide written justification and an analysis showing the rationale for the adjustments.

Questions regarding the construction cost lid exception process should be directed to the Residential Rates Program of Aging and Adult Services.

SECTION II

Applicants proposing to add beds at an existing nursing home or remodel a nursing home at a cost in excess of the Capital Expenditure Threshold should complete this section for the calculation of property and return on investment rate.

The information requested in this section must be provided by a licensed architect or engineer.

Indicate the name, address and phone number of the licensed architect or engineer that completed section.

Name:.....

Address.....

Phone Number:.....

Proposed Site Address.....

Zip Code.....

1. Indicate the total cost of constructing the bed addition or the cost of remodeling an existing nursing home. In cases where a nursing home/boarding home facility shares a common foundation and roof, etc., the cost of the shared items shall be apportioned to the nursing home based on the Medicaid program methodology for apportioning costs to the nursing home service. Construction costs shall include the following:

<i>ITEM</i>	<i>COST</i>
<i>a.</i> Land Purchase	\$
<i>b.</i> Utilities to Lot Line	\$
<i>c.</i> Land Improvements	\$
<i>d.</i> Building Purchase	\$
<i>e.</i> Residual Value of Replaced Facility	\$
<i>f.</i> Building Construction	\$
<i>g.</i> Fixed Equipment (which is not included in construction contract)	\$
<i>h.</i> Movable Equipment	\$
<i>i.</i> Architect and Engineering Fees	\$
<i>j.</i> Consulting Fees	\$
<i>k.</i> Site Preparation	\$
<i>l.</i> Supervision and Inspection of Site	\$
<i>m.</i> Costs Associated with Securing the Source(s) of Financing (include interim interest during construction)	
1. Land	\$
2. Building	\$
3. Equipment	\$
4. Other	\$
<i>n.</i> Washington Sales Tax	\$
1. Land	\$
2. Building	\$
3. Equipment	\$
4. Other	\$
<i>o.</i> Other Projected Costs - itemize	\$
1.	\$
2.	\$
3.	\$
4.	\$
<i>p. TOTAL ESTIMATED CAPITAL COST (ACTUAL/REPLACEMENT COST)</i>	\$

2. Provide a copy of a signed, non-binding cost estimate or contractor's estimate of the project's land improvements, building construction cost, architect and engineering fees, site preparation, supervision and inspection of site, Washington State sales tax, and other project costs (Items c, f, i, k, m, n, and o above).

3. Estimated Nursing Home Construction Costs

	Estimated Square Footage	Construction Cost Square Footage (use f, g, & k)	Total Cost per Bed (use p)	Total Cost per Square Footage (use p)
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Nursing Home				
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4. For an existing facility, indicate the incremental increase in capital costs per patient day that would result from this project using the chart below

	Current Year	Year 1	Year 2	Year 3
Total Depreciation Expenses				
Total Interest Expenses				
Total Capital Expenditure				
Patient Days				
Capital Cost per Patient Day (c/d)				

SECTION III:

Applicants proposing to amend a Certificate of Need should complete this section for the calculation of property and return on investment rate.

The information requested in this section must be provided by a licensed architect or engineer.

Indicate the name, address, and phone number of the licensed architect or engineer that completed this section.

Name:.....

Address:.....

Phone Number:.....

Proposed Site Address:.....

Zip Code:.....

1. Indicate the total cost of constructing the new nursing home. In cases where a nursing home/boarding home facility share a common foundation and roof, the cost of the shared items shall be apportioned to the nursing home based on the Medicaid program methodology for apportioning costs to the nursing home service. Construction costs shall including the following:

ITEM	ORIGINAL COST	AMENDED COST
a. Land Purchase	\$	\$
b. Utilities to Lot Line	\$	\$
c. Land Improvements	\$	\$
d. Building Purchase	\$	\$
e. Residual Value of Replaced Facility	\$	\$
f. Building Construction	\$	\$
g. Fixed Equipment (which is not included in construction contract)	\$	\$
h. Movable Equipment	\$	\$
i. Architect and Engineering Fees	\$	\$
j. Consulting Fees	\$	\$
k. Site Preparation	\$	\$
l. Supervision and Inspection of Site	\$	\$
m. Costs Associated with Securing the Source(s) of Financing (include interim interest during construction)		
1. Land	\$	\$
2. Building	\$	\$
3. Equipment	\$	\$
4. Other	\$	\$
n. Washington Sales Tax	\$	\$
1. Land	\$	\$
2. Building	\$	\$
3. Equipment	\$	\$
4. Other	\$	\$
o. Other Projected Costs - itemize	\$	\$
1.	\$	\$
2.	\$	\$
3.	\$	\$
4.	\$	\$
p. TOTAL ESTIMATED CAPITAL COST	\$	\$

