Memorial Hermann Facility Development Strategies Rice University Building Institute Symposium II – September 13, 2007
Memorial Hermann Overview

• **13 Major Hospitals in Greater Houston Area**
  – Memorial Hermann - Texas Medical Center
  – Children’s Memorial Hermann
  – Memorial Hermann Katy
  – Memorial Hermann Memorial City Medical Center
  – Memorial Hermann Northeast
  – Memorial Hermann Northwest
  – Memorial Hermann Southeast
  – Memorial Hermann Southwest
  – Memorial Hermann Sugar Land
  – Memorial Hermann The Woodlands
  – Memorial Hermann – Baptist Beaumont
  – Memorial Hermann – Baptist Orange
  – Memorial Hermann - Huntsville
Memorial Hermann Overview

- MH operates 13 Acute Care Hospital campuses with numerous specialty facilities
- MH provides a full spectrum of health care services:
  - Oncology
  - Heart & Vascular
  - Neurology & Neurosurgery
  - Stroke Treatment
  - Transplant Center
  - Orthopedics
  - Pediatrics
  - Trauma (level III)
  - Regional Burn Center
  - LifeFlight
  - Hemophilia Center
Memorial Hermann Overview

• Memorial Hermann Life Flight® is the only air ambulance serving Houston and surrounding communities
• On November 4, 1997, Memorial Healthcare System and Hermann Healthcare System merged to form Memorial Hermann Healthcare System
• MH has over 22,000 employees
• This year MH is celebrating 100 years of breakthroughs
Community Benefit

• MH provides over $194 million annually for uncompensated care
• $30 million annually to support education for medical professionals
• $3.9 million annually for community benefit programs
Over 20 professional office buildings comprising one million square feet in eight distinct locations with 750 physician tenant leases
Memorial Hermann Campuses with POBs

Legend

1. Northwest POB I
2. Northwest POB II
3. Northwest POB III
4. Katy POB
5. Sugar Land POB
6. Woodlands POB I
7. Woodlands POB II
8. Woodlands POB III
9. Southeast POB I
10. Southeast POB II
11. Southwest POB I
12. Southwest POB II
13. Southwest POB III
14. Southwest POB IV
15. Westside POB
16. Northeast POB
17. Pearland Clinic
18. Memorial City
19. Texas Medical Center
Memorial Hermann Memorial City
921 Gessner
Memorial Hermann Northeast
18951 Memorial Boulevard
Memorial Hermann Southeast
11914 Astoria
Memorial Hermann Southwest
7600 Beechnut
Memorial Hermann The Woodlands
9250 Pinecroft
Memorial Hermann Sugar Land
Medical Plaza I
Facility Services Overview

Facility Services Philosophy

• Design
• Construct
• Maintain
• All one team – All one vision
Facility Services Overview

Memorial Hermann Medical Plaza
New Landmark
Facility Services Overview

Facility Services Departments

- Architecture and Construction
- Capital Planning & Asset Management
- Clinical Engineering
- Biomedical Engineering
- Electronic Engineering
- Imaging Support Services
- Environmental Services
- Laundry Services
- Medical Plaza Leasing and Property Management
- Physician Medical Plaza Joint Venture Operations
- System Engineering
- System Parking
- System Security
Facility Services Overview

Century Project

- Three year duration
- 13 major capital construction projects totaling over $1.3 billion
- All open 12-31-06
Specialty Facilities
TMC – Heart & Vascular Institute
Outpatient Imaging Centers

Ceiling

Finishes - Nothing new
- All indestructible
Prevention and Recovery Center

Change of use – Leased Facility – Finishes only
Neighborhood Health Centers

Leased – Cash Pay – Easy Tenant Improvements
New Entity – Integrate – Deferred Capital
Retirement Community & Nursing Center

Leased – Major Rehab – New use
Wellness Center

Vision does not equal success - Multi-use facility
University Place

Personal residences require unique style of Facilities Management
Ambulatory Surgery Centers

13 new in 2006 - Replicate every time you can!
Capital Project Process

Hierarchy for Capital (Today’s World)

• **Emergency** (limited availability and scrutinized)

• **Strategic** (an exhibition of many worthy projects)
  – Cash flow
  – Philanthropy
  – Bond issues
  – Lease options

• **Routine** (feed the winners/performers) based upon quarterly operating results
Capital Project Process

• **New Markets**
  – Geographical
  – Service lines (evolving and controversial) - Discuss

• **New Programs**
  – Community needs
  – Cost
  – Return
Capital Project Process

• **Historical Performance of Entity**
  – Make Money – Get money philosophy
  – Solid, verifiable growth – Ex: Outpatient Imaging & Diagnostics
  – Status of market area – Southwest Hospital vs. The Woodlands Hospital
  – Governmental changes/impact – Long-Term Acute Care Hospital Business Sale
Capital Project Process

• **Sources of Capital**
  
  – Cash on Hand – Precious/Ratios/Credit Ratings!
  
