

## HEALTHCARE REAL ESTATE

# FINANCING A HEALTHCARE FACILITY PROJECT - HOW STRONG IS YOUR BUSINESS PLAN?

With the transformation of the healthcare industry continuing from Curve One to Curve Two, questions arise for many healthcare providers and their stakeholders as to what to do with existing facilities — should they be expanded, repurposed, modernized, or should an entirely new facility be built.

Whatever the decision reached, healthcare providers will need access to capital markets, and with that access comes heightened scrutiny of business plans. This scrutiny places significant pressure on hospital management teams, relative to their experience in, and approach to, managing the significant risks associated with large capital spend projects.

Healthcare providers, who are successful in obtaining affordable financing, will be those with the most solid credit profile, business plans, risk mitigation plans, and the management teams responsible for developing and managing them. Capital sources will want evidence that providers have a solid track record of being good stewards of their financial resources — and that starts with diligently “planning the work and working the plan.”

Here are 10 critical questions hospital executives should be asking internally before seeking commitments for capital:

1. Do we have an internal project management organizational structure in place? That structure consists of a designated senior project executive and a steering committee comprised of board committee members, physicians and department heads.
2. Do we have a set of project guiding principles that include operational / performance improvement metrics and objectives? (Note: This is an extremely critical step to offset the rising cost of capital with reduced operational costs from performance improvement initiatives.)
3. Do we have a cohesive physician integration strategy and their “buy-in?”
4. Have we validated market demand for physicians by specialty and ancillary services, with associated volume projections?
5. Do we have the right-sized facility plan, i.e., have we accurately programmed space capacity requirements based on physician mix and service-line volume projections?
6. Do we have a realistic benchmark-tested, “all-in” capital budget that is inclusive of all hard, soft, and financing costs, furniture, fixtures, equipment and medical technology, as well as appropriate contingencies and cost escalation factors?
7. Have we completed an independently validated financial feasibility study?
8. Have we engaged an experienced best-in-class external team to assist with development management, design, engineering, construction management and other professional services?
9. Do we have the necessary project risk management tools and processes in place, including schedule and budget controls?
10. Have we objectively evaluated the various financing and ownership alternatives available for the project and their impact on our financial statements, key credit ratios, and debt capacity? That is, what financing alternative best supports our strategic, financial and operational objectives?

To summarize, hospitals that have well-conceived project-specific business plans that include realistic project budgets, schedules and an overall risk mitigation strategy are more likely to attract capital. Hospitals that bring forth fragmented plans will find themselves in a less creditworthy position.



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### About Navigant

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## ABOUT NAVIGANT HEALTHCARE REAL ESTATE

Navigant's team of professionals assist hospitals in managing the planning, design and construction of facility projects to support their healthcare mission. We offer an end-to-end solution - from concept to reality -- throughout all phases of a project. Our professionals do strategic and operational work on the front end, and then drive that through to a brick-and-mortar solution as warranted. We are entrusted by our clients to help them take control of their future, and BUILD, MANAGE, and PROTECT their business value.

RANKED BY MODERN HEALTHCARE  
AS ONE OF THE

**TOP**  
HEALTHCARE FACILITY  
DEVELOPMENT FIRMS  
FOR 18 CONSECUTIVE YEARS

**NO LITIGATION**  
HAS BEEN FILED ON  
**OVER**  
**\$12 BILLION**  
OF COMPLETED  
PROJECTS

ACCESS TO OVER  
**\$2 BILLION**   
IN COMPETITIVE BALANCE SHEET-READY CAPITAL



**ASSISTED OVER 300**  
HOSPITALS, & ACADEMIC  
HEALTH SYSTEMS & MEDICAL CENTERS



COMPLETED MORE THAN **\$12 BILLION** IN CAPITAL IMPROVEMENT  
PROJECTS, INCLUDING PROVIDING PROGRAM MANAGEMENT SOLUTIONS FOR  
**20 NEW HOSPITAL PROJECTS** AND DEVELOPING  
MORE THAN 100 AMBULATORY CARE PROJECTS

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