Facility Renovations & Expansions

OHSU Office of Rural Health Webinar

March 17, 2009
12:00 p.m. (PT)
Presentation Agenda

- Key Underwriting Issues
  - Review of 2008 Study Results
- Key Development Issues
  - Case Studies
- Financial Markets Update
Key Underwriting Issues
A Banker’s Perspective

- The same as most Boards of Trustees
- Will the organization be able to pay the debt back?
  - What will it cost to build?
  - How much can we charge?
  - How much will it cost to run?
- Data now becoming available to determine what to date has been only myths and rumors
2008 Rural Hospital Renovation & Expansion Study

- Goal of study was to begin collecting information from hospitals that have pursued renovation and expansion projects
- 10 participating hospitals from 8 states
- Feedback on:
  - Community and Medical Staff reaction
  - Financial and Utilization impact
  - Lessons Learned
2008 Rural Hospital Renovation & Expansion Study

Purpose for Renovation and Expansion

- Expand Existing Services: 100%
- New Services: 40%
- Aesthetic Improvements: 60%
- Professional Staff Recruitment: 50%
# 2008 Rural Hospital Renovation & Expansion Study

<table>
<thead>
<tr>
<th></th>
<th>Surpassed Expectations</th>
<th>Met Expectations</th>
<th>Below Expectations</th>
<th>Uncertain/NA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physician Referrals</td>
<td>40%</td>
<td>50%</td>
<td>0%</td>
<td>10%</td>
</tr>
<tr>
<td>Market Share</td>
<td>30%</td>
<td>50%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Physician Retention</td>
<td>30%</td>
<td>50%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Physician Recruitment</td>
<td>30%</td>
<td>50%</td>
<td>0%</td>
<td>20%</td>
</tr>
<tr>
<td>Nursing Staff Retention</td>
<td>10%</td>
<td>50%</td>
<td>10%</td>
<td>30%</td>
</tr>
<tr>
<td>Community Satisfaction</td>
<td>40%</td>
<td>30%</td>
<td>0%</td>
<td>30%</td>
</tr>
</tbody>
</table>
Outpatient Visits

Renovation Study Median  Replacement Study Median

Prev 2  Prev 1  Post 1
FTEs

Renovation Study Median
Replacement Study Median

Prev 2
Prev 1
Post 1

0%
1%
2%
3%
4%
5%
6%
Operating Margin

Renovation Study Median
Replacement Study Median

- Prev 2
- Prev 1
- Post 1
Days Cash on Hand

Renovation Study Median  Replacement Study Median

Prev 2  Prev 1  Post 1
Renovation vs. Replacement

Key Underwriting Issue #1: Moving or Staying?

- True cost of staying
  - Age of existing building
  - Available adjacent land
  - Ability to continue operations
  - Long-term competitive impact

- True cost of moving
  - Available land
  - Site costs
    - Environmental issues
    - Utility costs
    - Soil conditions
Renovation vs. Replacement
Key Underwriting Issue #2: Available Financial Resources

- Minimum liquidity (cash and investment reserves)
  - Initial development costs significant
  - Will need cushion once project begins
- Equity alternatives
  - Federal programs
  - Capital campaign
  - Direct/Indirect tax-support
  - Obligated Group
Key Development Issues
Is there anything you'd do different with the benefit of hindsight?

- Three respondents would do nothing different.
- Spend more time on the operational flow of the new space.
- Should have had a team approach to the design of the space.
- Design added a lot of operational cost.
- Never enough space for storage.
- Get the contractor involved at the very beginning of design.
- Be more aggressive with architects, contractor and hospital representative.
What challenges did you encounter during the project?

- We chose to save money and sacrifice time.
- Prices skyrocketed.
- The operation must continue as we built. It was an enormous coordination of effort and communication.
- Time and money overruns; Utility and site problems; Key personnel turnover.
- Providing space for displaced departments during construction.
- Providing parking space for patients.
- Remodeling an old building is a huge challenge with lots of surprises and unforeseen problems to deal with.
- Delays in materials and shortage of skilled construction workers have been the two biggest reasons our project will not be completed on time.
What challenges did you encounter during the project?

