

POSITIONING YOUR FACILITY PORTFOLIO FOR TRANSFORMATION, FLEXIBILITY, IMPROVED FINANCIAL CONTROL

HFMA MN CHAPTER WINTER CONFERENCE

1.31.2024





▶▶ OVERVIEW

1. Collaboration to Optimize Your Clinical Real Estate Portfolio
2. Strategy Objectives and Alignment
 - ▶ Optimizing the Ambulatory Portfolio
3. Challenging Traditional Project Delivery and Capital Sources
 - ▶ Containing Costs and Risk
4. Engage Real Estate Team at the Right Time

01

REAL ESTATE STRATEGY

COLLABORATION TO OPTIMIZE YOUR CLINICAL REAL ESTATE PORTFOLIO

Physician Enterprises & Real Estate embark on collaborative effort to optimize the physician clinic real estate portfolio

Background:

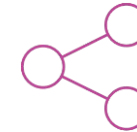
- Historically medical groups focused on **provider metrics** (e.g., wRVUs) rather than **location metrics** (e.g. exam room utilization)
- Many sites became part of portfolio through **practice acquisition**
- Many specialists are **sole user of their space**
- In some cases, **existing sites** predate **current market strategy**



Shared goals across local and national portfolio



Maintain or grow market share



Move to a shared space model for specialists



Right size the portfolio and achieve 70%+ utilization of space



Create management tools to proactively manage the portfolio

Objectives & Anticipated Results

Understand the **CSH “non-hospital” real estate portfolio** - starting with the PE portfolio

Identify opportunities to **maximize controlled space**

Improve **portfolio management**



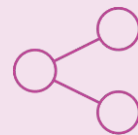
Right size the portfolio and achieve 70%+ utilization

- **Consolidating underutilized or redundant locations** to improve space productivity
- **Optimize and improve occupancy** in the owned & on-campus portfolios
- **Terminate ineffective leases** or subleases when appropriate
- Identify **opportunities to re-negotiate** leases, rates with landlords



Maintain or grow market share

- Locate our existing and new practices in the **best market locations**
- Develop **action plans** for underperforming sites



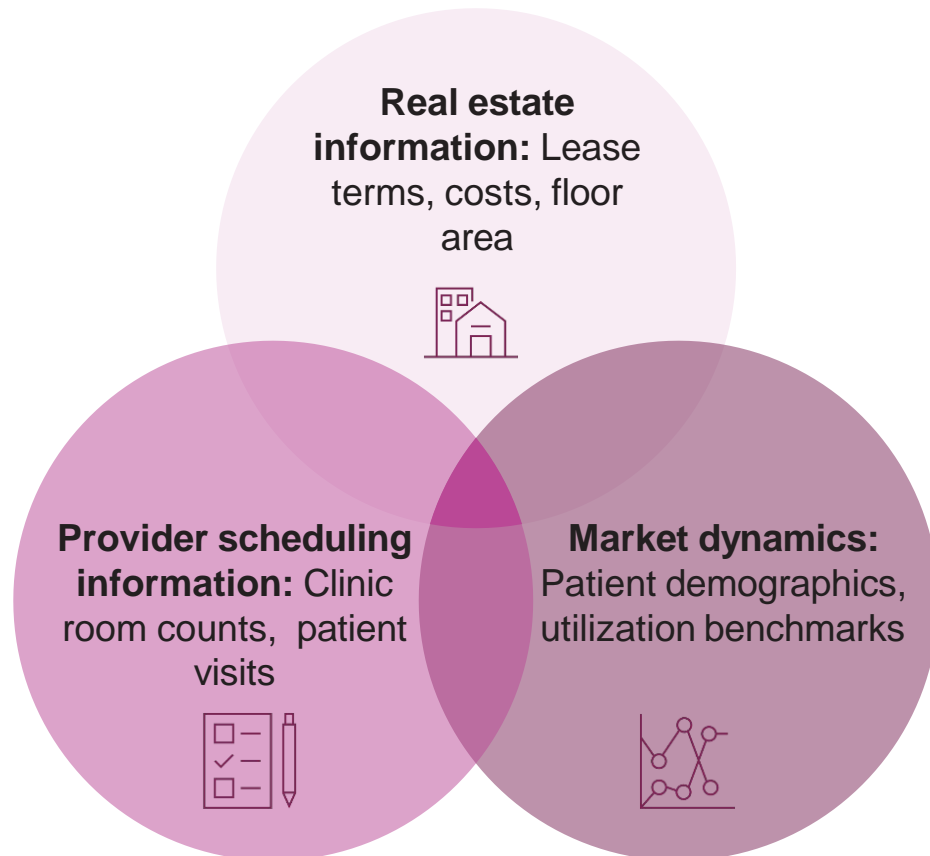
Move to a shared space model for specialists

