



2008

Rural Hospital Renovation & Expansion Study

Overview

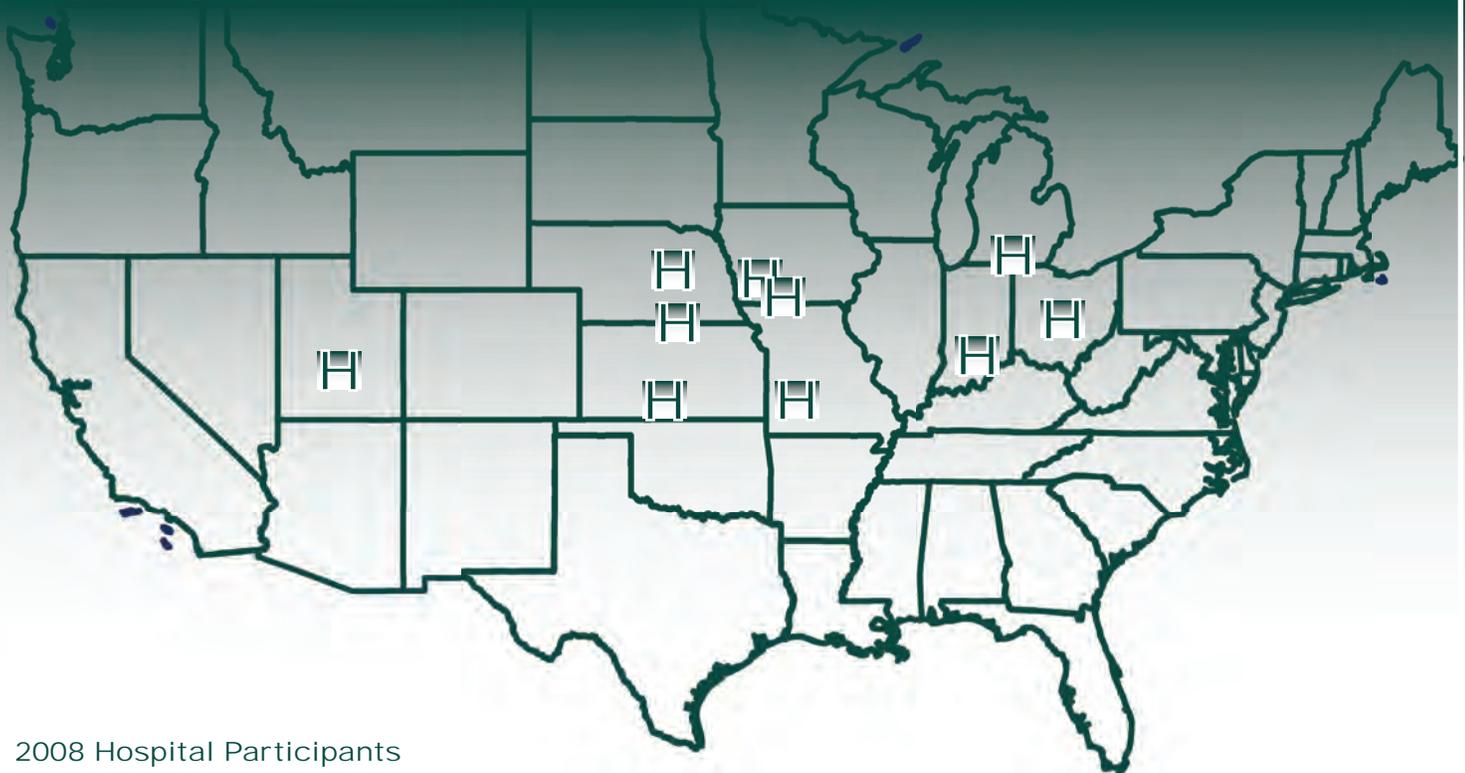
In Summer 2008, Lancaster Pollard, Critical Access Group, McClure and Associates and Graham Construction surveyed community hospitals that had renovated or expanded in the past three years to learn more about the renovation projects' scopes and impacts on health care delivery in rural counties.

Overall, the community hospital respondents succeeded in completing their projects and maintaining their financial strength. Of note, they experienced significant growth in outpatient services. Almost all noted challenges associated with undertaking a project and the need for prudent planning.

The survey results provide excellent background information for community hospitals contemplating expansion or renovation, despite the relatively small sample size. Individual hospital projects will, of course, be impacted by their own unique internal and external factors.

Thank you to all of the community hospital participants in the 2008 survey and we hope you find this summary of the results helpful. Please do not hesitate to contact any of the Study Group members (contact information can be found on the last page), with any questions.

