



Facility Renovations & Expansions

OHSU Office of Rural Health Webinar

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



McClure and Associates, Inc.



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



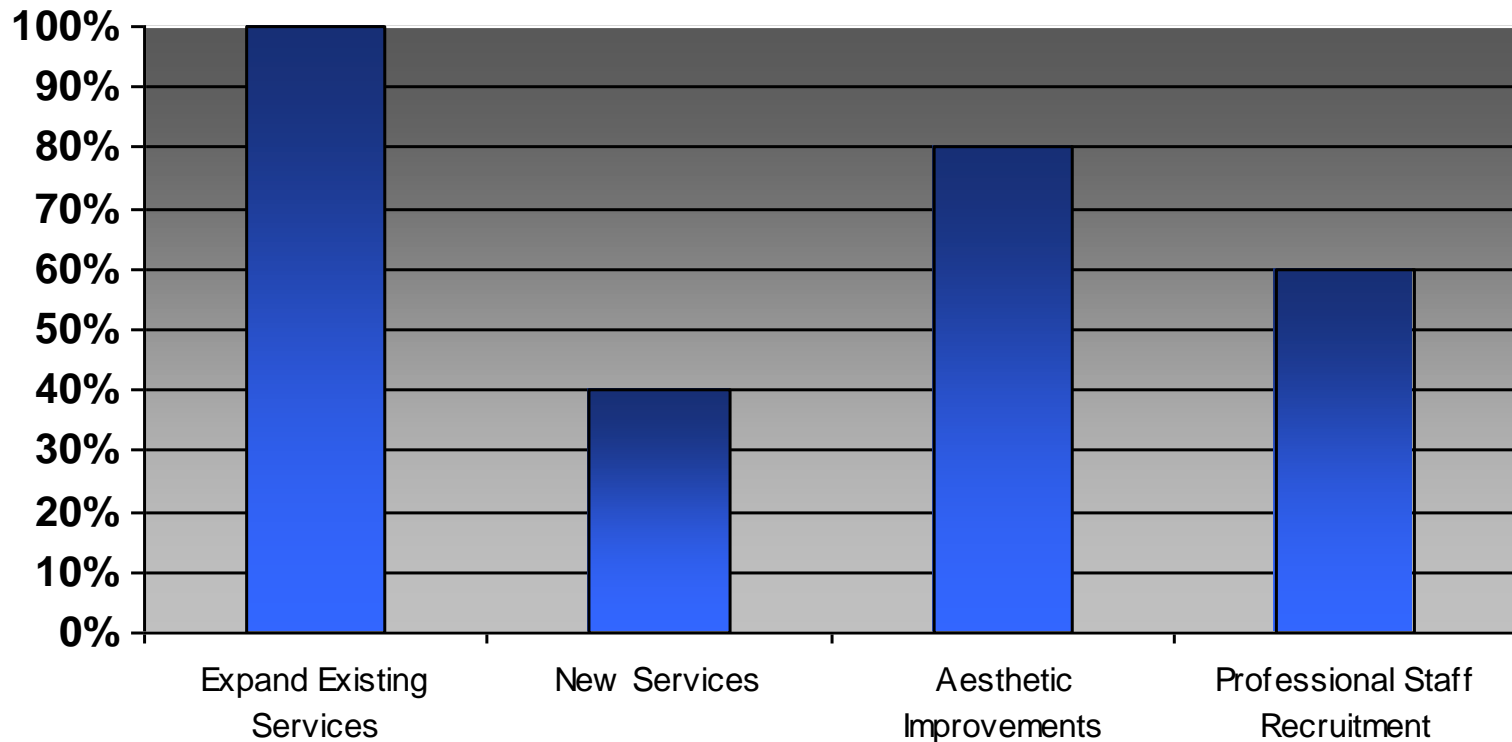
2008 Rural Hospital Renovation & Expansion Study

- 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

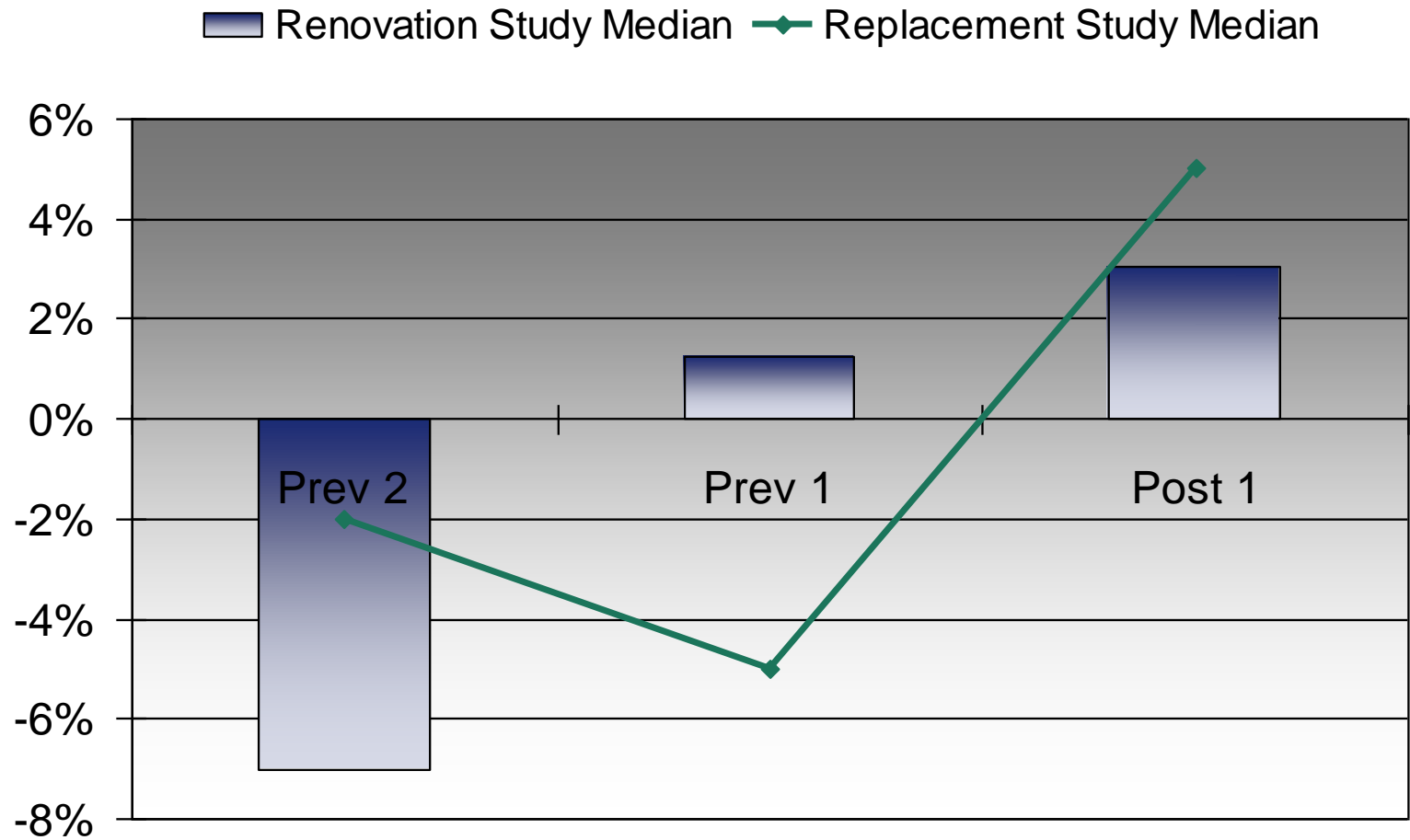


2008 Rural Hospital Renovation & Expansion Study

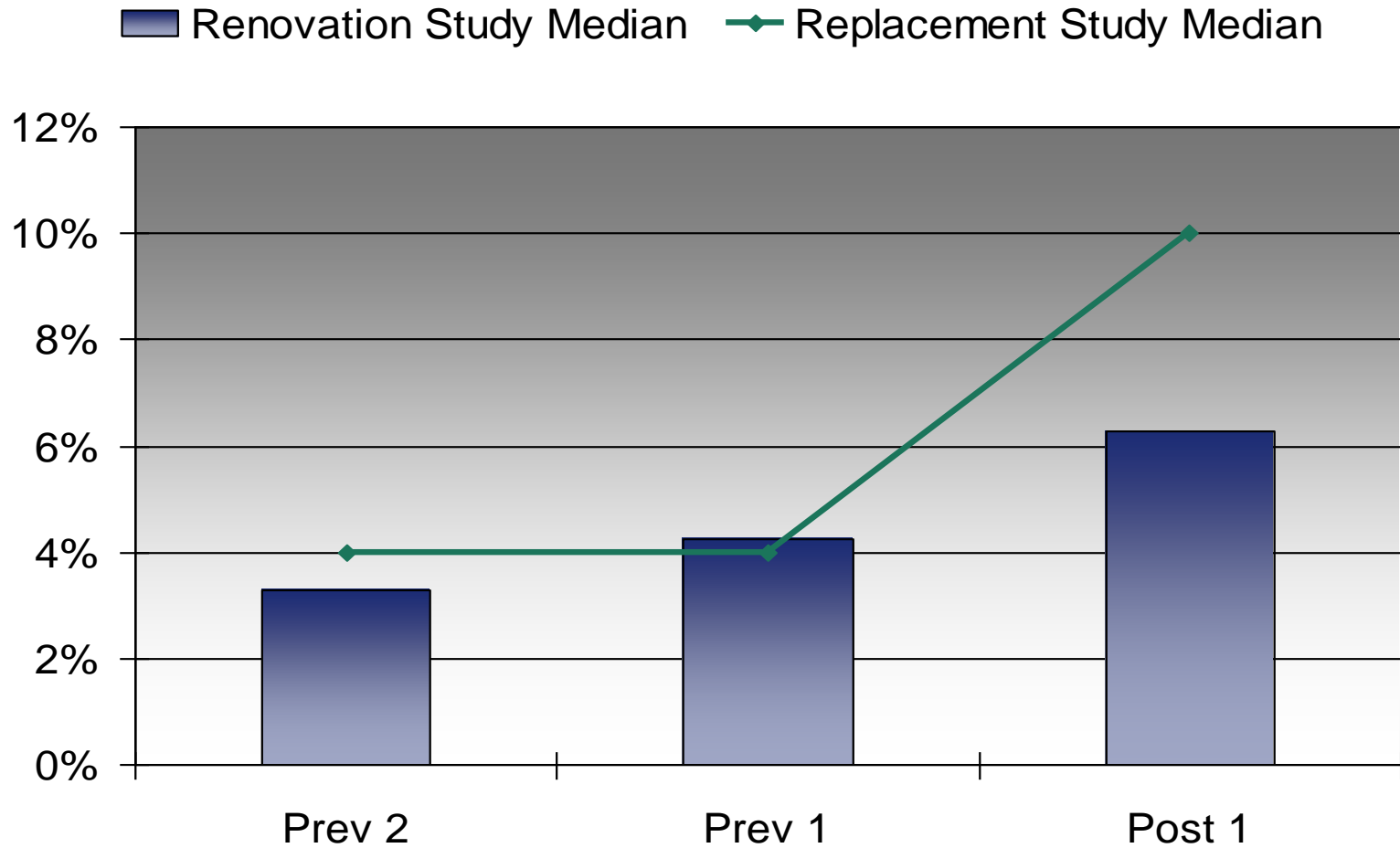
	Surpassed Expectations	Met Expectations	Below Expectations	Uncertain/NA
Physician Referrals	40%	50%	0%	10%
Market Share	30%	50%	10%	10%
Physician Retention	30%	50%	10%	10%
Physician Recruitment	30%	50%	0%	20%
Nursing Staff Retention	10%	50%	10%	30%
Community Satisfaction	40%	30%	0%	30%



Inpatient Days

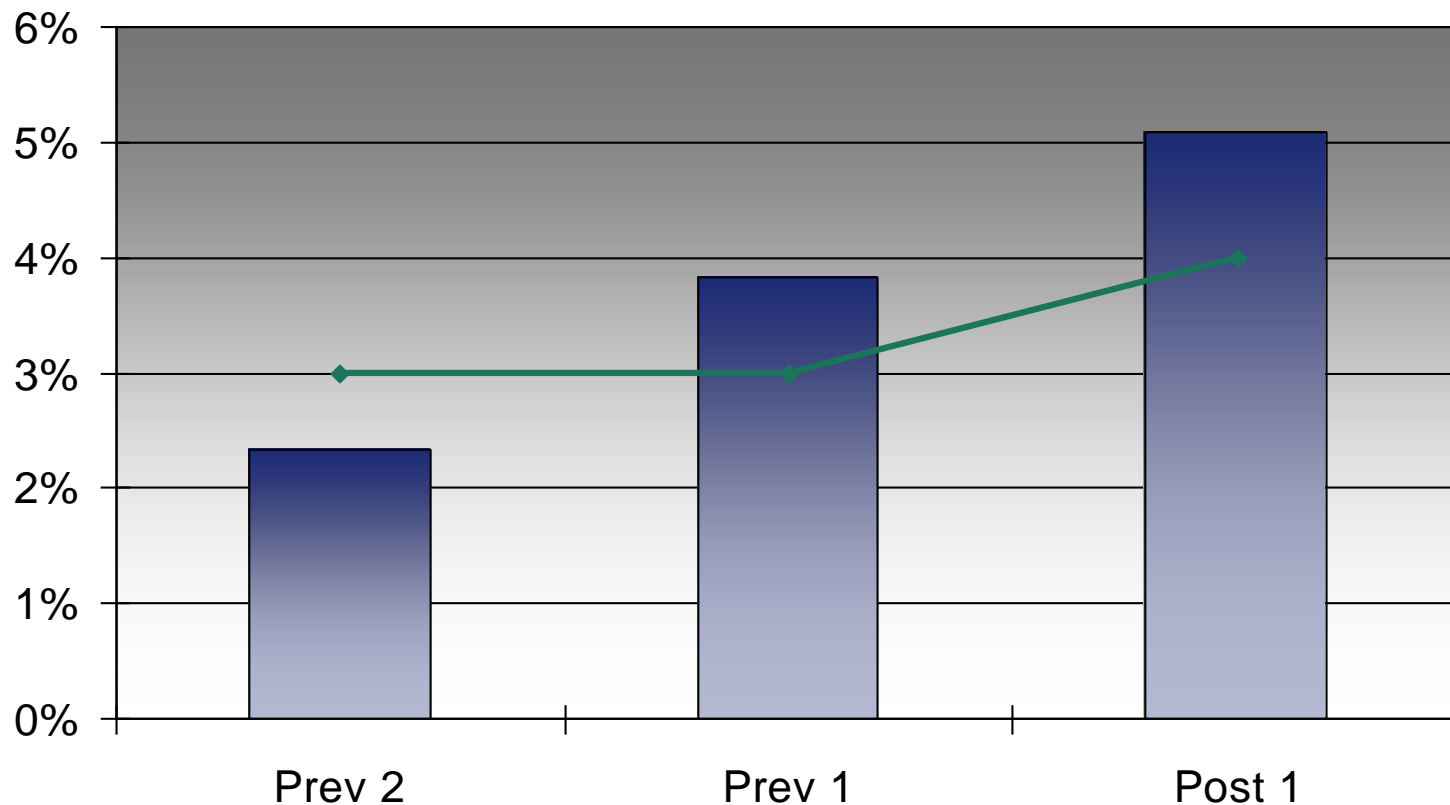


Outpatient Visits



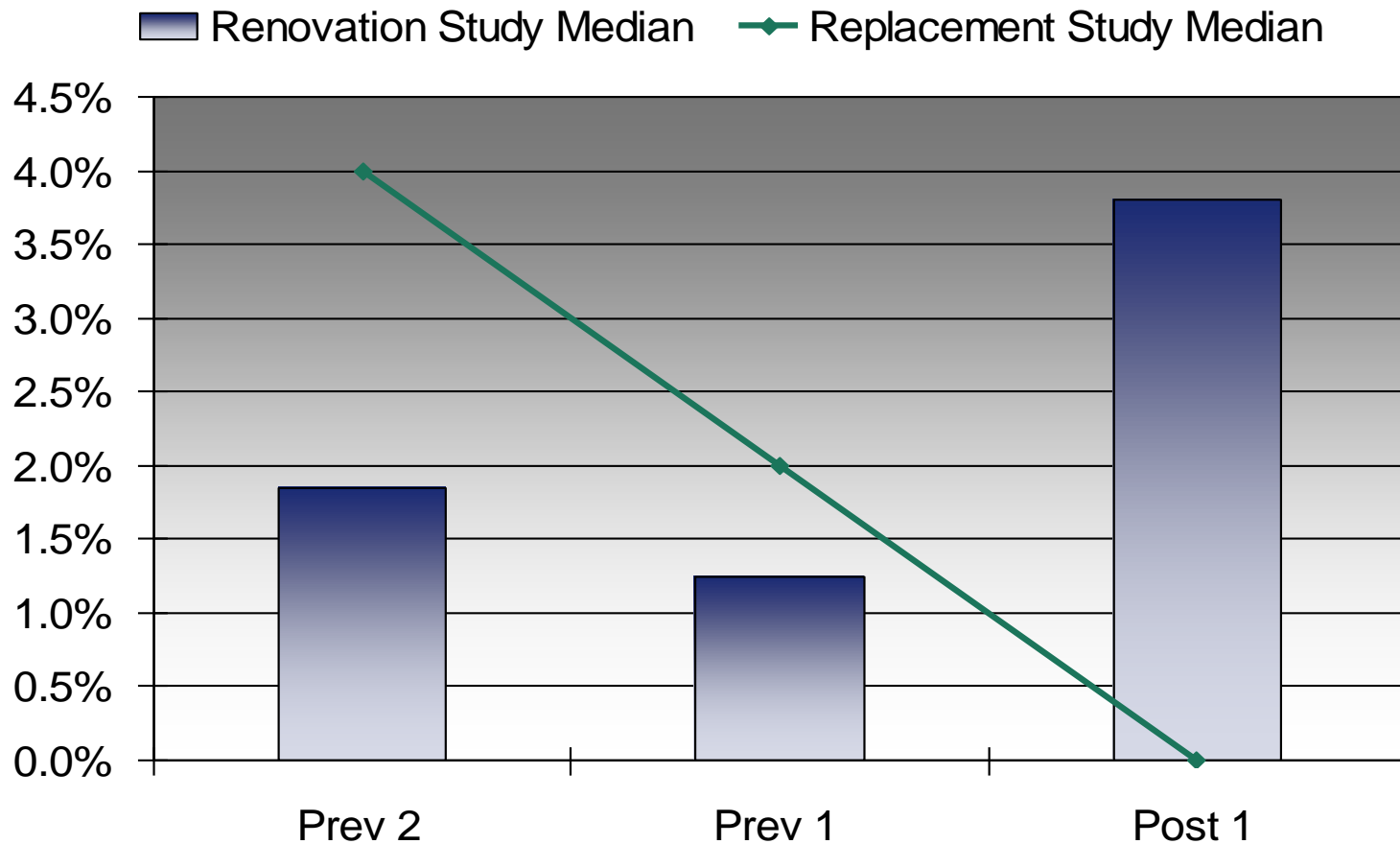
FTEs

Renovation Study Median Replacement Study Median

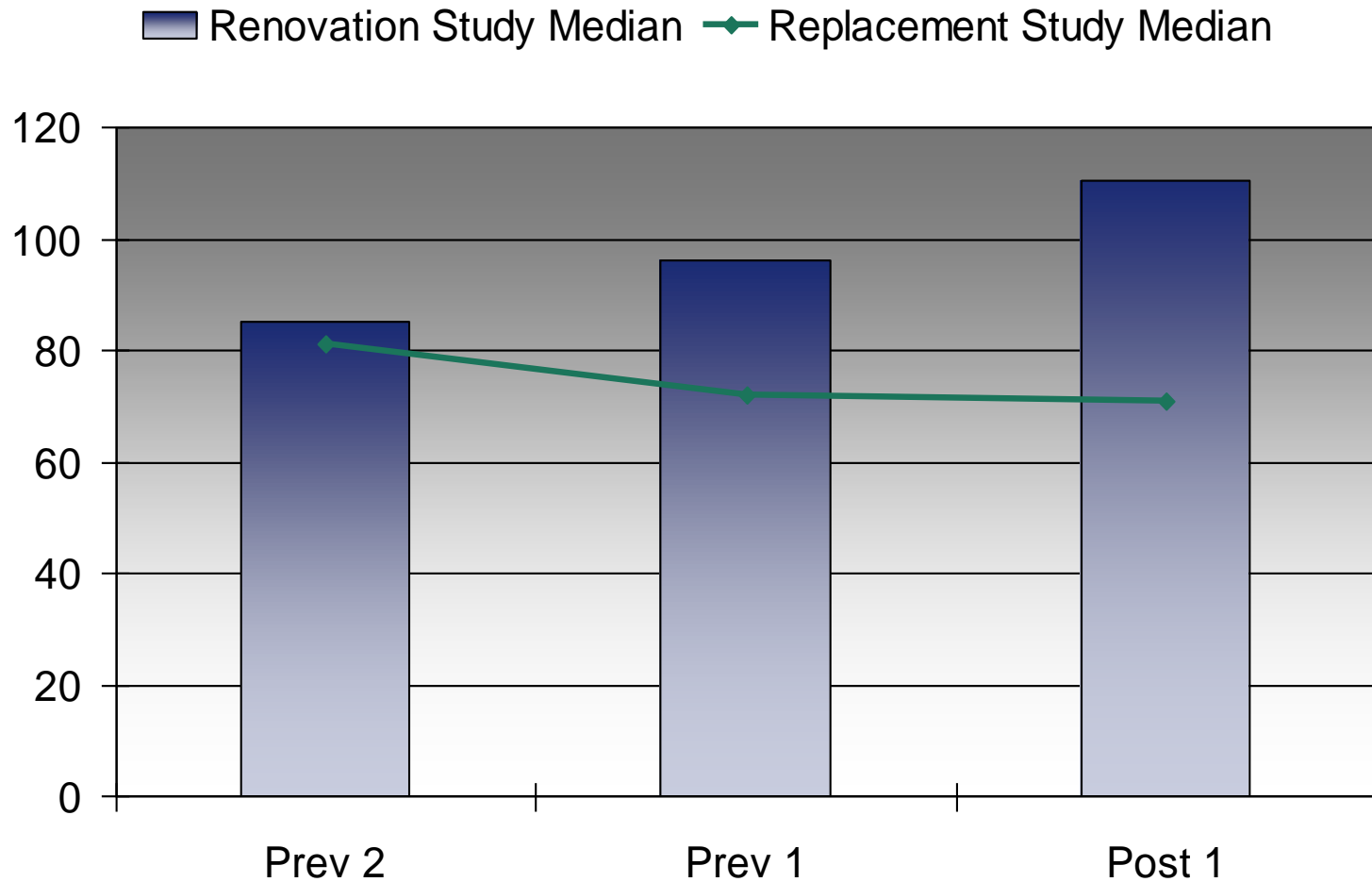


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Operating Margin



Days Cash on Hand



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)?



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Case Study: Fredonia Regional Hospital

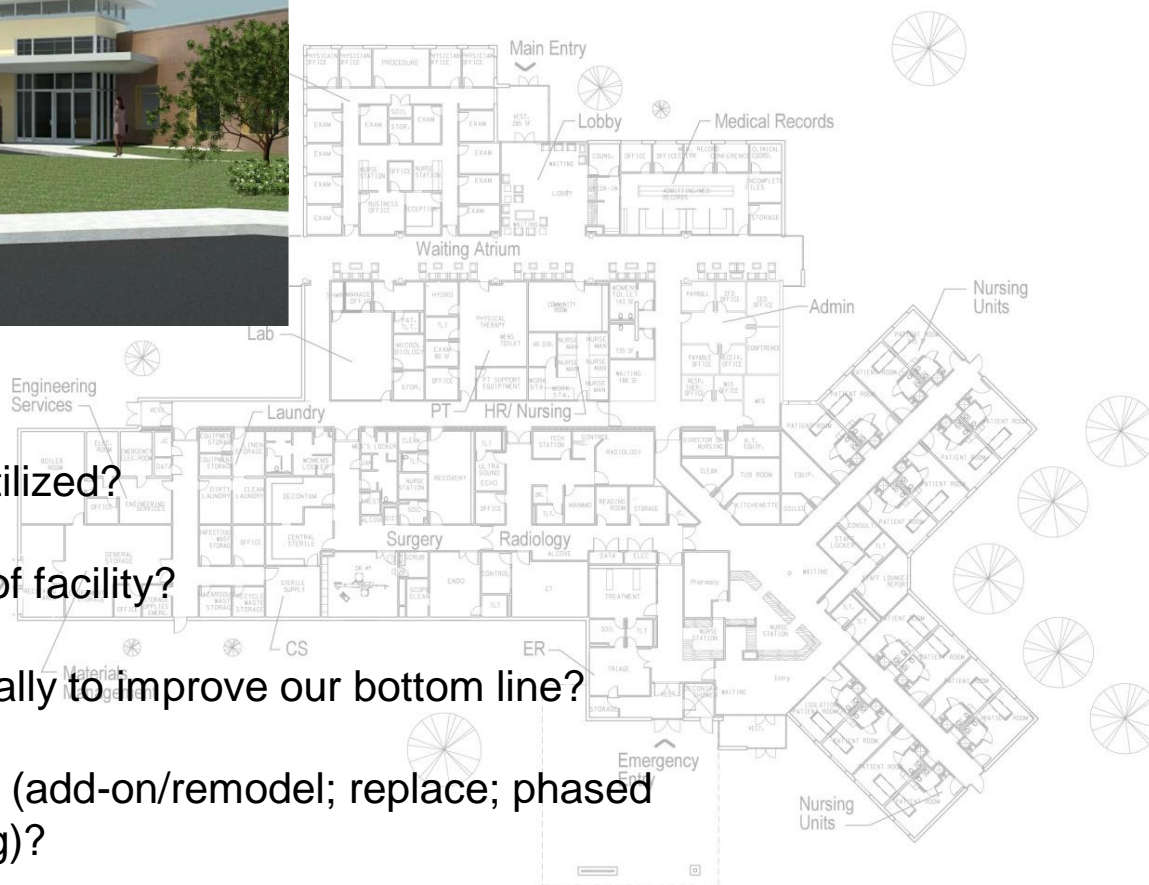


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Case Study: Kiowa District Hospital & Manor



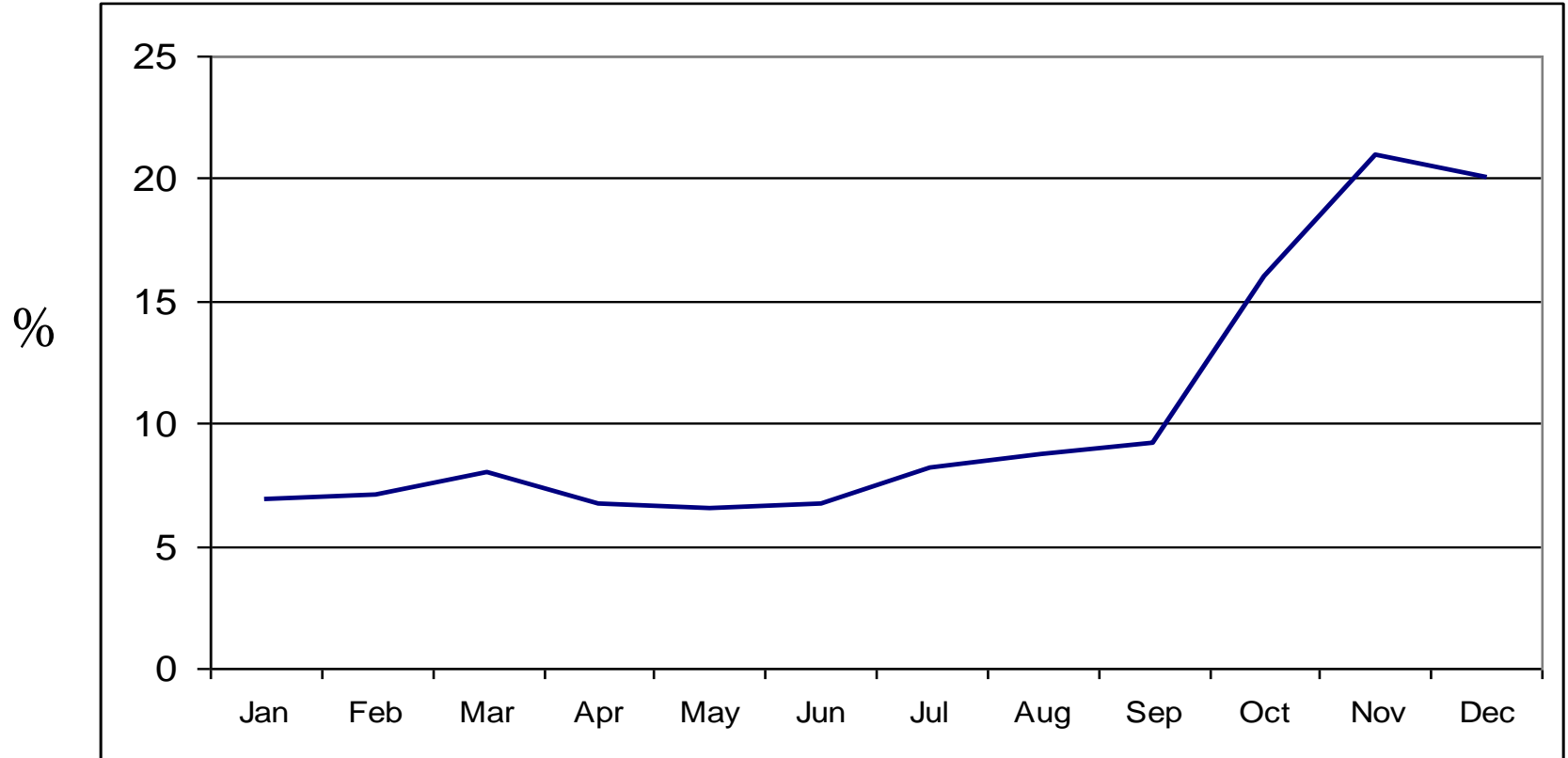
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Financial Markets Update



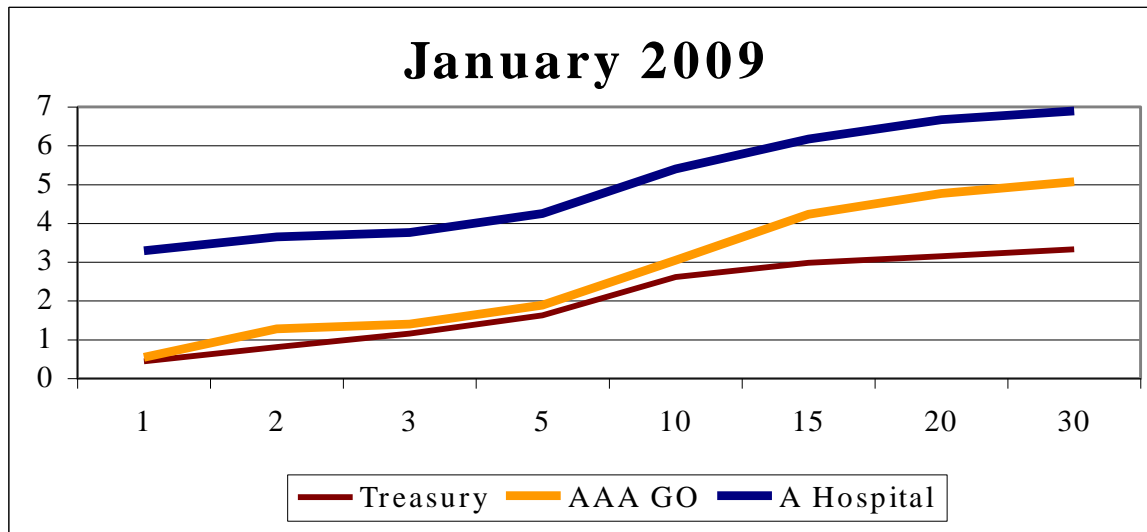
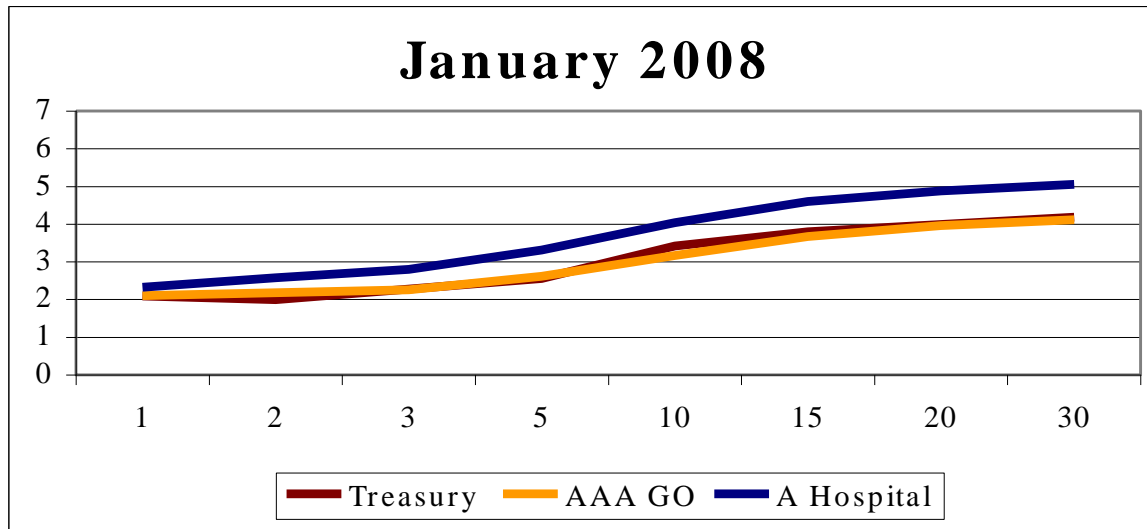
Credit Crisis of 2008

