



Memorial Hospital

Of Lafayette County

Financial Forecast of Replacement Hospital and
Primary Care Clinic

County Board Meeting – June 15, 2021

Prepared as of June 2021

WIPFLI

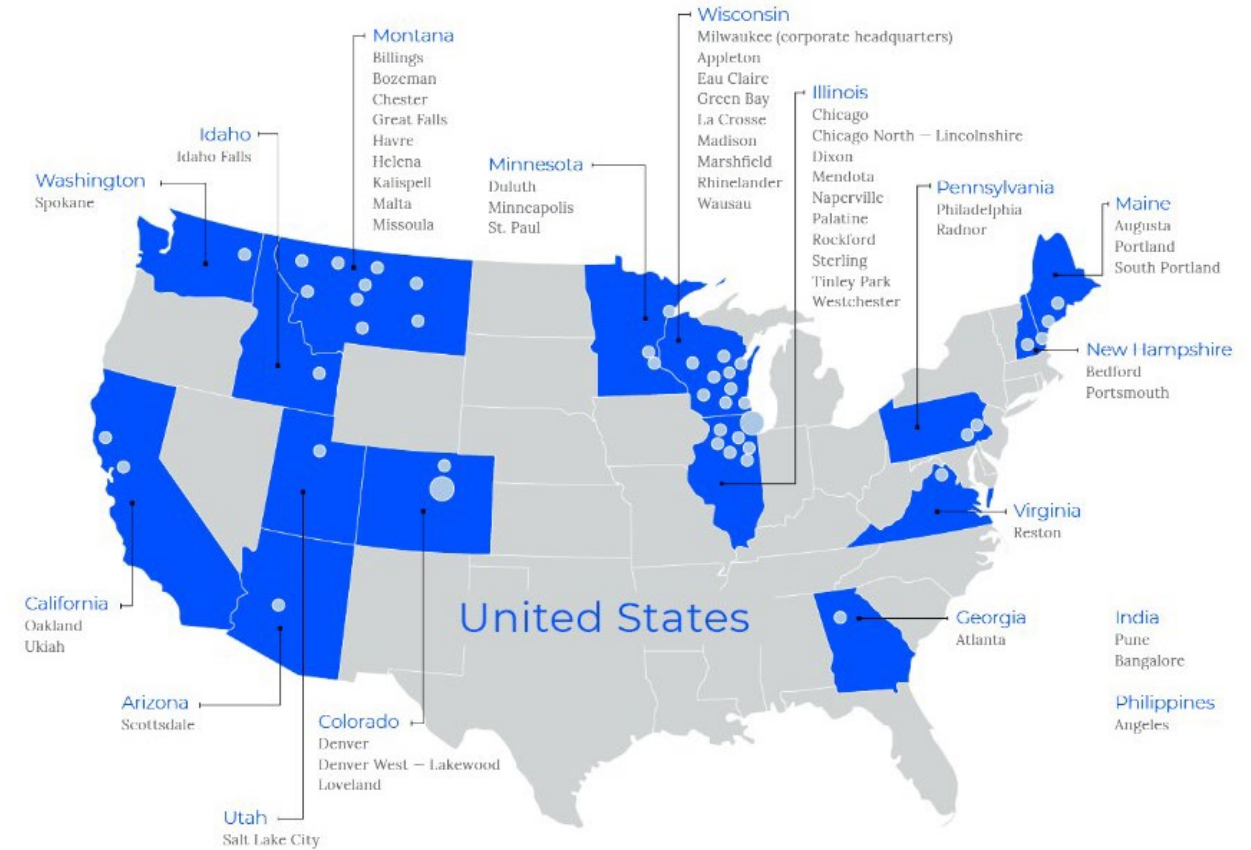
Today's Agenda

- **01.** Introduction
- **02.** Overall Basis of Forecast
- **03.** Project Cost Estimate and Financing
- **04.** Financial Results
- **05.** Summary

01. Introduction

About Wipfli

- Wipfli ranks among the top 20 accounting and business consulting firms in the nation.
- Wipfli's healthcare practice consists of 200+ team members. We have served:
 - ▶ 880+ hospital clients, 330 critical access clients, and 880+ senior service clients.
- Wipfli has a dedicated Facility and Capital Planning practice consisting of a group of professionals dedicated to providing planning and feasibility study services to facilities of all types nationwide.