2. Provide a copy of a signed, non-binding cost estimate or contractor's estimate of the project's land improvements, building construction cost, architect and engineering fees, site preparation, supervision and inspection of site, Washington State sales tax, and other project costs (Items c, f, i, k, m, n, and o above).
3. Provide a brief description of the contractor's or cost estimator's experience with nursing home projects.

4. Estimated Nursing Home Construction Costs

	Estimated Square Footage	Construction Cost Square Footage (use f, g, & k)	Total Cost per Bed (use p)	Total Cost per Square Foot (use p)
Nursing Home	Orig:	Orig:	Orig:	Orig:
	----- Amd'd:	----- Amd'd:	----- Amd'd:	----- Amd'd:

5. For an existing facility, indicate the incremental increase in capital cost per patient day that would result from this project using the chart below:

ORIGINAL	Current Year	Year 1	Year 2	Year 3
Total Depreciation Expenses				
Total Interest Expenses				
Total Capital Expenditure				
Patient Days				
Capital Cost per Patient Day (c/d)				

AMENDED	Current Year	Year 1	Year 2	Year 3
Total Depreciation Expenses				
Total Interest Expenses				
Total Capital Expenditure				
Patient Days				
Capital Cost per Patient Day (c/d)				

SECTION IV:

All applicants must provide interest rate, source of financing project costs, estimated start-up-initial operating deficits, financial statements, and projected patient charges.

1. Identify the owner or operator who will incur the debt for the proposed project.
2. Anticipated sources and amounts of financing for the project (actual sources for conversions)

	Specify Type	Dollar Amount
Public Campaign		\$
Bond Issue		\$
Commercial Loans		\$
Government Loans		\$
Grants		\$
Bequests & Endorsements		\$
Private Foundations		\$
Accumulated Reserves		\$
Owner's Equity		\$
Other - (specify)		\$
Other - (specify)		\$
TOTAL (must equal total Project Cost)		\$

3. Provide a complete description of the methods of financing which were considered for the proposed project. Discuss the advantages of each method in terms of costs and explain why the specific method(s) to be utilized was (were) selected.

4. Indicate the anticipated interest rate on the loan for constructing the nursing home..... %

5. Indicate if the interest rate will be fixed or variable on the long-term loan and indicate the rate of interest.

Fixed interest rate..... %

Variable interest rate beginning at.....% and ending at..... %

Loan terms.....

6. Estimated start-up and initial operating expenses

- a.Total estimated start-up costs \$..... (expenses incurred prior to opening such as staff training, inventory, etc., reimbursed in accordance with Medicaid guidelines for start-up costs)

- b.Estimated period of time necessary for initial start-up:.....months (period of time after construction completed, but prior to receipt of patients)

- c.Total estimated initial operating deficits \$.....(operating deficits occurring during initial operating period)

- d.Estimated initial operating period.....months (period of time from receipt of first patient until total revenues equal total expenses)

7. Anticipated Sources of Financing Start-up and Initial Operating Deficits.

Unrestricted Cash of Proponent	\$
Unrestricted Marketable Securities of Proponent	\$
Accounts Receivable	\$
Commercial Loan	\$
Line of Credit (specify source)	\$
Other (specify)	\$
TOTAL	\$

8. Evidence of Availability of Financing for the Project

Please submit the following:

- a. Copies of letter(s) from the lending institution indicating a willingness to finance the proposed project (both construction and permanent financing). The letter(s) should include:
 - i. Name of person/entity applying
 - ii. Purpose of the loan(s)
 - iii. Proposed interest rate(s) (fixed or variable)
 - iv. Proposed term (period) of the loan(s)
 - v. Proposed amount of loan(s)
- b. Copies of letter(s) from the appropriate source(s) indicating the availability of financing for the initial start-up costs. The letter(s) should include the same items requested in 8(a) above, as applicable.
- c. Copies of each **lease** or **rental** agreement related to the proposed project.
- d. Separate amortization schedule(s) for each financing arrangement including long-term and any short-term start-up, initial operating deficit loans, and refinancing of the facility's current debt setting forth the following:
 - i. Principal
 - ii. Term (number of payment period, long-term loans may be annualized)
 - iii. Interest
 - iv. Outstanding balance of each payment period