- Identify existing underutilized space to **place new providers**

Pilot Market

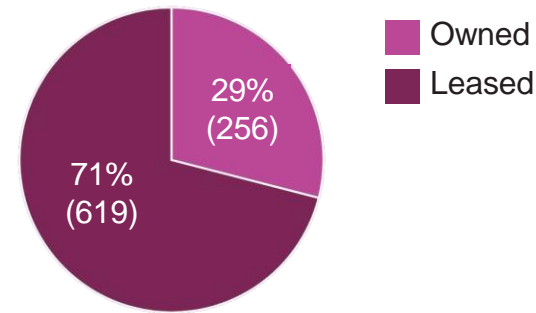
Clinic and market data shows the ambulatory clinic has opportunity for growth

SSOT (Single Source of Truth) was built by combining data from multiple sources....

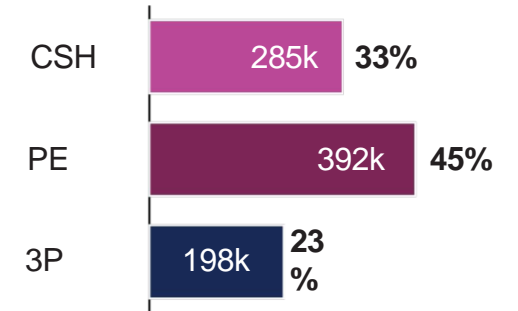