About Wipfli

- Our team of professionals has provided 100+ AICPA-opinioned feasibility studies over the past 15+ years, many of them for USDA loans, and are well-versed at the requirements to prepare feasibility studies for USDA in accordance with Guide 5. We maintain solid relationships with account executives at USDA's state and national offices.

<u>Organization Name</u>	<u>Location</u>	<u>Primary Financing</u>	<u>Project Type</u>
Curry Health District	Oregon	USDA	Replacement
Good Samaritan - Pontiac	Illinois	USDA	SNF Replacement
Hills and Dales Hospital	Michigan	USDA	Acquisition
Indiana University Hospital – Bedford	Indiana	USDA	Replacement
Jamestown Regional Medical Center	North Dakota	USDA	Replacement
Mackinac Straits Area Health	Michigan	USDA	Acquisition
Mackinac Straits Health System	Michigan	USDA	Replacement
Mayers Memorial Hospital District	California	USDA	Replacement
McKenzie County Health System, Inc.	North Dakota	USDA	Replacement
Modoc Memorial Hospital	California	USDA	Replacement
Moose Lake Community Hospital District	Minnesota	USDA	Replacement
Munising Memorial Hospital	Michigan	USDA	Acquisition
Pershing General Hospital	Nevada	USDA	Refinance & expansion
Pinckneyville Community Hospital District	Illinois	USDA	Replacement
Rosebud Health Center	Montana	USDA	Expansion
Ruby Valley Hospital	Montana	USDA	Replacement
Salem Township Hospital	Illinois	USDA	Expansion
United Hospital District	Minnesota	USDA	Refinance & New Clinic
Winner Regional Health Center	South Dakota	USDA	Renovation/Expansion
Yukon Kuskokwim Health Corporation	Alaska	USDA/Bonds	Renovation/Expansion

Key Phases of a Major Construction Project

Phase 1: Feasibility

- High Level Financial Affordability / Debt Capacity
- Existing State Assessment
- Market Demand Analysis
- Volume and Capacity Analysis
- Macro Space Requirements

Phase 2: Planning

- USDA Application + Feasibility Study
- Preliminary Site Investigation and Selection
- Preconstruction services
- Detailed Functional Space Programming
- Develop Conceptual Cost Estimates
- Project Scope and Delivery Definition
- Identify a Core Project Team
- Site Acquisition
- Conceptual Planning
- Site Design
- Project Schedule

Phase 3: Design

- Schematic Design
- Design/Development
- Construction Documents

Phase 4: Bid/Construction

- Identify Qualified Subcontractors with Contractor
- Participate with Contractor on Selection and Buyout with Subcontractors
- Coordinate the Procurement, Delivery, and Installation of Medical Equipment and IT
- Project Cost and Schedule Update
- Final Regulatory Agency Approvals

Phase 5: Move In/Start Up

- Resolve All Outstanding Punch List Items
- Prepare Move-In Schedule
- Install Owner-Provided Items (Furniture, Misc. Equipment, Signage, Artwork, Supplies)
- Train and License Medical Equipment and IT
- Staff Training
- Relocate Staff and Patients
- Mock Go-Live and Go-Live
- Grand Opening

Completed
Next Steps

02. Overall Basis of Forecasts

What is a Financial Forecast?

- A detailed analysis of MHLC's financial data:
 - Analysis of historical financial and operational data, management's expectations for future operations and related changes to revenues and expenses, and impact of constructing and financing a replacement hospital and primary care clinic.
 - Extensive procedures to verify data and assumptions provided by management.
- The results of the financial forecast will be converted to a full feasibility study report to support an application to be submitted to the USDA for review of the proposed project and, ultimately, approval of financing.
 - The final report will include an accountant's examination opinion which states we have obtained reasonable assurance about whether the forecast is presented in accordance with standards set by the AICPA, in all material respects.
- The presented financial forecast is not in final form, but provides a preliminary view of the forecasted results.
 - Total project costs, financing structure, final interest rates, and allocation of costs between the Hospital and Manor are subject to change.

