

## Case Study: Court-Appointed Neutral for Economic Loss Valuation in medical Facility Flood Case

For over 20 years, Lakelet Advisory Group is a leading independent consulting firm that provides complex business valuations, business optimization, and financial forensics services. Our highly credentialed experts focus like a laser on delivering tangible results to our clients. Lakelet Advisory Group has a proven track record by leveraging our comprehensive services and global experience.

### Introduction:

As a court-appointed neutral, my job was to assess the economic loss of a medical facility due to a flood. I provided a neutral valuation for settlement talks and helped align insurance estimates with actual losses. I made sure all related costs were considered and aimed to prevent a long legal dispute by fostering a fair resolution between the facility and insurers.

The flood caused significant issues: over \$3.6 million in damaged medical equipment, \$1.86 million in lost revenue from a three-week shutdown, and \$118,000 for temporary facilities. Other costs, such as employee expenses and

reputational damage, were also assessed. This case study explains the methods used to calculate these economic damages.

### Background:

- **Event:** Major flood at a **medical facility**.
- **Cause of Damage:** Extensive water damage rendered medical equipment unusable, halting operations.
- **Dispute Focus:** Quantification of **economic damages**, including direct property loss, lost revenue, and mitigation costs.
- **Parties Involved:** Insurance company, medical facility owners, and legal representatives.
- **Neutral's Role:** Independently assess and validate the **total economic impact** to provide an unbiased, objective valuation for settlement purposes.

### Comprehensive Economic Loss Quantification:

The total economic loss was calculated using three main parts and additional indirect costs due to downtime.

1. Direct Equipment Damage totaled \$3.6 million, which considered the Replacement Cost Method, the Depreciated Value Method, and Insurance Adjustments. After evaluation, the final equipment damage was \$3,600,000.
2. Business Interruption Loss resulted from the facility being closed for three weeks. It started with historical data showing an expected weekly revenue of \$651,000. The total lost revenue for three

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weeks was calculated as \$651,000 multiplied by 3 weeks, resulting in \$1,953,000. After factoring in variable cost savings of \$97,650, the final Business Interruption Loss was \$1,860,000.

3. Additional expenses for mitigation were \$118,000 for temporary facilities to maintain partial operations.
4. Indirect costs included: Employee & Staffing Costs estimated at \$180,000 - \$250,000; Legal, Insurance, & Compliance Costs estimated at \$75,000 - \$150,000; Supply Chain Disruptions & Inventory Losses estimated at \$90,000 - \$140,000; and Reputational Damage & Lost Patient Trust estimated at \$200,000 - \$300,000.

The overall economic loss, including indirect costs, was estimated to be between \$6,123,000 and \$6,418,000.

## **Court-Appointed Neutral's Role & Impact:**

- Provided a **neutral, fact-based valuation** for settlement negotiations.
- Helped **bridge the gap between insurance estimates and actual financial loss**.
- Ensured **all direct and indirect costs were included** in the claim.
- Prevented a **protracted legal battle** by **facilitating a fair resolution** between the medical facility and insurers.

## **Conclusion and Key Takeaways:**

Direct business losses of \$5.57M are only a part of the total damage, with indirect costs raising it to \$6.1M - \$6.4M. A complete recovery strategy needs to focus on employee retention, legal compliance, and patient trust. A court-appointed neutral is vital for fair resolution of insurance claims and disputes.

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