9. Provide the following:
- Please supply copies of the following pages and accompanying footnotes of each applicant's three most recent financial statements: Balance Sheet, Revenue and Expense, and Changes in Financial Position. (If not available as a subsidiary corporation, please provide parent company's statements, as appropriate.)
 - Please provide the following facility-specific financial statements through the third complete fiscal year following project completion. Identify all assumptions utilized in preparing the financial statements.
 - Schedule B Balance Sheet
 - Schedule C Statement of Operations
 - Schedule D This Statement Has Been Eliminated
 - Schedule E Statement of Changes in Equity/Fund Balance
 - Schedule F Notes to Financial Statements
 - Schedule G Itemized Lists of Revenue and Expenses
 - Schedule H Debt Information
 - Schedule I Book Value of Allowable Assets

NOTE: Use Schedules Attached To These Guidelines.

10. Utilizing the data from the financial statements, please calculate the following:
- Debt Service Coverage
 - Current Ratio
 - Assets Financed by Liabilities Radio
 - Total Operating Expense to Total Operating Revenue

NOTE: Use Forms Attached To These Guidelines.

11. If the project's calculated ratios are outside the normal or expected range, please explain.
12. If a financial feasibility study has been prepared, either by or on behalf of the proponent in relation to this project, please provide a copy of that study.
13. Current and Projected Charges and Percentage of Patient Revenue

- Per Diem Charges for Nursing Home Patients for Each of the Last Three Fiscal Years:

	19	19	19
Private Pay			
Medicaid			
Medicare			
VA			
Other-Specify			

- Current Average Per Diem Charges for Nursing Home Patients:

Current Year

Private Pay	
Medicaid	
Medicare	
VA	
Other-Specify	

- c. Projected Average Per Diem Charges for Nursing Home Patients for Each of the First Three Years of Operation:

	19	19	19
Private Pay			
Medicaid			
Medicare			
VA			
Other-Specify			

- d. Please indicate the percentage of patient revenue that will be received for the:

Existing Facility	
Private Pay	%
Medicaid	%
Medicare	%
VA	%
Other-Specify	%

Proposed Facility (expansion)	
Private Pay	%
Medicaid	%
Medicare	%
VA	%
Other-Specify	%

Instructions For Completion Of Ratio Information For All Nursing Home Projects

Utilizing the data from the financial statement submitted in the application, calculate the debt services coverage, current ratio, assets financed by liabilities ratio, and the total operating expenses to total operating revenue ratio. The method of calculating these ratios is listed below. Enter the ratio figures in the table on the next page. The normal or expected value for each of these ratios is: Debt Service Ratio 1.5 - 2.0; Current ratio 1.8 - 2.5; Assets Financed by Liabilities Ratio 0.6 - 08; and Total Operating Expense to Total Operating Revenue ratio 1.0. If the project's calculated ratios are outside the normal or expected range, please explain.

Method For Calculating Financial Ratios

For each financial or calendar year, as appropriate, calculate the current ratio, the assets financed by liabilities ratio, the total operating expense to total operating revenue ratio, and the debt service coverage ratio:

RATIO	CALCULATION	LINE ITEMS
Current Ratio	Current Assets	Schedule B, Line 14
	----- Current Liabilities	----- Schedule B, Line 50
Assets Financed by Liabilities	Current Liabilities + Long Term Liabilities	Schedule B, Line 50 + 60
	----- Total Assets	----- Schedule B, Line 39
Total Operating Expense to Total Operating Revenue	Total Operating Expense	Schedule C, Line 22
	----- Net Operating Revenue	----- Schedule C, Line 9
Debt Service Coverage	Net Income + Interest Expense + Depreciation	Schedule C, Line 28 + Schedule G, Line 160 + 158
	----- Current Portion of Long-Term Debt + Interest Expense	----- Schedule B, Line 44 + Schedule G, Line 160