Sincerely,
The 2008 Rural Hospital Renovation & Expansion Study Group



2008 Hospital Participants

Audobon County Memorial Hospital, IA
Boone County Health Center, NE
Bucyrus Community Hospital, OH
Central Valley Medical Center, UT
Golden Valley Memorial Hospital, MO

Guthrie County Hospital, IA
Hayes Green Beach Memorial Hospital, MI
Hospital Dist. #1 of Rice County, KS
Morgan Hospital and Medical Center, IN
Thayer County Health Services, NE

Rural Hospital Renovation & Expansion Study

Each year, hundreds of Hill-Burton era hospitals face the challenges of maintaining 50-year old buildings while medical service models continue to evolve. Whether the change involves inpatient to outpatient services, patient expectations for private rooms, or increasing competition for medical staff, many communities are faced with the necessity of undertaking substantial improvement projects.

Hospitals have two basic options: build a replacement facility or renovate and expand existing facilities. Excellent studies have already been conducted regarding replacement hospitals, but not all communities can afford the cost or are willing to take on the risk. The goal of this Study was to review the experiences of hospitals that chose to pursue renovations and expansions during the last five years. Major areas reviewed included Project Impact, Financial and Utilization Trends and Lessons Learned.

The respondents' project scopes were between \$1 million and \$17 million. Expansions and renovations were generally focused on improving outpatient services. Specific examples included new specialty clinics, radiology departments and rehabilitation services. The Study results suggest that through renovation and expansion, community and medical staff expectations can be met, and utilization can be increased while limiting financial risk.

The decision of whether to renovate or build new is complex and will depend on each facility's unique factors, including whether the building is landlocked, the cost of retrofitting versus building new, physical location within the community, and various financial resource considerations, among others.

What was the purpose of the renovation/expansion?