- Noise, delays, and discovery of previous design/construction errors plagued these projects.
- We failed to obsess on minor equipment needs while we designed this project. We spent most of our cost overrun on the unplanned incidentals.
- Faster time frame and coming in under budget.
- Very Successful.
RX – Prescription for better outcomes

- Develop a team approach using a team of experienced professionals that understand the challenges of Rural Markets with Planning, Design and construction.

- An experienced team has established a process that covers all the steps necessary to avoid the common pit falls.
Successful team has an experienced leader

- Visionary.
- Generalist.
- Detail oriented.
- Good communication.
- The leader is the owner’s representative.
- Develops overall project schedule.
Team Players

- Owner
- Provides a qualified team leader.
- Current facilities building analysis.
- Material testing.
- Soil testing.
- Survey.
- Soil borings.
- Environmental studies.
- Equipment planning.
- All of these items managed by the team leader.
Health Care Operational Analyst

- Understands rural markets.
- Understands rural demographics.
- Strategic planning (strategy mapping).
- Understands reimbursement systems.
- Understands operations.
- Understands service line opportunities.
- Understands benchmarking.
- Develops business plan.
- Develops operational plan, policies, procedures, staffing etc.
Financial Consultant

- Coordinate financing opportunities from the get go must have experience in financing rural facilities.
Space Program

- Develops space needs based on Healthcare operational analyst.
Architectural and Engineering

- Need professionals that understand rural design and construction environment.
- Understands need for operation flow for efficiency of limited staff.
Construction entity

- Able to provide early accurate conceptual estimates.
- Able to provide Guaranteed Maximum Price (owner retains savings once bid) early as possible.
- Able to manage subs in a rural environment and company strength sufficient enough to self perform if subs fall behind.
Case Study: Hospital District #1 of Rice County & Noble Place

- Comprehensive Planning
- New Construction vs. Renovation
- The Disruption Factor – Be Flexible
- Lessons Learned
- Celebrate the Milestones
Case Study:
Annie Jeffrey Memorial County Health Center

- Future of local market?
- Can existing facilities be utilized?
- What is the debt capacity of facility?
- What can we do operationally to improve our bottom line?
- What options are available (add-on/remodel; replace; phased replacement; or do nothing)?
Case Study: Fredonia Regional Hospital

- Future of local market?
- Can existing facilities be utilized?
- What is the debt capacity of facility?
- What can we do operationally to improve our bottom line?
- What options are available (add-on/remodel; replace; phased replacement; or do nothing)?
Case Study: Medicine Lodge Memorial Hospital

- Future of local market?
- Can existing facilities be utilized?
- What is the debt capacity of facility?
- What can we do operationally to improve our bottom line?
- What options are available (add-on/remodel; replace; phased replacement; or do nothing)?
Case Study: Kiowa District Hospital & Manor

- Future of local market?
- Can existing facilities be utilized?
- What is the debt capacity of facility?
- What can we do operationally to improve our bottom line?
- What options are available (add-on/remodel; replace; phased replacement; or do nothing)?
Financial Markets Update
Credit Crisis of 2008

Spread between High Yield Corporate Bonds/Treasuries

Key 2008/2009 Trends

January 2008

January 2009

Source: Thomson Market Monitor
Financial Structuring Options

Typical Bond Structure

Unenhanced
- Rating: A, BBB, N.R.
- Interest Rate: Fixed

Credit-Enhanced

Letter of Credit
- Rating: AA, A
- Interest Rate: Var. or Fixed

FHA / USDA
- Rating: AAA/AA
- Interest Rate: Fixed (FHA only) or Variable

Bond Insurance
- Rating: AAA, AA, A
- Interest Rate: Var. or Fixed
Key Takeaways

- Renovation projects offer a viable improvement option.
- One of the most important initial decisions is whether to stay or move.
- Successful projects require senior management leadership and an experienced team.
- Financing options continue to exist.
Questions?

Matt Lindsay  
Vice President  
mlindsay@lancasterpollard.com  
Lancaster Pollard  
(614) 224-8800

Jim McClure  
President  
james@mcclureandassociates.org  
McClure and Associates  
(402) 578-8222

Study Sponsors: