

Capital Planning and Access

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STROUDWATER ASSOCIATES



Our Clients

- Academic Medical Centers
- Community Hospitals
- Small/Rural Hospitals

Our Services

- Capital Planning and Access
- Strategic Master Facility Planning
- Mergers, Acquisitions, & Transactions
- Hospital & System Strategic Planning
- Clinical Performance & Patient Safety
- Physician-Hospital Alignment

The biggest risks as well as the biggest opportunities reside at the intersection of strategic planning, clinical operations, physician alignment, facility planning, and capital planning. Stroudwater brings weathered experience in these diverse disciplines to the difficult, pivotal questions confronting the leadership of healthcare organizations as they plan for the future health of their communities.

Among the major challenges faced by healthcare leaders are the balance of facility and capital investments with the ability to access capital, the adoption of new and emerging technologies, and the integration of medical staffs into the clinical enterprise. Stroudwater differentiates its advisory services by offering a broad range of expertise in health care that views a strategic issue from many perspectives simultaneously, not from a functional silo. Stroudwater offers a team with experienced system leaders, clinicians, content specialists, facilities planners, financial analysts, and investment bankers, with an average of 17 years in healthcare per professional.

Many of our professionals have faced the same challenges during their careers as our clients. Accordingly, the firm is able to serve a broad range of clients from tertiary/academic medical centers, long-term care providers, physician practices, rural health providers, community hospitals/systems, and large hospitals in competitive metropolitan markets. Our consultants continuously research, publish, and lecture nationally on the most recent trends affecting the delivery of healthcare. Members of our consulting team are recognized nationally for their expertise in clinical service line management and development. They also teach at national seminars regarding current and future trends in provider organization and management and serve as subject matter experts to organizations like the Advisory Board, the American College of Healthcare Executives (ACHE), and the National Rural Health Association (NRHA).

Capital Planning and Access

The Stroudwater Associates Capital Planning and Access team consists of experienced health care management consultants, all of whom have extensive capital markets expertise. Stroudwater Associates and its principals have raised more than \$5B in project and corporate financing for health care facilities and companies, publicly and privately.

Stroudwater provides a complete package of capital planning and access advisory expertise and the proven capability to execute initiatives that integrate organizational strategy, capital planning, and facilities development. Our cross-functional expertise and perspective make us uniquely qualified to provide customized financial advisory assistance to meet our clients' needs and provide creative financing solutions that support our client's strategic vision.

Our objective is to achieve the following on behalf of our clients:

- ❑ **Create a customized financing structure utilizing multiple capital sources to meet the unique needs and constraints of each client;**
- ❑ **Achieve a low cost of capital given a client's credit quality and risk tolerance;**
- ❑ **Manage a level of exposure to market and credit risk appropriate to each client's circumstances and risk tolerance, and;**
- ❑ **Enhance a client's operating and capital planning flexibility for current capital expenditures and anticipated later initiatives or phases of master facility plans.**

Stroudwater's Capital Planning and Access are distinguished by the decades of experience as hospital operators and developers that we bring to each engagement. In consequence, we understand how important it is to preserve operational flexibility when crafting a long term financing strategy. Our client teams bridge the spaces between organizational, financial and facilities strategy.

Other relevant points of differentiation include our thought leadership and recognized expertise:

- ❑ Stroudwater is publishing the fourth annual national study of rural hospital replacement projects, analyzing volume, efficiency, and bottom line impacts of replacement facilities, as well as interviewing hospital leadership regarding impacts on provider and staff recruitment, performance improvement, and local economic development. Best practices from this study are incorporated into Stroudwater's project work for communities developing facility strategies.
- ❑ In early 2009, Stroudwater will publish the inaugural Community Hospital Replacement Study with the goal of providing community hospital leaders with critical insights into the factors that influence the feasibility and performance of replacement community hospital projects.
- ❑ Stroudwater is a member of the Committee on Healthcare Finance, a policy advisory body that works closely with industry leading legal professionals and mortgage lenders to advise the Department of Housing and Urban Development staff that manages the FHA 242 program for hospitals. The FHA 242 program has been redesigned to streamline its application and underwriting processes. Current volatility in the capital markets has also made FHA 242 an attractive alternative for hospitals that previously had many capital access options but have seen those options eroded over the last few months.
- ❑ Another source of funding for some hospital projects is through USDA loans and loan guarantees. Stroudwater authored the healthcare manual used to educate USDA field staff and to evaluate community facility loan applications. Stroudwater has led training workshops for USDA staff from across the county. •

