

HFMA NCA 2011 Spring Conference Workshop

Implementing a Successful Capital Improvement Project

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Who Are We?



Larry Maas

Assistant Administrator, Master Site Plan
Sutter Medical Center, Sacramento



Virna Cothrin

Budget Operations & Project Manager
Capital Program Management, Inc.



Michael Ryan

Principal
ANOVA Architects, Inc.



Sarkis Garabedian

Vice President
Piper Jaffray & Co.



The primary tools you need to get to construction:

- A solid plan
- Funding
- The right team

Planning a successful project

How Do I Start?

Develop a Plan:

- Evaluate Operational Needs & Finances
- Philanthropic Efforts
- Consider Future Trends
- Establish a Strategic Goal

Engage the Planning Team:

- Internal Project Team
- Owner's Representative
- Design Professionals
- Contractor (Design Assistance)
- Funding Expert & Bond Counsel
- Bond Campaign Consultant

Plan for the Plan

Business Plan Components:

- Project Design – Conceptual View
 - *What could this project's result be?*
- Initial Project Schedule
 - *When do I need to be up and running?*
- Initial Project Budget
 - *How much money will I need to find?*
- Master Facility Plan
 - *Where are we now, and where are we going?*



Know Your Limits

Gathering Baseline Information:

- Site Conditions
- Existing Buildings
- Local Zoning
- Facility Requirements
- Environmental Impacts
- Authorities Having Jurisdiction
- Community Concerns



Understanding Goals

Develop an Operational Program:

- Current & Projected Medical Services
- Patient, & Staff Experience
 - Choreographing ideal condition
 - Process Mapping
- Spatial Adjacencies & Dependencies
- Operational and Building System Requirements
- Options for the Future

The Space Program

Converting Goals into Space:

- Translating Operational Goals into Space Requirements
- Space Program Basics
- Don't Forget Jurisdictional Requirements
 - CA Building Code
 - OSHPD
 - DPHS
 - Other



Learning From Others

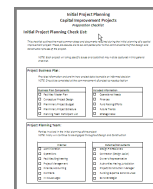
Lessons Learned:

- Experience of peers
 - Success Stories to Build Upon
 - Pitfalls to Avoid
- Field Trips
- Document Findings
 - Pictures/Video
 - Notes

Calculating Costs

Comprehensive Project Budget Development

- Hard Costs
 - Conceptual Design Estimate
- Soft Costs
 - Site Development Costs
 - Agency Fees
 - Utilities
 - Consultants
 - Bid Costs
 - Construction Support
 - Furniture & Equipment
- Allowances
 - Plan for the "Almost Known"
- Contingencies
 - Prepare for the unforeseen
- Escalation
 - Inflation and work delays bring cost impacts



Can I Really Afford That?

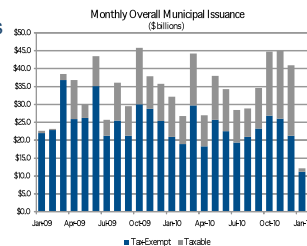
Balancing Act:

- Everything and the Kitchen Sink
- Design to Budget
 - Must Haves
 - “Wish List”
 - Value Engineering
- Managing Expectations
- Fulfilling Promises