....to give data-driven insights into the ambulatory portfolio in pilot market

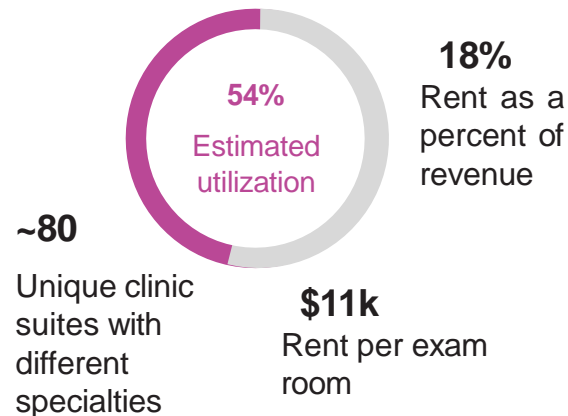
Ownership breakdown K SF, %



Occupier breakdown K SF, %



Space Utilization



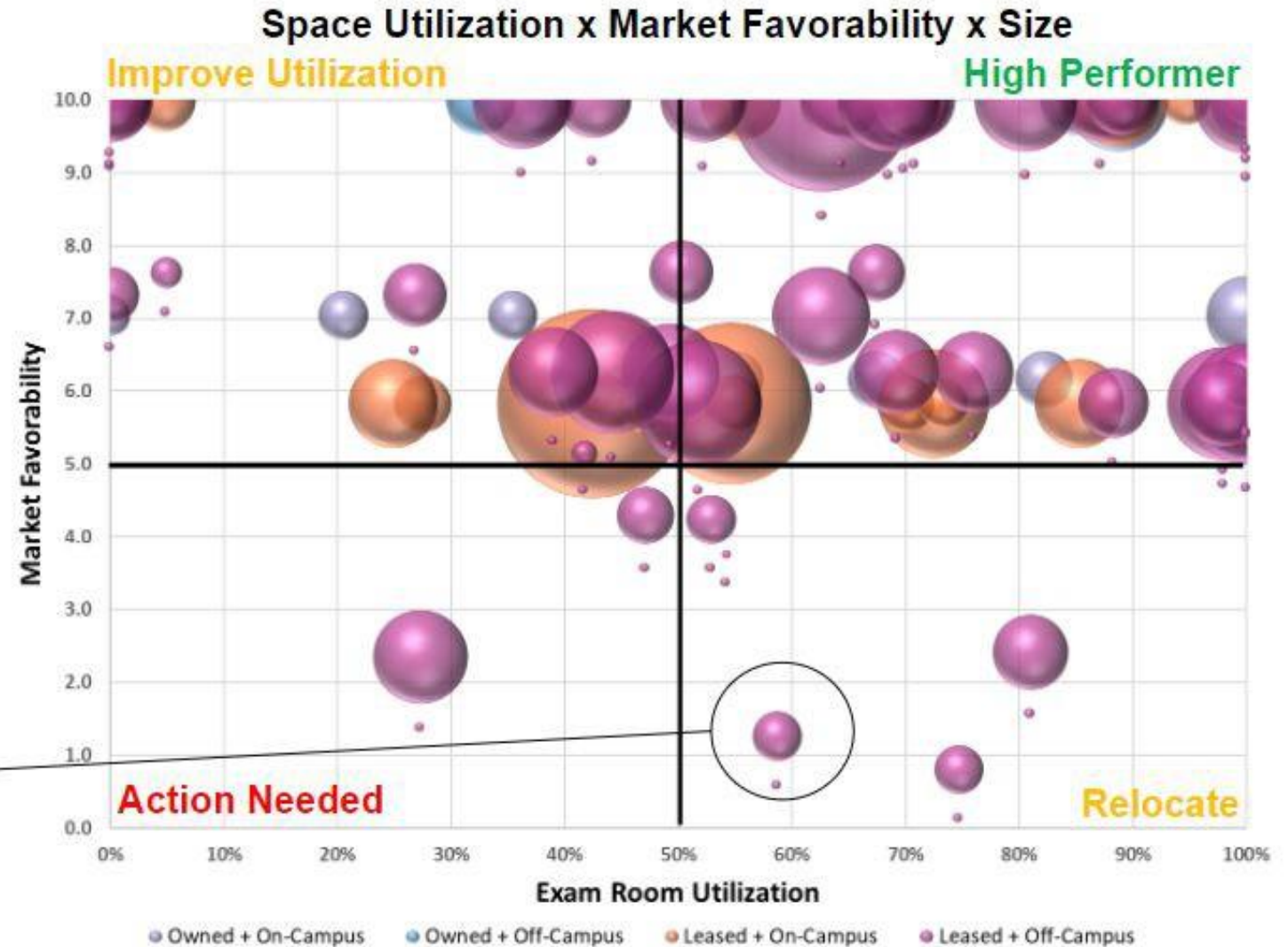
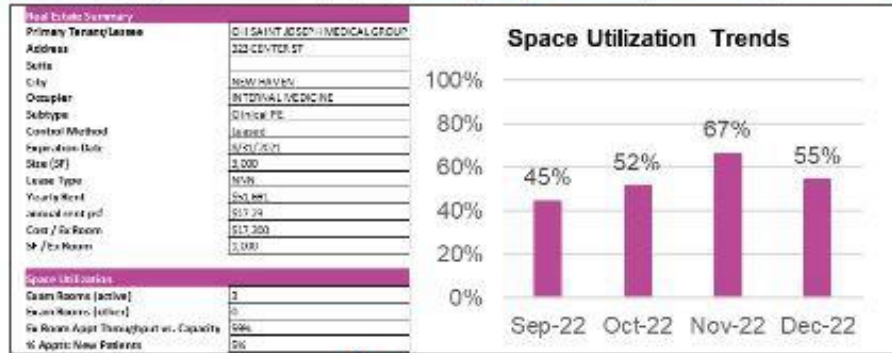
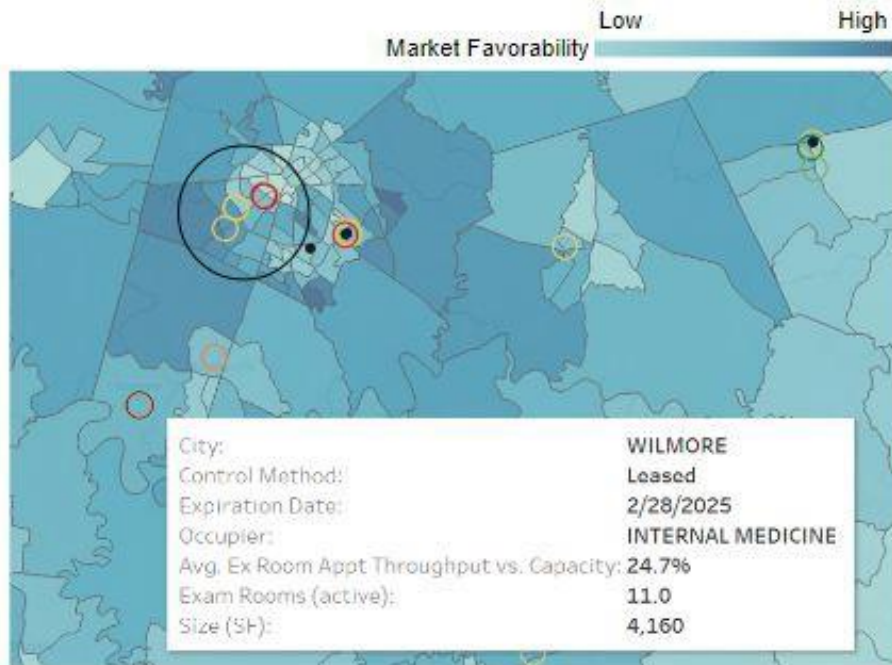
Lease details