Our Approach

Strategy

Stroudwater brings an in-depth understanding of the operational, financial, and strategic implications of implementing a master facility plan and of making strategic investments in joint ventures.

This expertise ensures the hospital's "story" is accurately and effectively conveyed to key constituencies in the financial community.

Facilities Financing and Development

Stroudwater and its principals have consulted in the feasibility, financing, development, and licensing of more than 90 health care projects with total project costs of more than \$5B.

Stroudwater has a specific expertise in and passion for crafting unique facility solutions for our clients that match their capital capacity with the size, scope, and cost of facilities to realize their strategic vision.

Clinical Performance

With the growing prevalence of value based purchasing initiatives and increasing financial risk associated with never-events and pay-for-performance, hospitals need to consistently deliver high quality patient care to ensure that financial performance and access to capital are not degraded.

In the three to five years it can take to move a major capital project from concept to occupancy, Stroudwater can help a hospital understand its risk exposure to variations in clinical quality and assist with the implementation of systems to mitigate this risk exposure.

PHASE I: Financing Strategy

Stroudwater Associates will evaluate the financing options available to a hospital within the context of the client's planned short term and long term strategic investments. Stroudwater will assess competing structures and approaches and alternative plans of finance to meet the anticipated future financing requirements to implement the hospital's facility plan and investments in strategic joint ventures. Evaluation of alternative financing structures that meet immediate and long term financing requirements will be a key consideration. Additionally, maintaining the hospital's future operational flexibility and financing capacity are key attributes of any financing strategy for the hospital's outpatient center. Financing options to be evaluated can include:

1. Tax exempt debt, both fixed and variable rate
2. Taxable debt, including bonds or bank debt
3. Credit enhancement programs, if appropriate
4. Government sponsored capital access programs such as FHA 242 and USDA
5. Philanthropy
6. Internally generated cash
7. Private capital or developer financing

It is likely that a financing strategy will use a combination of these sources based on their applicability to various aspects of the project. Tax exempt debt, for example, cannot be used for Medical Office Buildings, so an alternative source is required. Consideration should be given to using developer financing for the non-core facilities of the project.

The financing strategy will be presented to the senior leadership of the hospital for discussion and modification as necessary. The result will be a plan outlining the amount, structure, sources and timing of the financing needed.

PHASE II: Finance Team & Financing Terms

Development of a financing strategy can overlap with selection of the finance team. In a time of rapidly changing market conditions, this approach can allow the hospital and Stroudwater to evaluate the competing options and capabilities of different financing sources and explore new and creative financing strategies presented by the candidates.

A competitive process for selecting the finance team allows the hospital to select the combination of cost of capital, fees and expenses, capabilities, terms and structures that meets its needs. Stroudwater will devote significant care in safeguarding the hospital's operating and financial flexibility by evaluating alternative structures, the terms of competing options, and the potential implications for the hospital's operations and financing of later phases of a facilities plan.

Assistance provided by Stroudwater Associates during Phase II will include:

1. **Development of an RFP** – The RFP will be issued to solicit interest and proposals from financing sources, including investment bankers, bankers, and private sources, as appropriate.
2. **Review and Selection of Finance Team** – Stroudwater Associates will facilitate the review and selection of the Finance Team.
3. **Negotiations of Financing Terms** - Stroudwater Associates will negotiate initial fees and terms of the financings on behalf of the hospital. Negotiations on financing terms will continue in Phase III as the final financing options are evaluated.

