

Preparing for a Capital Financial Project: A Checklist

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This article discusses 10 key “checklist” points that are essential to the success of any major financing project, which is defined here as a new capital project involving a level of financing that will have significant implications to future operations for a period of several years.

1. **Have a current strategic plan in place.** Your organization should have conducted a formal planning process to create this document – one that includes a SWOT analysis and has considered mission, values, and vision of the organization. The strategic plan should incorporate operational, financial, and capital expenditure plans that are in alignment with and reflect the expected outcomes of the strategic plan.
2. **Conduct a thorough market analysis.** Does your marketplace support the existing and/or new service offerings that would result from the proposed project? In some respects, this relates back to your strategic plan. However, it has such importance that it deserves its own “step” in the planning process. An organization must entrench itself firmly into the realities within which it operates. This includes assessing the population, demographics, and competitive environment of its primary market area to estimate expected volumes for various services. Each organization needs to assess what service lines it can successfully provide, given its combination of geography, competitive environment, and professional resources and capabilities.
3. **Verify the ROI.** Objectively estimate the projected long-term rate of return (ROI) for the project based on its underlying assumptions. Remember: without profit, there is no mission. If a proposed project does not reflect a positive and acceptable ROI within a given time frame, then the organization should question its viability and examine potential alternatives.
4. **Determine how existing debt will affect the new financing.** Existing debt can have significant implications on the issuance of new debt. The organization needs to know the requirements and covenants of its existing debt. How will the remaining repayment schedule align with the repayment schedule of the new debt? If the existing debt is refinanced, what constraints will that place on the organization’s future?
5. **Know the expected reimbursement impact of the project.** This relates to how the organization is going to pay for the project. For a critical-access hospital (CAH), are there significant positive cost reimbursement implications for the project? Will cost-based payers reimburse a high percentage of the costs under cost reimbursement? What is the non-cost-based payer environment? Where will the money come from to pay the increased costs associated with the project?
6. **Assess your balance sheet.** Does your organization have solid financials? A solid balance sheet and a history of solid operating margins can be indicators to outside parties that an organization has sound financial management. Weak balance sheets or low operating margins may bring into question an organization’s ability to service the new indebtedness over the long term. The least expensive debt an organization can issue is debt whose repayment can be fully generated by its existing cash flows.
7. **Determine the appropriate mix of financing sources.** The commitment to a major financing project does not have to translate solely into the issuance of new debt. Other financing sources include the use of existing investments, fundraising, joint ventures, credit enhancement vehicles, and affiliations. Each organization needs to determine the appropriate mix of financing alternatives that is optimal for its situation.
8. **Examine the impact on future flexibility.** Every organization should strive to avoid projects that will severely limit future flexibility. There are situations where this may not be possible, as in the case of a community hospital completely replacing its physical plant. However, most projects should not be so pervasive in their capital requirements that they place severe limitations on future options available to the organization. If a project does this, the organization should consider alternatives.
9. **Test the sensitivity of the project to alternative scenarios.** The future cannot be accurately predicted. The unexpected can and usually will occur in some form. As a result, any project should be modeled for its sensitivity to key variables, ranging from the expected, worst-case, and best-case scenarios. Avoid projects that are only viable in a good-case or best-case scenario. Otherwise, the organization could end up “living on the edge” – or worse yet, not surviving at all.
10. **Understand the effects of existing and proposed legislation.** The organization should always evaluate any project against proposed as well as existing legislation and regulations. The organization also needs to be cognizant of the political environment in place at both the state and federal levels and how that environment may affect the project.

About the Author

Kelly has over 15 years of experience in health care with an emphasis in health care finance and strategy. As an unbiased financial advisor for clients including critical access hospitals, independent community hospitals, and senior living facilities, her work centers around helping clients secure capital for large renovation/replacement projects. In addition, she works as an “ad hoc” advisor for ongoing needs (e.g., buying vs. leasing equipment). Kelly also performs credit assessments to determine an organization’s current cost of capital and develops financial ratio targets with corresponding plans for improving the quantitative and qualitative metrics that matter most to investors—

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