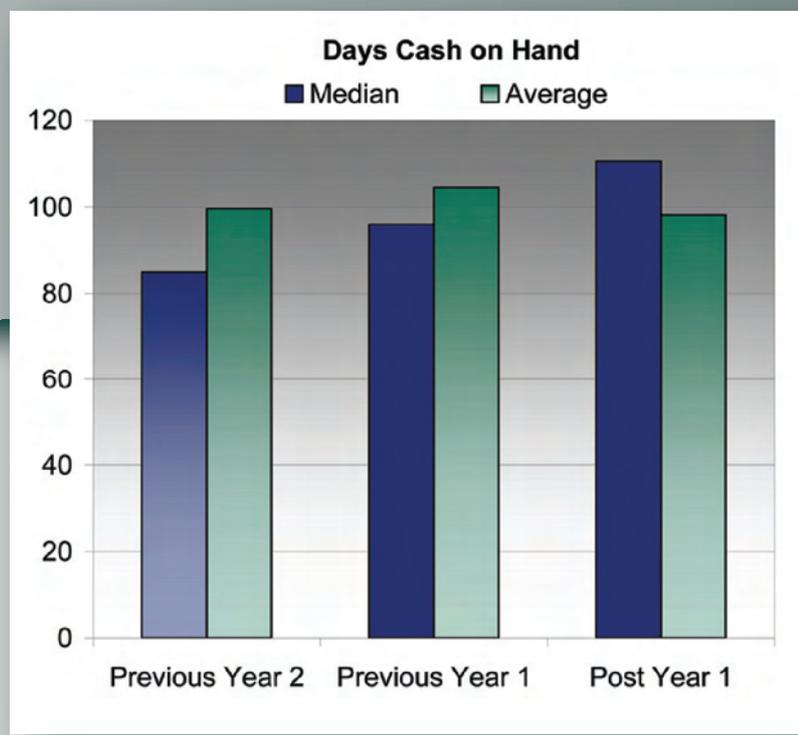
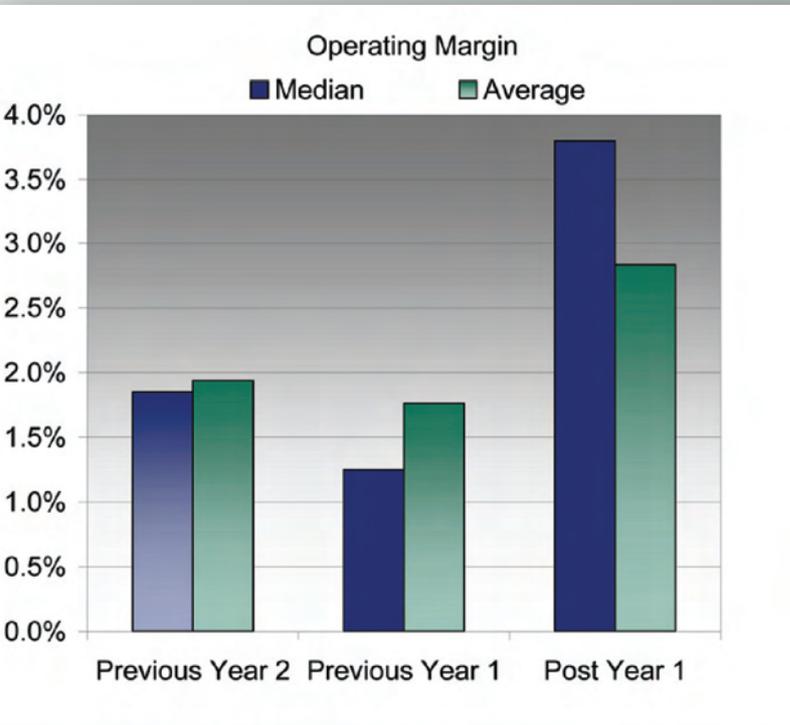
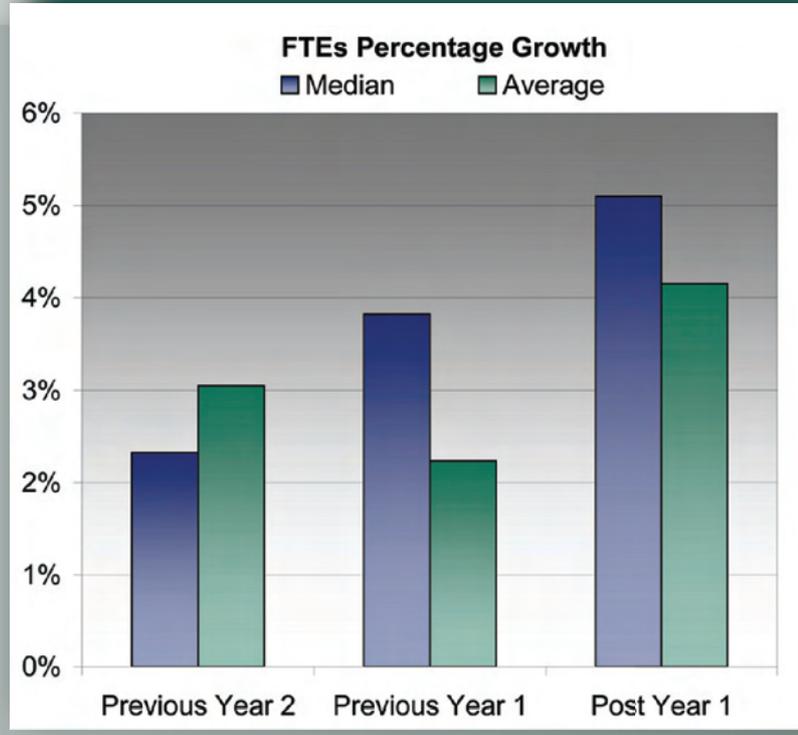
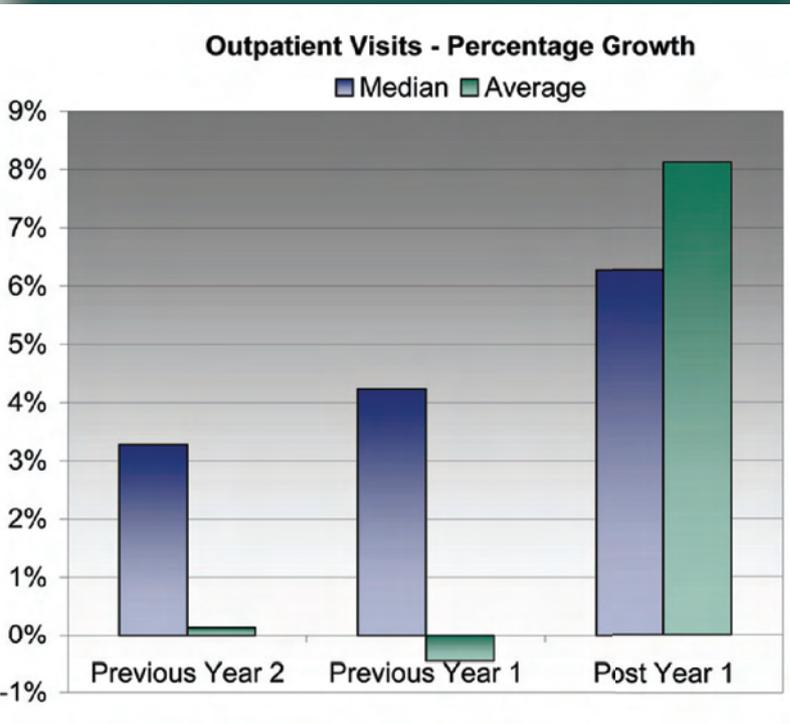
Expand Existing Services	100%
New Services	40%
Aesthetic Improvements	80%
Recruit/Retain Professional Staff	60%

What effect did the project have on the following areas?