PHASE II: Implementation

Once the hospital has selected and approved a Financing Strategy as well as a Finance Team, Stroudwater Associates will assist the hospital in implementation of the strategy.

Assistance provided by Stroudwater Associates during Phase III will include:

1. **Negotiations of Financing Terms** - Stroudwater Associates will negotiate the terms of the financings on behalf of the hospital as the financing progresses. These negotiations will extend to the terms and structure of the Master Trust Indenture — when appropriate, the hospital obligated group, and bond covenants specific to this financing and any terms with private capital sources. Stroudwater will model the likely impact of specific covenants on the hospital's future financing and operating flexibility.
2. **Management of the Finance Team** – Stroudwater Associates will provide overall coordination of the Finance Team to ensure that the elements of the Finance Strategy are being implemented in a timely fashion consistent with the hospital's interests and long term strategic vision. Stroudwater Associates will also coordinate with the facility planners to develop the information needed for financing
3. **Development of Financing Documents** – Stroudwater will work with hospital, bond, and lenders counsel in crafting the documents necessary for the financing. Often there are key issues that either facilitate or impede a client's future flexibility that arise during the drafting of the financing documents.
4. **Presentation to Rating Agencies and/or Investors, if needed** – If a rating or credit enhancement presentation is required, Stroudwater Associates will assist the hospital in preparing for and presenting to the rating agencies and credit enhancers by ensuring that the project, organization and market "story" is told to maximize debt capacity and optimize the hospital's cost of capital.
5. **Coordination of Closing** – Stroudwater Associates will coordinate the closing of the various financings, as required. •

The Team

David L. Whelan
Director
Atlanta, GA Office



M.B.A.
Harvard Graduate School of
Business

B.S.
Georgia Institute of
Technology
Electrical Engineering

Mr. Whelan has more than 35 years of experience in health care and related industries as a consultant and senior manager, most recently as a principal in a national healthcare consulting firm. He is experienced in working with senior management and boards to create and implement a strategic vision. During his career, David has been a senior officer of several public health care companies, including president of a public hospital company and chairman of a public hospital REIT. David is skilled in strategic planning, corporate finance, mergers acquisitions and affiliations, facilities development and general management.

□ *Strategic planning and implementation* - David has prepared strategic plans for a number of healthcare clients, including academic medical centers, integrated delivery systems, regional hospitals and physician groups, and for emerging companies in the healthcare services and information technology industries. He has been responsible for all aspects of development and implementation of strategic plans.

□ *Finance, mergers, acquisitions and affiliations* - During his career, David has raised over \$5B in project and corporate financing for healthcare facilities and companies, publicly and privately. He has managed the acquisition or development of over 100 major healthcare facilities and has extensive experience in evaluating and structuring healthcare transactions and affiliations.

□ *Facilities Planning and Development* - David has significant experience in planning and developing healthcare facilities. He has assisted clients in developing master facility plans for additions to existing facilities through complete replacement facilities. He has managed all aspects of facility development for facilities ranging from academic medical centers to medical office buildings and ambulatory care centers.

Jeffrey B. Sommer
Principal
Portland, ME Office



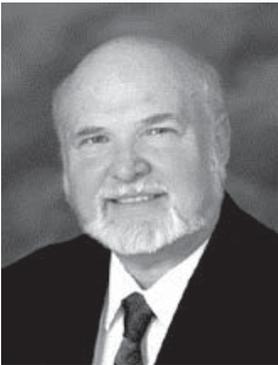
M.P.P.
The Kennedy School
Harvard University

B.A.
Williams College
Political Economy

Mr. Sommer's primary focus over the past 15 years in the health care industry has been assisting clients with strategy development and implementation. Jeff has assisted recently formed multi-hospital systems and community hospitals with strategic planning processes, often with specific emphasis on clinical centers of excellence and physician alignment, master facility planning, and capital planning and access. Jeff is the director of the Community Hospital Replacement Study and is Stroudwater's capital planning and access practice leader.

- Financial strategy development and implementation assistance for \$900M in replacement hospital, new bed tower and clinical centers of excellence projects
- Master facility planning assistance, including demand projections, scenario modeling, site selection analysis, project phasing, and financial strategy development
- Medical staff development planning assistance to optimize the allocation of physician staff development resources via physician need, strategic priority, financial, and market opportunity metrics
- Strategic planning assistance for a health system upon its inception, post-merger – areas addressed by the plan included service reconfiguration, new services/product line development, budget and operational performance, networking, and physician partnering
- Business planning and implementation assistance for a southern New England health system to optimize an \$80M investment in a state-of-the-art ambulatory care and wellness facility
- Authorship of a CON Program Assessment White Paper for the purpose of shaping state regulatory oversight of interventional cardiology services

Robert G. Wallace
Principal
Austin, TX Office



M.S.H.A.
Trinity University

B.A.
St. Edward's University
Business Administration
Healthcare

Mr. Wallace has over 30 years of experience in the healthcare industry. He has worked clinically in various departments, administratively as a Hospital Administrator and Regional Administrator, corporately as the Vice President of Development and Construction for a public hospital company and has been an independent consultant to hospitals and healthcare systems on design and construction issues since 1988. During his career he has managed over ninety healthcare projects from feasibility through licensing with total project costs of over \$ 1.2B.

- Hospital feasibility and capital project budgeting
- Physical plant evaluation
- Build vs. renovate analysis
- Finance package preparation
- Space programming, clinical department planning
- Medical equipment evaluation, budgeting and planning
- Project management. Assuring budget and schedule for facility owners and end users, quality control.

A partial list of the projects Bob has managed:

- Westwood Medical Center, Midland, Texas - New free standing 100 bed acute care hospital
- Heartland Medical Center, Fargo, North Dakota - Renovation and new Women's Center 250 bed acute care
- Pali Momi Medical Center, Honolulu, Hawai'i - New free standing 120 bed acute care hospital with 250,000 ft MOB
- Metropolitan Hospital, Richmond, Virginia - Complete renovation of seven story acute care facility
- Cumberland, Williamsburg, VA - New 80 bed acute / rehab specialty hospital for children
- Presbyterian Hospital of Greenville, Greenville, Texas - Addition and remodeling of 150 bed acute care hospital

Case Study I

125-bed replacement hospital

Kerrville, Texas

Sid Peterson Memorial
Hospital

Series 2005

\$81,675,000

“Stroudwater’s counsel on SPMH’s hedging strategy directly resulted in a \$250,000 savings for SPMH.”

Stroudwater Associates served as Financial Advisor to Sid Peterson Memorial Hospital (SPMH) on its \$81.7M issue of tax-exempt debt financing to construct and equip a replacement hospital. SPMH owns and operates a 145 licensed bed acute care hospital offering comprehensive medical, surgical and ancillary healthcare services located approximately 65 miles from San Antonio. The 125 bed replacement hospital is being constructed on 35-acres located 1.5 miles from the current campus and adjacent to SPMH’s ambulatory care center.

Stroudwater Associates (Stroudwater) was retained to update SPMH’s strategic plan and to test and validate a replacement hospital feasibility study performed by another consulting firm. Cost estimates for the proposed facility, developed by Stroudwater project management, and the updated feasibility study, conducted by Stroudwater Associates, indicated the necessity of recasting the scope, costs, and financing strategy for the replacement hospital. Stroudwater developed an updated financing capacity analysis for SPMH based on current operating results using a sophisticated Monte Carlo simulation for projecting volumes, fund raising and credit rating assumptions. Stroudwater worked with SPMH to modify the scope and design of the replacement facility to meet the anticipated needs of SPMH based on projections for 2014, preserve SPMH’s flexibility for future growth, and enhance the financial feasibility of the project.

Stroudwater also assisted SPMH with the development and execution of an effective interest rate hedging strategy. Stroudwater’s counsel on SPMH’s hedging strategy directly resulted in a \$250,000 savings for SPMH. Stroudwater also worked with SPMH to ensure that Medicare depreciation allowances and the physical assets comprising the existing hospital campus were fully monetized, yielding additional savings. While SPMH wanted to retire the outstanding mortgage on the existing hospital campus prior to its sale, that portion of SPMH’s facilities strategy was non-qualifying for tax-exempt financing. Stroudwater was able to craft a financing strategy utilizing a mix of philanthropy, fixed rate debt and variable rate debt to enable SPMH to achieve its strategic goals, comply with regulatory requirements of tax-exempt financing and match bond maturities to the expected life of the assets being financed.

Stroudwater’s multi-disciplinary approach to complex financial advisory engagements provided substantial value to SPMH. Stroudwater helped SPMH address rating agency concerns about risks associated with undertaking replacement hospital projects. Stroudwater’s real world expertise in hospital replacement projects reinforced positive perceptions regarding the careful analysis, planning and management behind SPMH’s project. •

Case Study 2

new 90-bed tower, cardiac center of excellence and emergency department

Portsmouth, Ohio

Southern Ohio Medical Center

Series 2006

\$131,375,000

“This analysis was validated by the excellent reception received by SOMC from rating agencies, bond insurers and investors despite a lengthy absence from the bond market on its own and the significant scope and risks associated with the project.”

Stroudwater Associates served as Financial Advisor to Southern Ohio Medical Center (SOMC) on its \$131.4M issue of tax-exempt debt financing to construct and equip a new bed tower, expanded ED and operating suites, and construct facilities for a new full-service cardiac surgery program. SOMC owns and operates a 218-bed general acute care hospital located in Portsmouth, Ohio, approximately 110 miles east of Cincinnati and 90 miles south of Columbus. The Project included new construction of more than 200,000 square feet and the renovation of approximately 50,000 square feet. Upon completion of the Project, SOMC's total bed complement will increase from 218 to 259 and the number of private patient rooms will increase from 102 to 211.

Stroudwater Associates (Stroudwater) was retained to advise SOMC on the feasibility and logistics of changing its status within OhioHealth, a nine hospital system centered in Columbus. Stroudwater assessed the value proposition of system membership for SOMC and concluded that SOMC's strong financial and market position coupled with its location 90-miles distant from the locus of the OhioHealth system in Columbus greatly reduced the current and future potential value of system membership.

Stroudwater worked with SOMC and OhioHealth to affect a smooth transition. A key aspect of SOMC's change of status

within the OhioHealth system was the withdrawal of SOMC from the OhioHealth obligated group, the refunding and defeasance of SOMC's portion of the OhioHealth obligated group debt and the concurrent transfer of sole membership from OhioHealth to the SOMC Board. SOMC remains a Special Affiliate of the OhioHealth System.

Stroudwater's multi-disciplinary team provided substantial value to SOMC. Stroudwater's organizational strategy practice performed the analysis that underpinned SOMC's change of status within OhioHealth. This analysis was validated by the excellent reception received by SOMC from rating agencies, bond insurers and investors despite a lengthy absence from the bond market on its own and the significant scope and risks associated with the project.

Stroudwater's facilities planning expertise helped SOMC to identify and address hidden budget overages at an early stage in the cost estimating process, allowing SOMC to successfully recast the project within its capital constraints. Stroudwater's Financial Advisory practice anticipated the need for bridge financing and the potential importance of interest rate hedge products. Stroudwater crafted an underwriter selection process that resulted in significant fee cost savings for SOMC and a resourceful finance team able to efficiently meet the specific needs for financing SOMC's project. •

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