

**CITY & BOROUGH OF WRANGELL, ALASKA**  
**BOROUGH ASSEMBLY AGENDA STATEMENT**

<u>AGENDA ITEM TITLE:</u>	<u>NO.</u>	<b>WS</b>	<u>DATE:</u>	November 6, 2017
Work Session: Wrangell Medical Center Feasibility Study, Project Update: Phase I				
<u>SUBMITTED BY:</u>		<u>FISCAL NOTE:</u>		
		<b>Expenditure Required:</b>		
		\$		
Lisa Von Bargen, Borough Manager		<b>Amount Budgeted:</b>		
		\$0		
		<b>Account Number(s):</b>		
		N/A		
		<b>Account Name(s):</b>		
<u>Reviews/Approvals/Recommendations</u>		N/A		
	Commission, Board or Committee	<b>Unencumbered Balance(s) (prior to expenditure):</b>		
Name(s)		N/A		
	Attorney			
	Insurance			
<b><u>ATTACHMENTS:</u></b>				
1. PowerPoint Presentation				

**RECOMMENDATION MOTION:**

None. Work session discussion only.

**SUMMARY STATEMENT:**

This is a joint work session with the Board of the Wrangell Medical Center to hear a presentation by BDO regarding the financial feasibility of a new hospital facility for the community. Following direction by the Assembly, WMC entered into a professional services agreement with BDO to conduct Phase I of a financial feasibility analysis. The analysis reviewed the financial capability of WMC to handle the debt reimbursement for the two different hospital scenarios that have been explored to date at the concept level. The first is a stick-built hospital at an estimated cost of \$51 Million. The second is a modular-built hospital estimated at \$41 Million.

The second phase of this process is to conduct an Examination Study and Report which BDO will explain during the presentation. The cost of Phase I was \$25,000. BDO has agreed to conduct the much

more detailed, and labor intensive Phase II for a lump sum of \$100,000. Currently there is no contractual obligation to continue with Phase II.

Administration from both WMC and CBW concur that work regarding a third-party operating partner needs to be the next order of business. If the decision is made by the community to move forward with a third-party option, that partner may have a major role to play in the design needs of a new hospital. It is possible, even likely, that a third design concept will be necessary. It seems prudent to consider waiting to move forward with a Phase II Examination Study and Report until a decision is made about a third-party operator and a design concept is formally adopted by all stakeholders. The process moving forward should be a topic of discussion at the work session following the presentation by BDO.

A copy of the PowerPoint Presentation BDO will be using is attached for reference.

PATIENT 132-54/B



BLOOD RESULTS

INVESTIGATION	RESULTS	NORMAL VALUE
WBC Count	12.500	4.5-11.0
RBC Count	4.150	4.2-5.4
Hemoglobin	12.000	12.0-16.0
Hematocrit	37.000	37.0-47.0
Platelet Count	215.000	150.000-450.000
Prothrombin Time	14.500	11.0-14.0
Partial Thromboplastin Time	32.000	27.0-35.0
Fibrinogen	4.000	2.0-4.0
D-Dimer	0.500	0.0-0.5
Urea Nitrogen	10.000	7.0-13.0
Creatinine	1.200	0.6-1.2
BUN/Creatinine Ratio	8.300	10.0-20.0
Glucose	100.000	70-100
Cholesterol	200.000	125-200
Triglycerides	150.000	50-150
HDL Cholesterol	35.000	40-60
LDL Cholesterol	130.000	130-160
Total Cholesterol	265.000	200-240

BY DATE

DATE	RESULTS
11/15/17	13.000
11/15/17	96.000
11/15/17	68.000
11/15/17	28.000
11/15/17	100.000
11/15/17	14.500
11/15/17	28.000
11/15/17	10.000
11/15/17	1.200
11/15/17	10.000
11/15/17	1.200
11/15/17	10.000
11/15/17	1.200
11/15/17	10.000
11/15/17	1.200
11/15/17	10.000
11/15/17	1.200

PRESCRIPTION

Patient ID 132-54/B  
DOB 8/7/54  
HC 291873  
Doctor ID 1549B  
Date 12-05

**Rx**

TZ-47 500mg Tablet Sustained Release 24HR  
Sig: 1 Tablet(s) 500mg by mouth once day  
Diag: 50 Tablet(s)  
Refills: 0

Healthcare Center  
Signed by 132-54/B

PRINT SEND ATTACH DELETE

# WRANGELL MEDICAL CENTER FEASIBILITY STUDY *Project Update: Phase I*

THE BDO CENTER FOR HEALTHCARE  
EXCELLENCE & INNOVATION

November 2017

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.



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3. Financial Projections of Cash Balance
5. Recommendations and Next Steps

# WRANGELL MEDICAL CENTER FEASIBILITY STUDY

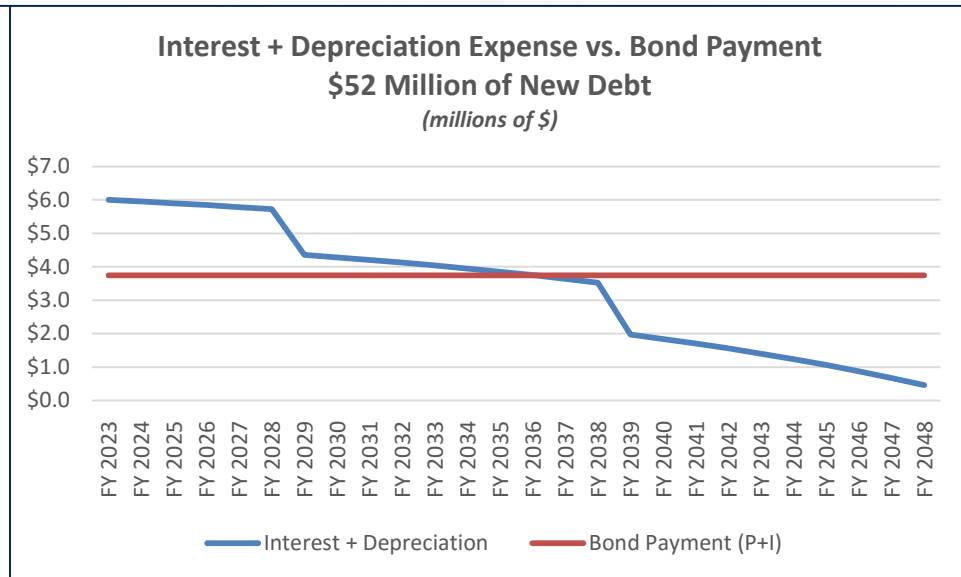
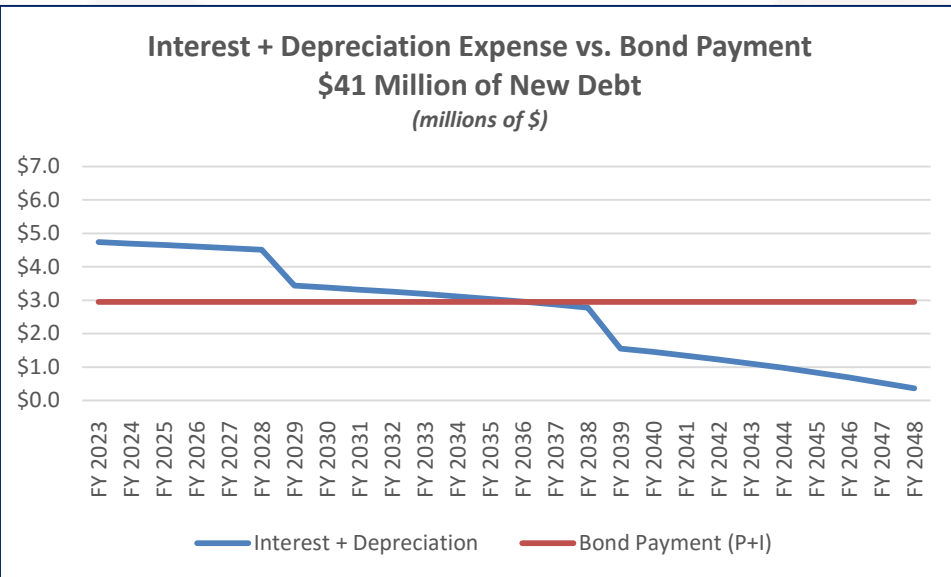
## Executive Summary