\$13.8 M total in annual lease cost

25% of leased SF expires by the end of 2024

50% of leased SF expires by the end of 2026

Depending on market dynamics, real estate, and clinic operations, we can take different actions to optimize the ambulatory portfolio



Exam Room Utilization: % of throughput in active exam rooms against benchmark capacity

Market Favorability: Indexed market score (based on 2027 population + income groups)

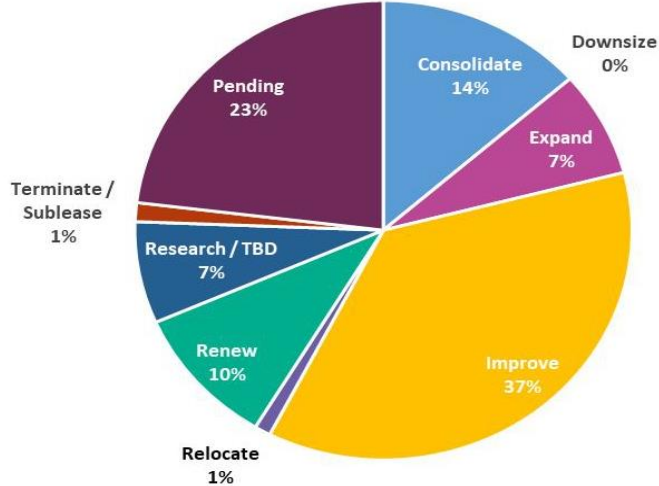
02

STRATEGY OBJECTIVES AND ALIGNMENT

IMPLEMENTING PROACTIVE PORTFOLIO PLANNING TO SUPPORT OPTIMIZATION

In working sessions leaders propose action plans

Action plans by sq. ft. of clinic space



Action Category	SF	Percentage
Consolidate	51,000	14%
Downsize	-	0%
Expand	28,000	7%
Improve	138,000	37%
Relocate	4,000	1%
Renew/Keep	37,000	10%
Research/TBD	26,000	7%
Terminate/Sublease	5,000	1%
Pending	87,000	23%
Total	376,000	100%

Developing proactive comprehensive portfolio plans will support portfolio optimization

Initiatives	Description
1 Real estate expense savings	Clinics that are performing below utilization benchmarks and relocated into clinics with existing underutilized space
2 Operational gains and synergies	For clinics that are consolidated, additional savings gained from optimization of FTEs, IT resources , etc.
3 Increase utilization of clinics	Increasing schedule availability; Recruiting new providers into underutilized sites
4 Growth into new markets	Expanding, relocating, adding new clinics in higher performance markets

Challenges and needs



Analytics

- CHI Markets require **unique schedule data modeling** across markets
- **Validating space utilization** analytics to achieve confidence from market leaders



Action planning / implementation

- Perception that once we give up space, **can't recoup if needed later**
- Using **real estate to defend market** from competition
- No uniform approach to **balancing operational challenges** vs. **optimizing real estate** investment
- Sensitivity / aversion to initiating change with **provider relationships**
- **Aversion to asking for funding** given current financials / capital constraints (e.g. consolidation opps, existing shelled space, etc.)



Support needed

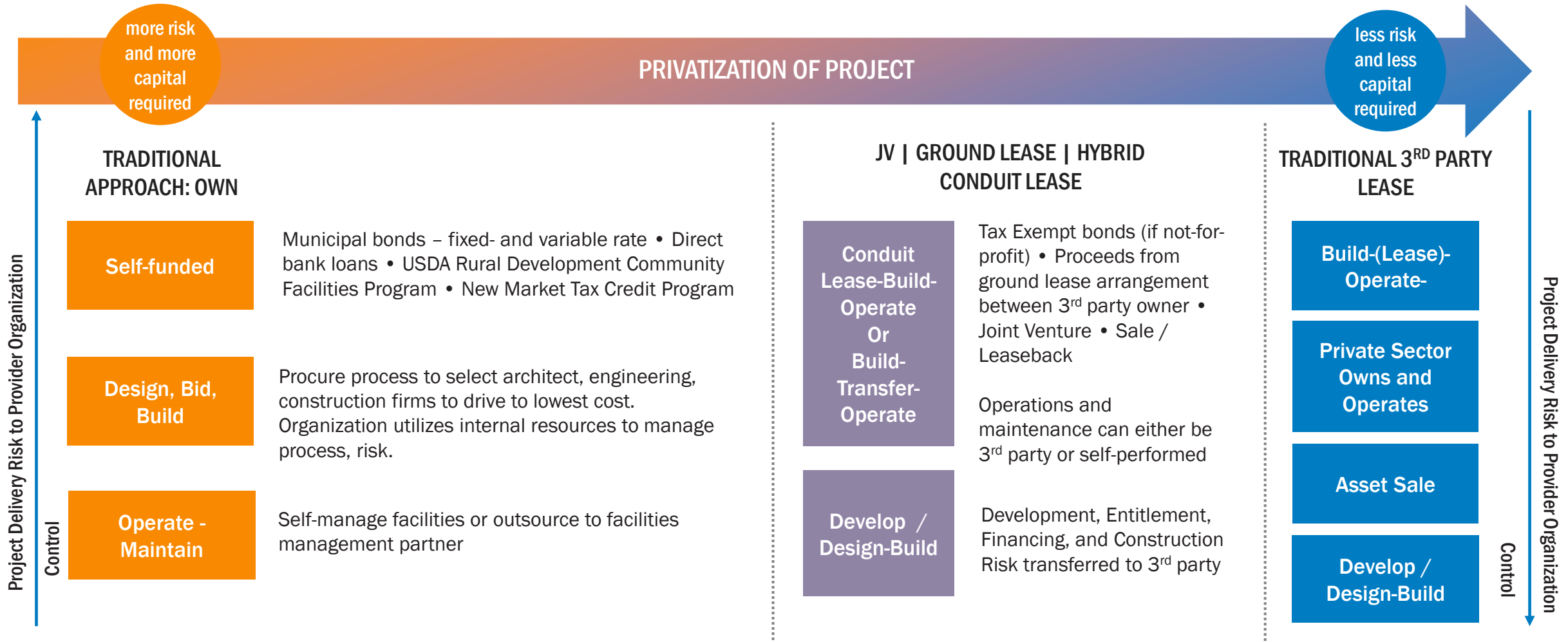
- Continued communication with our markets that **optimizing RE footprint + spend is a CSH priority**
- Support in driving more **aggressive action plans**
- **Automation and dashboard tools** to keep data up-to-date and enable market leaders to plan effectively

03

PROJECT DELIVERY MODELS

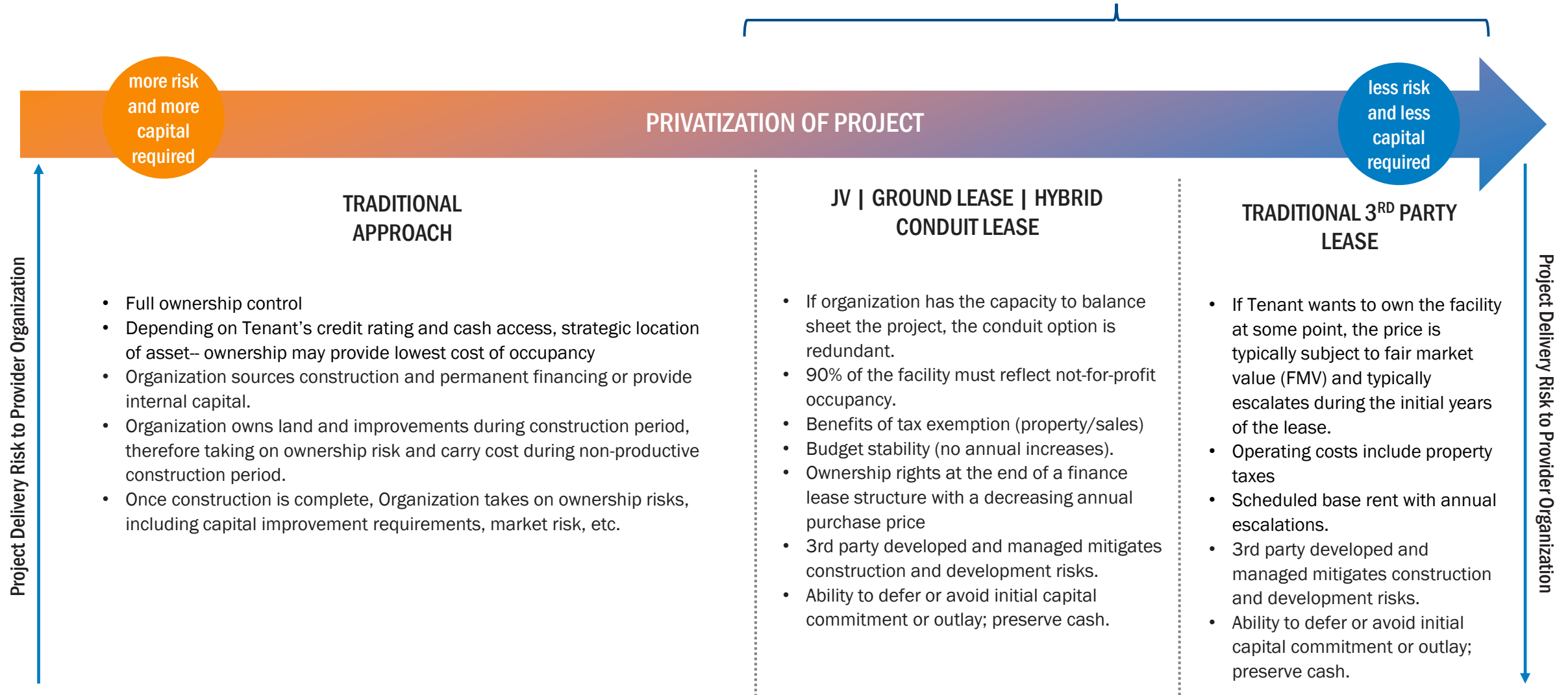
CHALLENGING TRADITIONAL EXECUTION METHODS TO CONTAIN RISK AND COST, WHILE ENABLING PRODUCTIVITY AND REVENUE

