



## **SUBJECT**

SB 90 Financial Capacity Reports

**PIN: 59**

**Effective: 7/9/2014**



## **PURPOSE**

Senate Bill 90 requires submittal of a financial capacity report no later than January 1, 2015 to demonstrate hospital owner's financial capacity to implement construction plans submitted pursuant to the letter of intent and schedule submitted with the owner's request for an extension for SPC-1 buildings. This Policy Intent Notice (PIN) provides guidelines for owners for the submittal of the financial capacity report.

## **BACKGROUND**

Senate Bill 1953 and subsequent revisions required buildings determined to be a potential risk of collapse or pose significant loss of life (SPC-1 buildings) to be rebuilt, replaced, retrofitted or have all general acute care beds removed from the building by January 1, 2013.

Senate Bill 90 provided an additional extension of up to seven years where hospital owners submitted a letter of intent stating whether they intend to rebuild, replace, or retrofit the building, or remove all general acute care beds and services from the building, and identifying the amount of time necessary to complete the proposed construction. Owners were also required to submit a schedule detailing why the requested extension is necessary, and specifically how the hospital intends to meet the requested deadline.

For facilities that requested an extension of the 2013 deadline for SPC 1 acute care hospital buildings as permitted by Senate Bill 90, plans ready for review consistent with their letter of intent and schedule are required to be submitted by January 1, 2015. A financial report to demonstrate the hospital owner's financial capacity to implement the plans is also required to be submitted along with the plans.

Senate Bill 90 does not provide any guidelines on the content of the financial capacity report. This PIN has been prepared to aid hospital owners in the preparation of the financial capacity reports and to provide uniformity in the content of the reports submitted.

## POLICY

For **Individual facilities** filing SB 90 Financial Capacity Reports, provide the following:

### 1. **Affirmative Statement and Financial Capacity Summary**

An affirmative statement with the signature(s) of the CFO, CEO and/or an individual authorized to obligate the corporation, stating the facility has the financial capacity to implement the construction plans submitted pursuant to Health and Safety Code Section 130060(g)(2)(D).

Example of affirmative statement: *“The attached documents demonstrate the facility’s ability to implement the construction project(s) identified in the construction plans submitted pursuant to Health and Safety Code Section 130060(g)(2)(D)”*

Provide a summary of how the facility intends to finance the construction project(s) identified in the construction plans prior to the expiration of the facility’s SB 90 extension.

## AND

### 2. **Demonstration of Financial Capacity**

Provide one or any combination of the following:

(a) For investment-grade rated facilities planning to incur debt to comply with SB 90: If the facility is currently investment-grade rated (BBB-/Baa3 or above) by a rating agency, the facility shall submit documents from the rating agency affirming that the facility’s investment-grade rating will be maintained after the additional debt is incurred to finance the construction project(s) identified in the construction plans submitted pursuant to Health and Safety Code Section 130060(g)(2)(D). The credit rating of the facility shall not be below BBB-/Baa3.

(b) For non-investment-grade rated facilities planning to incur debt to comply with SB 90: If the facility is not credit rated or rated below BBB-/Baa3 by a rating agency, the facility shall demonstrate that it has the financial capacity to service the debt necessary to finance the construction project(s) identified 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.

(c) For facilities not incurring debt to comply with SB 90:

If the facility intends to pay the cost (or any portion thereof) of the construction project(s) identified in the construction plans submitted pursuant to Health and Safety Code Section 130060(g)(2)(D) out of operating cash, the facility shall provide the previous five years of annual cash flow statements and current cash balance (via complete audited annual financial reports) to demonstrate that the facility has the financial capacity to finance the construction project(s) identified in the construction plans submitted pursuant to Health and Safety Code Section 130060(g)(2)(D).

For **Hospital Provider Groups** filing SB 90 Financial Capacity Reports, provide the following:

**1. Affirmative Statement and Financial Capacity Summary**

An affirmative statement with the signatures of the CFO, CEO and/or an individual authorized to obligate the corporation, stating the Hospital Provider Group has the financial capacity to implement the construction plans submitted pursuant to Health and Safety Code Section 130060(g)(2)(D) for all facilities that are part of the group.

Example of affirmative statement: *“The attached documents demonstrate the Hospital Provider Group’s ability to implement the construction project(s) identified in the construction plans submitted pursuant to Health and Safety Code Section 130060(g)(2)(D) for all facilities that are part of the group.”*

Provide a summary of how the Hospital Provider Group intends to finance the construction project(s) identified in the construction plans prior to the expiration of the facility’s SB 90 extension.