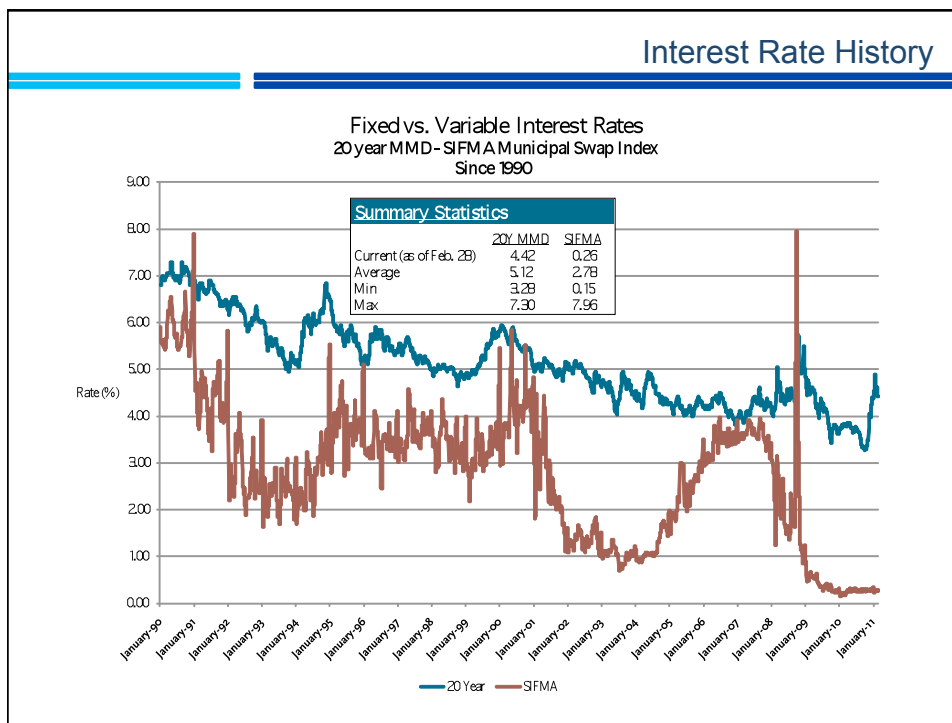
Municipal Market Commentary

- Low interest rates and strong investor demand through most of 2010
- Sharp increase in fixed-rates and volatility from Nov. 2010 – Jan. 2011:
 - Headline Risk
 - Expiration of the Build America Bond (BAB) program
 - Extension of the Bush-era tax cuts
 - Significant outflows from municipal bond funds
 - Improving stock market
- Market rebound and stabilization in mid-February
 - Slowdown of outflows from municipal funds
 - Decreased issuance volume in Q1



- Potential, albeit unlikely, renewal of BAB program at a lower subsidy rate

Interest Rate History



Capital Market Overview

- Fixed-rate market has “thawed” considerably since February
 - Full spectrum of bond transactions getting placed
 - Rates and market tone are improving, stabilizing
 - More careful, lengthy credit review of covenants and security package
- Significant decrease in viable credit enhancement options
 - Bond insurer woes: less than 10% of 2010 volume was insured
 - Threat of further downgrades
 - Letters of Credit remain expensive, onerous to obtain
 - Over \$14 billion of Letters of Credit expiring in 2011
 - Credit grab will make it impossible for all borrowers to get an extension
- SIFMA notes emerging as an alternative variable rate structure
- Initial investor reaction to healthcare reform has been muted (so far)

Important Considerations/Takeaways

- Healthcare providers continue to have strong capital market access
- Your credit rating is key
 - Biggest determinant of cost of capital
 - Emphasis on underlying credit: flight to quality and widening of credit spreads
 - Improved access to credit enhancement and less restrictive covenants
- Qualitative factors are more critical than ever to an organization's credit profile
 - Management expertise, strategy, market position, etc.
- Preparation and strategy for healthcare reform will continue to be a big focus
 - Cost management
 - Quality measures and initiatives
 - IT investment
 - Physician alignment strategies
 - Accountable Care Organizations

Board Approval

Business Plan Presentation:

- Finish the Business Plan
- Discuss Project Options with the Board
- Obtain Approval
- Determine Next Steps
- Get Going
 - *Finish Planning Team Selection.*
 - *Give the Team direction.*
- Pursue the Money



How Much Red Tape is There?

Regulations and Your Project:

- Understand OSHPD's Role
 - Early Involvement in the Process
- Determine Plan Submittal Method
 - Traditional
 - Phased Plan Review
 - Incremental Project
 - Collaborative Review
- Don't Forget Seismic Requirements
 - SB 1953 and all subsequent Senate Bills
- Local Agency Requirements
- CEQA Analysis & Process

Go Team!

Planning for Design & Construction:

- Refine the Schedule
 - CEQA
 - OSHPD Milestones
 - 3-D Modeling
- Delivery Methods
 - Design-Build
 - Lean/Collaborative Team
 - Design-Bid-Build
- Procurement Options
 - RFP/RFQ
 - Selection Process
 - Award the Project
- Who's on Your Team?
 - Roles and Expectations
 - Time Commitment



Now What?

Current Status:

- ✓ ➤ Master Plan & Programming
- ✓ ➤ Funding Assessment
- ✓ ➤ Project Budget
- ✓ ➤ Project Schedule
- ✓ ➤ Project Plan Development & Submittal

Now that we know where we stand,
let's build that building!



Questions ?

 *Sutter Amador
Hospital*
A Sutter Health Affiliate
With You. For Life.

 **Thank You!** 

 *cpm.*
complexity simplified.