PROJECT DELIVERY AND CAPITAL MODEL CONTINUUM





PROJECT DELIVERY AND CAPITAL MODEL CONSIDERATIONS



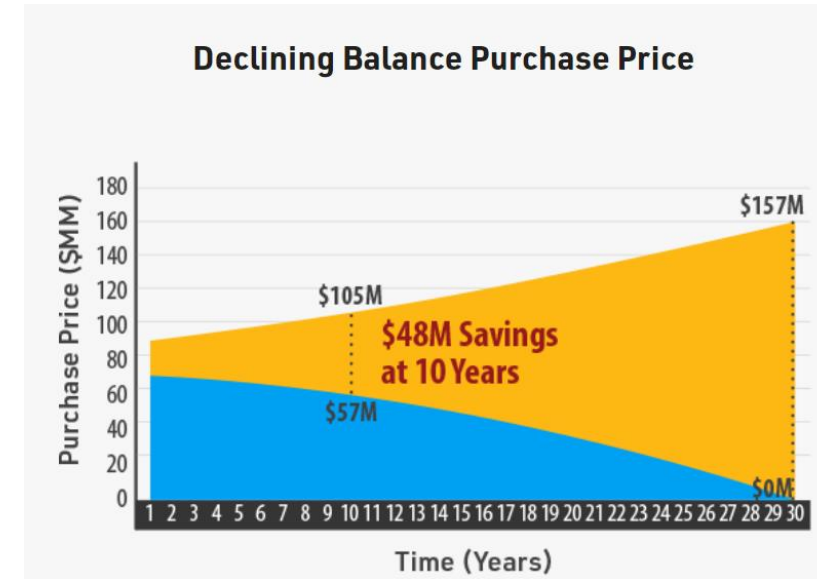
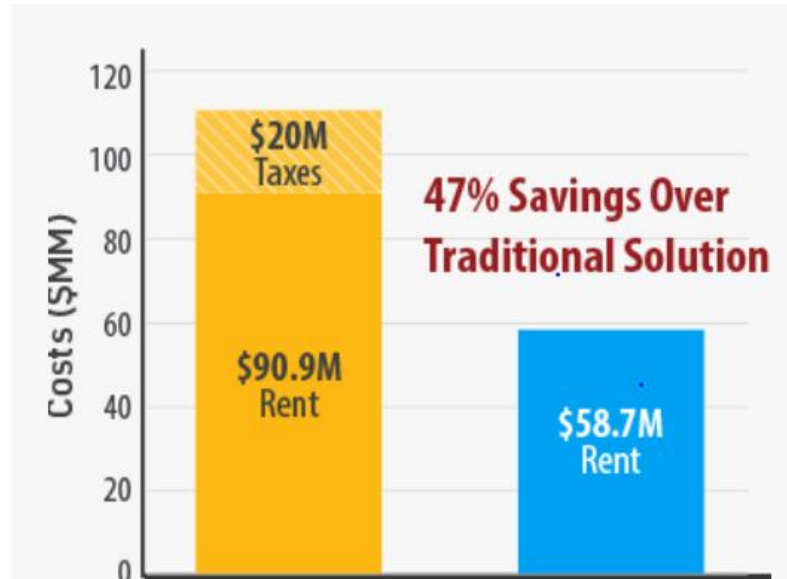
▶▶ Comparing Models

	Traditional Owner Bond Financed	Hybrid Conduit Lease Solution	Traditional 3 rd Party Developer / Owner
Lease (Bond) Term	30 Years	15 – 30 Years	10 – 30 Years
Property Tax Exemption	Yes	Yes	No
Sales Tax Exemption (Construction Materials)	Yes	Yes	No
Annual Rent Increase	N/A	No Annual Increase	Yes, Market Rate
Decrease in Bonding Capacity	Yes	No*	No
Potential to Negatively Affect Credit Rating	Yes	No	No
Loan Guarantee?	Yes	No	No
Construction Risk?	Yes	No	No
Ownership Rights	Yes	Yes, Declining Lease Value**	Yes, At Future Market Value

**Rating agencies do not ascribe the same negative weight to the lease commitment of the conduit lease solution, as they would if the health system issued their own bonds.

***Declining Price Purchase Option and Reversionary Rights Under Ground Lease

▶▶ Comparing Traditional 3rd Party Developer / Ownership to Hybrid Conduit Lease



Traditional Third-Party Developer/Owner

Conduit Lease

▶▶ Risk Comparison

Risk Element	Traditional Owner Bond Financed	Hybrid Conduit Lease Solution	3 rd Party Developer / Owner
Procurement			
Design & Construction	Dark Blue	Medium Blue	Light Blue
Finance	Dark Blue	Medium Blue	Light Blue
Land/Building Ownership	Dark Blue	Dark Blue	Light Blue
Operating Term			
Rights Retention	Dark Blue	Dark Blue	Light Blue
Cost of Operations	Dark Blue	Dark Blue	Light Blue
Life Cycle Replacement	Dark Blue	Light Blue	Light Blue
Condition at end of Term	Dark Blue	Light Blue	Light Blue
Energy Consumption Costs	Dark Blue	Dark Blue	Dark Blue
*Plan set during procurement, prior to commitment to proceed			
	Sponsor	Shared	3 rd Party