**AND**

**2. Demonstration of Financial Capacity**

Provide one or any combination of the following:

(a) For investment-grade rated Hospital Provider Groups planning to incur debt to comply with SB 90:

If the Hospital Provider Group is currently investment-grade rated (BBB-/Baa3 or above) by a rating agency, the Hospital Provider Group shall submit documents from the rating agency affirming that the Hospital Provider Group’s investment-grade rating will be maintained after the additional debt is incurred to finance the construction project(s) identified in the construction plans submitted pursuant to Health and Safety Code Section 130060(g)(2)(D) for all facilities that are part of the group. The credit rating of the Hospital Provider Group shall not be below BBB-/Baa3.

(b) For non-investment-grade rated Hospital Provider Groups planning to incur debt to comply with SB 90:

If the Hospital Provider Group is not credit rated or rated below BBB-/Baa3 by a rating agency, the Hospital Provider Group shall demonstrate that it has the financial capacity to service the debt necessary to finance the construction project(s) identified in the construction plans submitted pursuant to Health and Safety Code Section 130060(g)(2)(D) for all facilities that are part of the group 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.

(c) For Hospital Provider Groups not incurring debt to comply with SB 90:

If the Hospital Provider Group intends to pay the cost (or any portion thereof) of the construction project(s) identified in the construction plans submitted pursuant to Health and Safety Code Section 130060(g)(2)(D) out of operating cash, the Hospital Provider Group shall provide the previous five years of annual cash flow statements and current cash balance (via complete audited annual financial reports) to demonstrate that the Hospital Provider Group has the financial capacity to finance the construction project(s) identified in the construction plans submitted pursuant to Health and Safety Code Section 130060(g)(2)(D) for all facilities that are part of the group.

<u>Original signed</u>	<u>7/9/14</u>
Paul Coleman	Date

## Appendix A – Code Sections

**California Health and Safety Code (HSC)  
Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983 (HSSA 83)  
Senate Bill 90 (SB 90)**

**§130060 (g)(2)**

(D) The hospital owner submits to the office, no later than January 1, 2015, plans ready for review consistent with the letter of intent submitted pursuant to subparagraph (A) and the schedule submitted pursuant to subparagraph (B).

(E) The hospital owner submits a financial report to the office at the time the plans are submitted pursuant to subparagraph (D). The report shall demonstrate the hospital owner's financial capacity to implement the construction plans submitted pursuant to subparagraph (D)

**The California Administrative Code, 2013  
Chapter 6**

**Section 1.5.2.8.1**

(c) The hospital owner submits to the Office, no later than January 1, 2015, construction documents ready for review consistent with the letter of intent and the schedule submitted pursuant to Section 1.5.2 Items 8.1(a)(i) and (iii). The construction documents shall be accompanied by a financial capacity report. The financial capacity report shall demonstrate the hospital owner's financial capacity to implement the construction plans submitted pursuant to this subsection.

## **Appendix B– Frequently Asked Questions**

1. When can a facility be considered part of a Hospital Provider Group?

A facility is part of a hospital provider group, if all capital projects for that facility as well as other facilities in that group are financed through a central corporate entity.

2. Can a Hospital Provider Group submit one financial capacity report for all of its facilities that have applied for SB 90 extensions?

Yes, the Financial Capacity Summary must contain a list detailing OSHPD facility numbers, facility names, OSHPD building numbers, SB 90 extension numbers and projects submitted or to be submitted to resolve SPC 1 buildings at the facilities (consistent with the letter of intent submitted with each SB90 extension application) and the cost to complete each proposed project.

3. Where do we send the Financial Capacity Report?

The Financial Capacity Report must be submitted to the Seismic Compliance Unit, OSHPD - Facilities Development Division, 400 R Street, Suite 200, Sacramento, CA 95811 no later than January 1, 2015. All construction plans with application forms should be submitted to the appropriate regions of the Building Safety Section of OSHPD - Facilities Development Division.

4. Is there an application form for the Financial Capacity Report?

No.

5. Can existing construction documents be qualifying projects for the SB 90 extension?

Yes. Inform the Seismic Compliance Unit on which projects are to be considered qualifying projects for SB 90 extensions per HSC 130060 (g)(2)(D).

6. How do we indicate that new construction documents are qualifying projects for the SB 90 extension?

Indicate qualifying project for SB 90 extension per HSC 130060 (g)(2)(D) on project application form OSH-FD-121.