Spread between High Yield Corporate Bonds/Treasuries



Source: Wall Street Journal, 12/29/2008, Merrill Lynch Indexes

Key 2008/2009 Trends

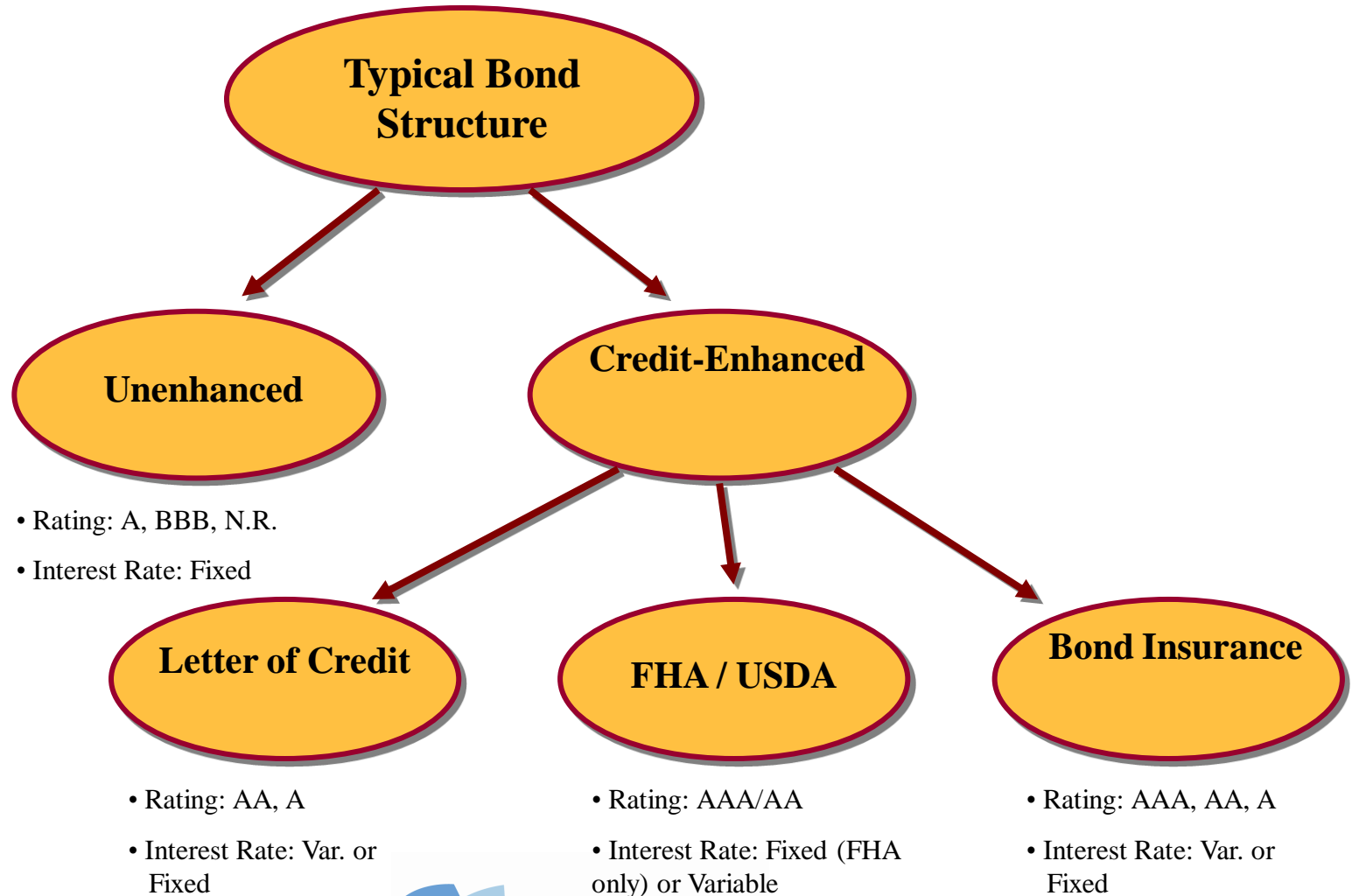


Source: Thomson Market Monitor



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Financial Structuring Options



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?

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