PARTNERING TO FIND THE **RIGHT PATH** TO THE LOWEST COST OF CARE



LONG-TERM
LEASE

LONG-TERM
OWNERSHIP

INITIAL
CO-INVESTMENT

FUTURE
EXPANSION

INITIAL FOR-PROFIT
TENANCY

LONG-TERM
STRATEGIC ASSET

TAX-EXEMPT BONDED LEASE

DELIVERED **STRATEGIC SOLUTIONS** THAT WERE
SOLELY FOCUSED ON THE **CUSTOMER.**

TRADITIONAL 15-YEAR LEASE

ULTIMATE **FLEXIBILITY** THROUGHOUT THE PROCESS -
AND DELIVERED THE PROJECT **ON TIME.**

PROJECT DELIVERY AND CAPITAL SOLUTIONS: TAKE AWAYS



1. Assess the full range of financing options, including nontraditional sources to determine alignment with your organization's financial strategies.



2. When flexibility is needed, make sure to understand any underlying risks, as well as benefits of capital solutions that provide this, including various leasing structures.



3. To choose the right capital solution, consider the following: issuance costs, all-in borrowing rate, covenants, interest rate risk, impact to debt capacity, credit ratings, and other factors.



4.. Ensure use of a structured process for making well-informed partnership decisions.



5. Evaluating your organization's existing portfolio to optimize how it's using current facilities and divest non-core assets.

04

IMPLEMENTATION AND RESOURCES

GOVERNANCE AND PROCESS TO CONTAINING RISK AND COST, WHILE
ENABLING PRODUCTIVITY AND REVENUE

GOVERNANCE MODEL AND FRAMEWORK

ENTERPRISE GOVERNANCE



Build the Plan

- ▶ Strategic alignment and overall direction
- ▶ Service line leadership and accountability
- ▶ Identify operational and strategic opportunities
- ▶ Financial and operational objectives
- ▶ Escalation and resolution

Who: Enterprise leadership

Accountability for organizational strategy and governance

MANAGEMENT TEAMS



Monitor Performance

- ▶ Drive continuous improvement in service delivery
- ▶ Ensure compliance with policies and procedures
- ▶ Measure savings performance
- ▶ Review and update budgets
- ▶ Manage change control process

Who: Real Estate and Facilities

Internal and external leadership across portfolio management, finance, facilities, design, lease administration, energy management, construction, and project delivery

OPERATING TEAMS AND PARTNERS



Executing on the work

- ▶ Monitor operational deliverables
- ▶ Innovate service delivery
- ▶ Anticipate and address customer issues

Who: Internal and external partners

Capital, Real Estate, Design, Construction, Construction



BUSINESS AND PORTFOLIO STRATEGY

- ▶ Long-term strategy balanced with practical execution
- ▶ 30% – 50% total occupancy savings + 20% productivity gain



TRANSACTION MANAGEMENT

- ▶ Best portfolio results through market insight and action
- ▶ 10% – 20% savings in occupancy costs



LEASE ADMINISTRATION

- ▶ Portfolio transparency helps eliminate business risk
- ▶ 5% – 20% cost savings and avoidance



PROJECT MANAGEMENT

- ▶ Fast, flexible and on-time delivery
- ▶ 25% – 75% project cost savings



INTEGRATED FACILITY MANAGEMENT

- ▶ Safe, reliable, productive work environments
- ▶ 10% – 20% savings on facility costs

01

Optimize your Ambulatory and Outpatient Portfolio to enable productivity, revenue, and cost savings opportunities

02

Leverage strategic project delivery and capital solutions to lower your organization's financial and operational risk and cost, while maximizing the value of your capital investments

03

Look to your real estate, facilities, and finance leaders to provide governance to guide process, thought leadership and creativity to your ambulatory and outpatient portfolio and capital strategies

QUESTIONS

CALL TO ACTION: IT'S TIME