- Recent Developments
  - Project design completed - Jensen Yorba Lott
  - Design drawings were used to obtain estimates for project cost
  - Cost estimates were higher than expected
    - Modular Option - \$41 million
    - Stick-Built (on-site) Option - \$52 million
- Based on this information, new financial projections were developed
  - 2 scenarios
    - \$41 million in new debt
    - \$52 million in new debt
  - Both scenarios appear to be feasible, pending Examination report
    - \$41 million scenario is the more financially advantageous of the two
- Examination Report required by financing authority
  - Actuarial review of the financial projection and assumptions
  - Many factors can change depending on the Actuarial review
    - Growth rates for revenue and expenses
    - Assumed interest rate for new debt
    - Viability of new or assumed increase in patient volume

# WRANGELL MEDICAL CENTER FEASIBILITY STUDY

## Project Cost vs. Reimbursement

- Wrangell Medical Center is reimbursed based on costs for Medicare and Medicaid
  - The P&L cost for the project is the Interest + Depreciation associated with the project
  - Project cash disbursements is represented by Principal + Interest payments on the new debt



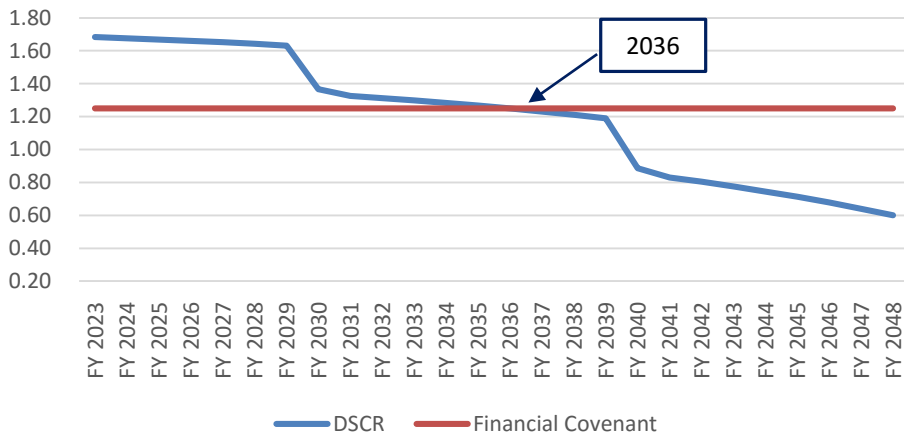
- The underlying assumption is that Wrangell Medical Center would preserve cash throughout the life of the loan
- Routine capital additions are also included in the projections for maintenance of the new facility and capital replacement items



# WRANGELL MEDICAL CENTER FEASIBILITY STUDY

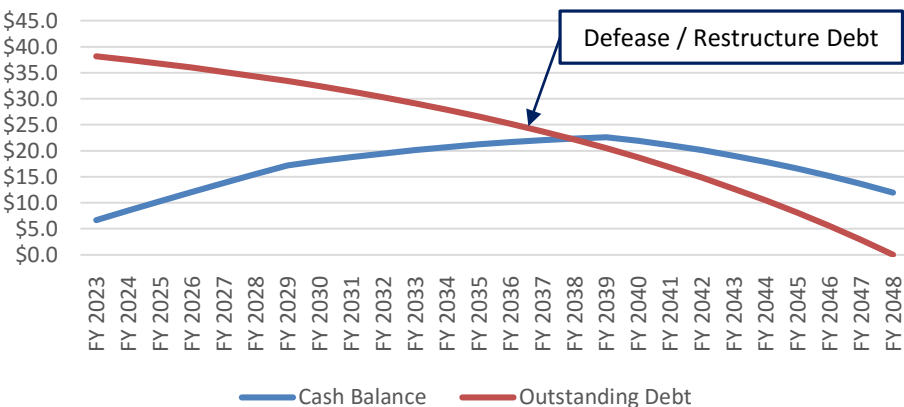
## Modular Option - \$41 Million in New Debt