  – Financing (Tax exempt bonds) – Ratios!
  
  – Cash Flow – Financial Performance = Capital Availability
  
  – Operating Margin – Low – Hard work!
  
  – Philanthropy – Very competitive in our market
Capital Project Process

Healthcare Construction and Design

• When planning for new healthcare facilities consider the following:
  – Owner must be intimately involved in the project and set the expectations. **Do not let the Architect or Project Manager drive the program!**
  – Develop a “stable” of professional and consulting firms who know your organization and listen to you!
  – Develop a “stable” of contractors who know your culture and are proven entities with your system
  – Involve your user groups and physicians – VERY IMPORTANT - yet problematic
Healthcare Construction and Design

• When planning for new healthcare facilities you should consider the following:
  – Reinforce early/often/continuously that both schedule and budget govern success. Neither of these two objectives can be violated in a successful project.
  – Space efficiency, build rectangles – period
  – Every square foot not defined or built saves capital funds and operating expenses. This is the single most effective Value Engineering item and it must be utilized early.
  – Bed/Square Footage Ratio - Analysis
Capital Project Process

**Competitive Bid Process**

- General Contractor – 100% Construction Drawings whenever possible
- Project Management Firms – Every 2 years, with closed RFP (Team vs. Price)
- Architects & Engineering teams
- Medical Equipment planners
- Balance and allocate workload of all team members
- Follow multiple paths for resolution on difficult issues!
Capital Project Process

Local Houston Philosophy for Teams

- General Contractors
- Architects & Engineering Firms
- Medical Equipment Planners
- Designers
- Furniture, Fixtures & Equipment
- Information Systems/Telecommunications – Internal accountability
Capital Project Process

Challenges for Our Market Area

• Not-for-Profits – Long-Term Systems
• For-Profit
• Physician / Developer Joint Venture
  – Ambulatory Surgery Centers
  – Outpatient Imaging & Diagnostic Centers
  – Cath Labs
  – POB’s
  – Acute Care Hospitals
  – Oncology
• Not-for-Profit – Developer/Physician combination! NEW
Capital Project Process

**Total Project Costs vs. Budgets**

- Always use Total Project Costs with your budgets/customers
- Composition of user group teams
- User group Want vs. Budget vs. Pro Forma
- Architect & Engineering team selection and instruction – websites, DVD’s, binders
- Project manager selection and instruction (experience/quality hard to find)
- Standardization of all aspects (Finishes to Contracts)
- Best practices vs. “standards” vocabulary
- Room dimensions – save a Square Footage Philosophy and Benchmark
- “Every Team Starts Fresh”……….Unfortunately – limit!
Capital Project Process

Hospital Master Lease Challenges

- Term
- Payments
- Control
- Aligned Missions
- Cost of Capital vs. Not-For-Profit Cost vs. Strategic Value
- Size of campus
Capital Project Process

Land Acquisition

• Remain anonymous
• Buy early
• Buy large
• Sell balance
• Restrict
• Hold short or long
• Master plan multiple phases (plan ahead for growth)
• Start with small or large campus
• Existing market competition analysis – First to market strategy
Capital Project Process

Square Footage – To Bed Ratio

- For Profit vs. Not-for-Profit
- Value Engineering - Square footage is king!
- Conflicts with users “visions”
- Financial impact
  - Depreciation
  - Operating Expenses
Capital Project Process

Capital Construction Safety Program

- Construction is dangerous to hospital operations
- Contract service
- Augments and monitors general contractors – security enhancement
- Patient safety – highest priority!
- JCAHO – ILSM – Natural Disasters
- Media avoidance
- Risk management tool
Major Healthcare Construction Design

- Conduct at least two mock TDSHS reviews with commissioning agent and code compliance agent prior to actual survey!!
POB Portfolio

• On or Off Balance Sheet Strategy
• Master lease or not
• Control vs. Cost to hospital
• Capital Infusion, operating cost
• POB competition, market escalation of competition
• Ex: Sugar Land Hospital/Katy Hospital POB’s vs. The Woodlands Hospital
Capital Project Process

Reasons to think twice

• Private Placement Offerings have strict guidelines
• Private Placement Memorandums / Legal can be expensive
• Not all physicians meet accredited investor criteria
• Stark regulations compliance
Capital Project Process

- Fiscal year capital budgets
- Quarterly capital reviews
- Emergency requests
- Year end excess availability
- Unique/surprise investment opportunities
Capital Project Process

Northeast Hospital Acquisition – January 2007

- Contracts
- Operating expenses
- Capital needs
- Community need
- Strategic nature to system
- Lease vs. Buy = Capital Availability
- Appropriate controls
Questions & Answers