Overall Basis for the Forecast

- Prepared forecasted financial statements for the Hospital (2021 to 2025) based on the following:
 - Compiled historical operating results from 2016 to 2020.
 - Utilized 2019 and 2020 financials and operating data as the primary basis for the forecasted financial statements.
 - Analyzed year-to-date April 2021 financial statements to assess reasonableness of 2021 forecast.
 - Expense adjustments were made based on these results.
 - Forecasted increases in utilization trends based on historical patient trends.
 - Applied inflationary expense increases and other assumptions as discussed with management.
 - Incorporated USDA debt financing for the new project.
 - Computed county supplemental funding to achieve compliance with estimated USDA Debt Service Coverage Ratio.

Overall Basis for the Forecast

- Key strategic initiatives considered in the forecast:
 - Increase in primary care providers in 2020 and continued successful recruitment into 2021.
 - New contracted ED provider group, who are board certified and will be able to retain higher acuity patients than historical experience.
 - Opening of new facilities has historically driven an increase in market share, known as the halo effect, which has been factored into the forecast.
 - Planned addition of a full-time Orthopedic surgeon in the fall of 2023.
 - Increases Orthopedic surgeon time available from 0.5 FTE today to 1.0 FTE starting in 2024. Additional inpatient and outpatient surgeries and procedures are expected as a result.
 - Addition of a new eye clinic and associated Ophthalmology procedures summer and fall of 2021.
 - Opened the new Argyle Clinic in 2020.

03. Project Cost Estimate and Financing

New Construction Project – Estimated Sources and Uses

Construction timeline:

Start date	June 1, 2022
Completion date	November 30, 2023
Number of months	18
Delivery date of permanent financing	January 1, 2024

Sources of funds:	
USDA Direct loan	\$ 46,348,020
USDA Guaranteed loan	5,149,780
Total sources of funds	\$ 51,497,800

Uses of funds:	
Project costs:	
Land	\$ 505,300
Construction	44,831,806
Equipment	4,000,000
Total project costs	49,337,106
Interest funded during construction	1,068,904
Costs of issuance	1,091,790
Total uses of funds	\$ 51,497,800

- Loan Terms:
 - ▶ Construction Loan
 - 3.00%; 19 months
 - ▶ USDA Direct Loan
 - 2.25%; 40 years
 - ▶ USDA Guaranteed loan
 - 4.50%; 40 years

Medicare Reimbursement

- Reimbursement:
 - MHLC is designated as a Critical Access Hospital (CAH); therefore, it is reimbursed on a cost basis for services related to Medicare patients.
 - Medicare reimbursement is a function of the percentage of the overall square footage utilized by Medicare patients.
 - Clinical areas are reimbursed directly; “Support” or “shared” areas/expenses are allocated across all departments (e.g., cafeteria, administration, etc.).
 - Capital reimbursement is a blend of all departments Medicare utilization, except when a project is expended only in a specific area.
 - Capital related costs such as depreciation and interest are allowable costs in the Medicare reimbursement formula, meaning Medicare will reimburse MHLC for the portion of project capital costs related to Medicare patients.

04. Financial Results

Debt Service Coverage

Debt service coverage	2021	2022	2023	2024	2025
Funds available for debt service:					
Change in net position	\$ 1,617,787	\$ (2,337,426)	\$ (2,177,662)	\$ (1,254,342)	\$ (1,026,069)
Plus:					
Depreciation expense	1,539,098	2,046,185	1,992,808	2,248,880	2,137,171
Interest expense	33,787	83,903	989,554	1,266,754	1,247,726
Financing costs	-	1,091,790	-	-	-
Funded interest	-	80,350	988,554	-	-
Less - PPP loan forgiveness	1,952,200	-	-	-	-
Total funds available for debt service (1)	1,238,473	964,802	1,793,255	2,261,291	2,358,829
Annual debt service (2)	\$ 269,238	\$ 144,734	\$ 1,008,149	\$ 2,055,719	\$ 2,053,450
Annual debt service coverage [(1) divided by (2)]	4.60	6.67	1.78	1.10	1.15