**Debt Service Coverage Ratio (DSCR)**  
\$41 Million of New Debt



- The Debt Service Coverage Ratio will most likely be tripped in 2036
  - Cash balance is healthy
  - Demonstrates Wrangell’s ability to retire the debt if necessary
  - Discussion will be undertaken with the lender at this point to discuss next steps
    - Renegotiation of financial covenants
    - Restructure the debt
    - Continue to service the loan

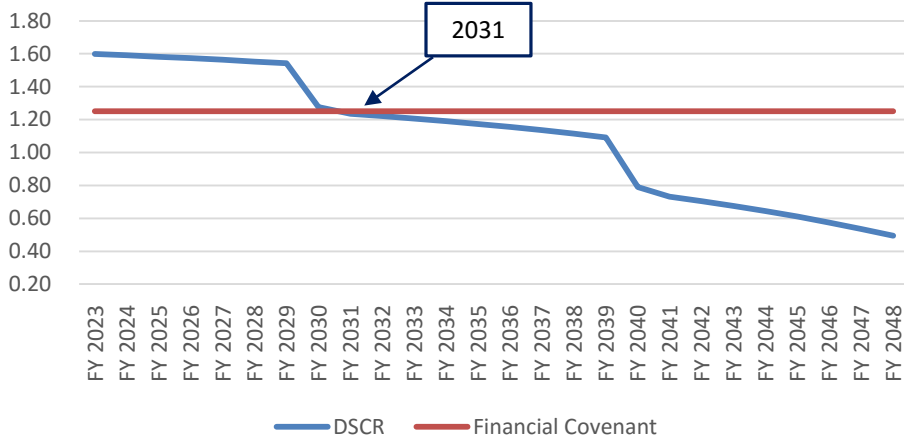
**Cash Balance vs. Outstanding Debt**  
\$41 Million of New Debt  
(millions of \$)



# WRANGELL MEDICAL CENTER FEASIBILITY STUDY

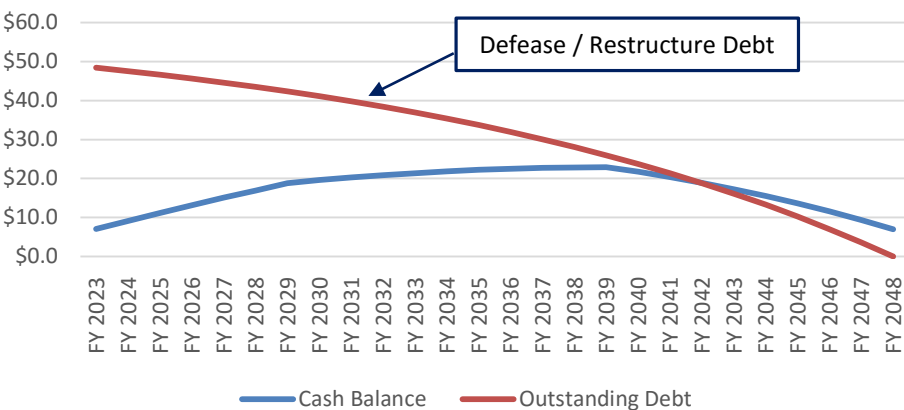
## Stick-Built Option - \$52 Million in New Debt

**Debt Service Coverage Ratio (DSCR)**  
\$52 Million of New Debt



- The Debt Service Coverage Ratio will most likely be tripped earlier in 2031
  - Cash balance is healthy
  - However, the cash balance is less than the outstanding principal on the loan
  - Wrangell still has the financial ability to continue servicing the loan
  - Discussion will be undertaken with the lender at this point
    - Wrangell's financial position would be slightly weaker

**Cash Balance vs. Outstanding Debt**  
\$52 Million of New Debt  
(millions of \$)





# WRANGELL MEDICAL CENTER FEASIBILITY STUDY

## Recommendations and Next Steps

- The project appears to be financially viable
  - For both the Modular Option and the Stick-Built Option
  - Financial stress increases as project cost increases
- Examination level assurance report required
  - Required by financing authority
  - Many factors and assumptions can change
    - All assumptions used in financial projection (growth rates, interest rate, new volume & revenue) will be reviewed by assurance professionals
- Next steps
  - Discussion by Town Committee
  - Proceed if in agreement - Phase II: Examination Study and Report