	Surpassed Expectations	Met Expectations	Below Expectations	Uncertain/NA
Physician Referrals	40%	50%	0%	10%
Market Share	30%	50%	10%	10%
Physician Retention	30%	50%	10%	10%
Physician Recruitment	30%	50%	0%	20%
Nursing Staff Retention	10%	50%	10%	30%
Community Satisfaction	40%	30%	0%	30%

Utilization and Financial Ratio Responses

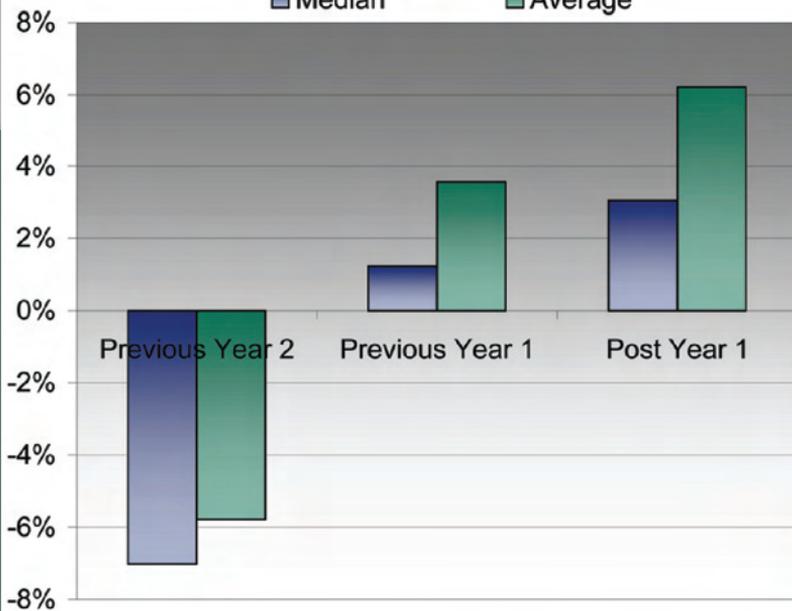
The following tables offer a trend analysis of five key hospital ratios.* Representing the financial health of the hospitals are Operating Margin and Days Cash on Hand, which demonstrated stable to improving ratios during the period covered. Representing utilization and efficiency are Inpatient Days, Outpatient Visits and Full-Time Employees.



* Information was collected on 11 ratios. However, not all participating hospitals were able to provide complete data. The five included in this report represent the most complete responses.

Inpatient Days Percentage Growth

■ Median ■ Average



Key Learnings from the Hospitals

The key lesson learned is that a hospital should take the planning of its renovation or expansion every bit as seriously as that of a full replacement facility. While hospitals eventually met project expectations, as well as positive financial and utilization results, study participants offered several suggestions to make the process smoother. The most consistently noted issues were challenges experienced during the renovation itself.

Study participants recommend:

- Begin using a project team approach early on to assist with the development process.
- Plan ahead to accommodate patient flow and operations during the actual renovation.
- Choose taking more time to plan versus rushing to save money.

Hospitals pursuing even limited renovation projects should engage experienced investment bankers, architects and contractors early in the process. A full project team will assist in anticipating the project risks, help build conservative assumptions and swiftly address problems as they arise.

Special Thanks

In addition to our study participants, we would like to thank the members of the 2008 Rural Hospital Renovation & Expansion Study for their expertise and input:

Terry Hill Executive Director, Rural Health Resource Center

Marilyn Jackson Office of Minority Health & Public Health Policy, Virginia Department of Health

Mendul Kemp Director of Rural Health/FLEX Coordinator, Mississippi Hospital Association

Brock Slabach Senior Vice President of Member Services, National Rural Health Association

Study Group Leaders



Critical Access Group is a project development firm, providing the management and delivery of professional

services to upgrade, expand or replace aging health care facilities. CAG has formed a strategic alliance with firms specializing in financial analysis, fund raising, construction cost estimating, health care design, health care engineering and construction management.

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Graham is an employee-owned, industry-leading family of companies offering general contracting, project management, design-build and construction services from offices in the Central and Pacific Northwestern United States and across Canada.

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Lancaster Pollard provides financial advisory services and access to capital for

hospital renovations and new construction. As one of the largest groups of finance professionals dedicated to the health care sector, it offers unparalleled understanding of small and critical access hospitals' financial characteristics. The firm has experience closing every financing option available to community hospitals.

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aspects of health care operations nationwide. Our health care experts assist in restructuring procedures, developing improved operational systems, and recommending information systems strategies and technologies. They provide the knowledge and tools to ensure businesses meet and surpass today's health care industry expectations.

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