Days Cash on Hand

Days cash on hand	2021	2022	2023	2024	2025
Cash	\$ 2,609,014	\$ 3,302,309	\$ 3,683,220	\$ 3,318,805	\$ 3,180,476
Debt service reserve funds	-	-	-	175,831	351,662
Total available cash and cash equivalents (1)	2,609,014	3,302,309	3,683,220	3,494,636	3,532,138
Operating expense	24,067,508	26,212,399	27,199,408	28,740,984	29,611,046
Plus - Interest expense	33,787	83,903	989,554	1,266,754	1,247,726
Less - Depreciation expense	1,539,098	2,046,185	1,992,808	2,248,880	2,137,171
Adjusted expenses (2)	\$ 22,562,197	\$ 24,250,117	\$ 26,196,154	\$ 27,758,859	\$ 28,721,601
Days in year (3)	365	365	365	366	365
Days cash on hand [(1) divided by (2)] times (3)	42.2	49.7	51.3	46.1	44.9

05. Summary

Summary of Findings

- Based on the results presented, MHLC could potentially achieve a 1.10 debt service coverage (DSC) in 2025, the first stabilized year of volume growth. This means additional funds provided by the County would not be required to support operations in 2025 and beyond.
- The calculations show a county contribution of approximately \$200,000 in 2024 may be required to achieve the 1.10 DSC, depending on MHLC's cash balance at that time and flexibility that may be granted by USDA on achieving the 1.10 DSC.
 - USDA could allow for interest only payments on the Direct Loan for the first year of operations in a replacement facility, which would reduce the cash requirements in 2024 by \$694,000.

Summary of Findings

- USDA may require some level of commitment from the County, either through a pledge of debt capacity to pay certain shortfalls in debt service, if that should occur, or by issuing General Obligation (GO) bonds for the benefit of MHLC for a portion of the project.
 - A GO bond is a municipal bond backed solely by the credit and taxing power of the issuing jurisdiction, rather than just revenue from a given project.
 - The level of county participation USDA may require is not yet determined and will be based on their review of the loan application and level of comfort needed to secure the loan.
 - Regardless of the structure of the debt, MHLC would be able to make the payments or transfer the required funds to pay the GO bonds as they come due, to the extent they are able. Total required debt payments are included in the Hospital's forecasted financials.

Considerations

- Financial risk factors and considerations include:
 - Estimated construction costs could be understated.
 - Financing structure and agreements with USDA are preliminary and change during the review process.
 - Assumed interest rates reflect USDA rates as of the day of this presentation but could change prior to final loan approval. USDA financing is subject to approval.
 - Changes to management's operational plans could impact forecasted performance, and the effects could be material.
 - Forecasted operating results and related cash flows are deemed particularly sensitive to variations in management's assumptions including, but not limited to, reimbursement rates, patient service volumes, staffing and compensation, inflation, and healthcare industry laws and regulations. Variations in these assumptions could impact forecasted performance, and the effects could be material.
 - The COVID-19 pandemic has impacted the financial performance of healthcare providers across the country, resulting in providers losing patient volumes and revenues and incurring additional expenses to respond to the pandemic. The pandemic is still ongoing, and the full extent of its financial impact on healthcare providers is not yet known.

Thank you!

- Your Service Team:
 - ▶ Jason Sieg, Manager
 - ▶ Nick Smith, Principal
 - ▶ Kelly Arduino, Principal
 - ▶ Karen Lloyd, Partner
 - ▶ Sydney Diekmann, Consultant II



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Regarding the Use of this Presentation



- The financial forecast information presented was made for the purpose of assisting the County in determining whether a construction project is feasible and appropriate, and identifying the suitability and support for underlying assumptions as a reasonable basis for the forecast. MHLC's management is responsible for preparing and presenting the financial forecast information included in this document.
- Furthermore, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.