

VI. Financial Plan and Capital Structure Discussion

FINANCIAL PLAN AND CAPITAL STRUCTURE DISCUSSION

Executive Board Committee, Board of Regents

Cedars Falls, Iowa

November 3, 2004

KaufmanHall

One Northfield Plaza, Suite 240, Northfield, Illinois 60093, Phone: (847) 441-8780 Fax: (847) 441-3288

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kaufmanhall.com

VI. Executive Summary

Financial Plan and Capital Structure

Ken Kaufman, Managing Partner of Kaufman Hall, a nationally recognized financial planning consultant, and Barry Fick, Senior Vice President of Springsted, Inc., will lead the Committee through a discussion of the "Financial Plan and Capital Structure" of the University of Iowa Hospitals and Clinics. The presentation builds the rationale for issuing \$75 million of variable rate debt in March 2005.

The presentation begins with an overview of the strategic planning, financial planning, and capital allocation processes and how they are interrelated and integrated. A six-year summary of operations and comparison of key financial ratios leads to an analysis of UIHC's credit position. This analysis demonstrates that UIHC has used significantly less debt than other academic medical centers and has a cash position and other key financial ratios consistent with the median of Moody's "Aa " credit rating.

UIHC's projected capital requirements for the next ten years are summarized with an anticipated requirement of \$740 million. Based on UIHC's current cash flows and balance sheet, it is established that incremental debt capacity of approximately \$173 million exists. At that level UIHC should be able to maintain its current strong credit rating. It is projected that UIHC will also need to build its unrestricted cash balances from approximately \$370 million to \$650 million over the same period to maintain its credit position.

The capital structure of UIHC will be reviewed along with a discussion of the benefits of variable rate debt versus fixed rate debt.

Given UIHC's need for capital and its desire to enhance its creditworthiness, the Regents will be asked to approve issuing \$75 million of variable rate debt in March 2005.

AGENDA

1. Introduction- Donna Katen-Bahensky
2. Strategic and Financial Capital Planning Process- Ken Kaufman
3. Capital and the Need for Capital - Anthony DeFurio
4. Credit Analysis and UIHC's Current and Projected Credit Position - Ken Kaufman
5. Fixed versus Variable Rate Debt and Capital Structure Analysis - Ken Kaufman
6. Historical UIHC Debt Financing and Current Legislative Authority - Barry Fick
7. Summary: Authorization to Proceed -Donna Katen-Bahensky

Introduction

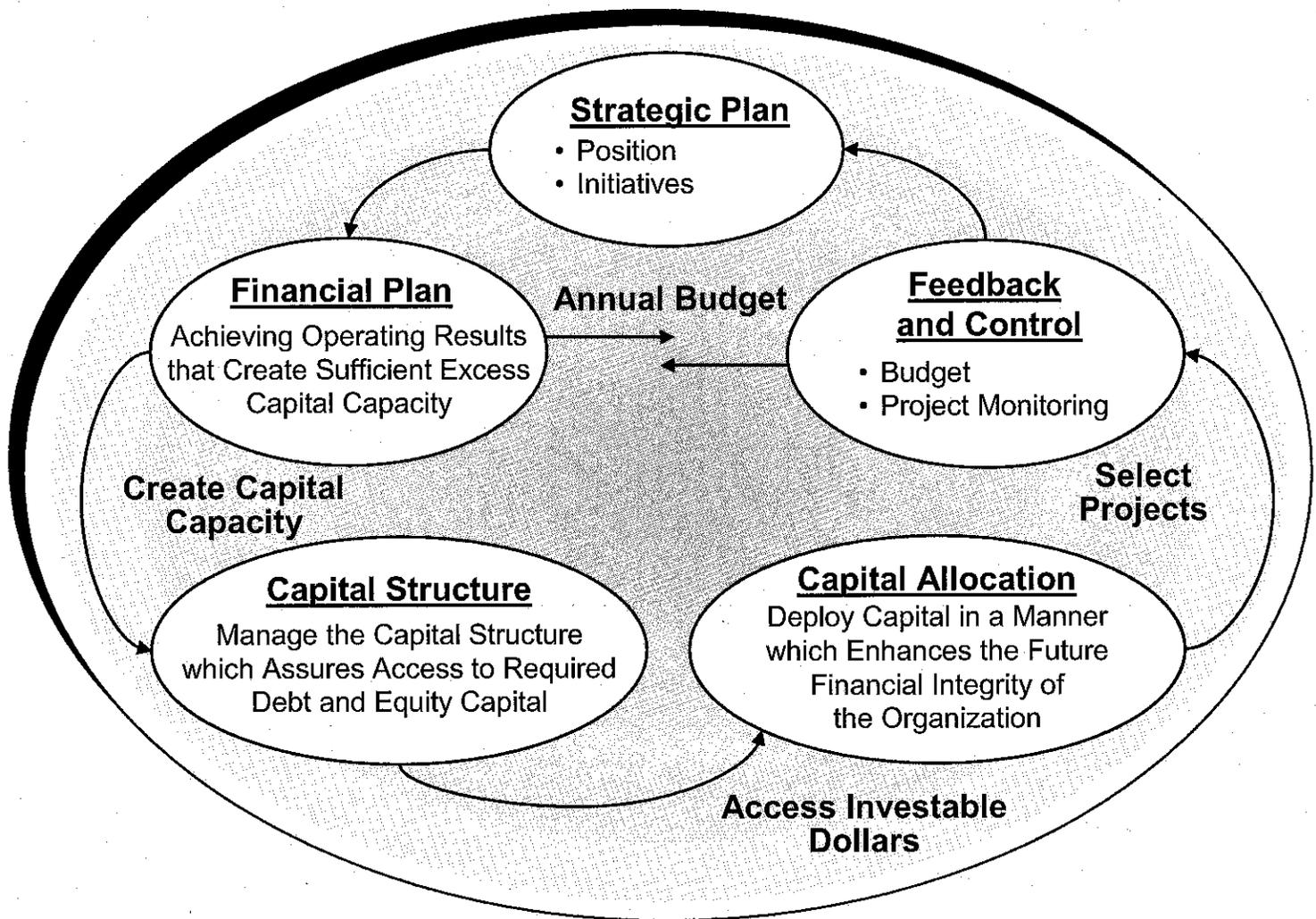
Goal of Today's Presentation

- To Demonstrate the Plan and Rationale for Issuing \$75 Million of Variable Rate Debt in March 2005

Presenters

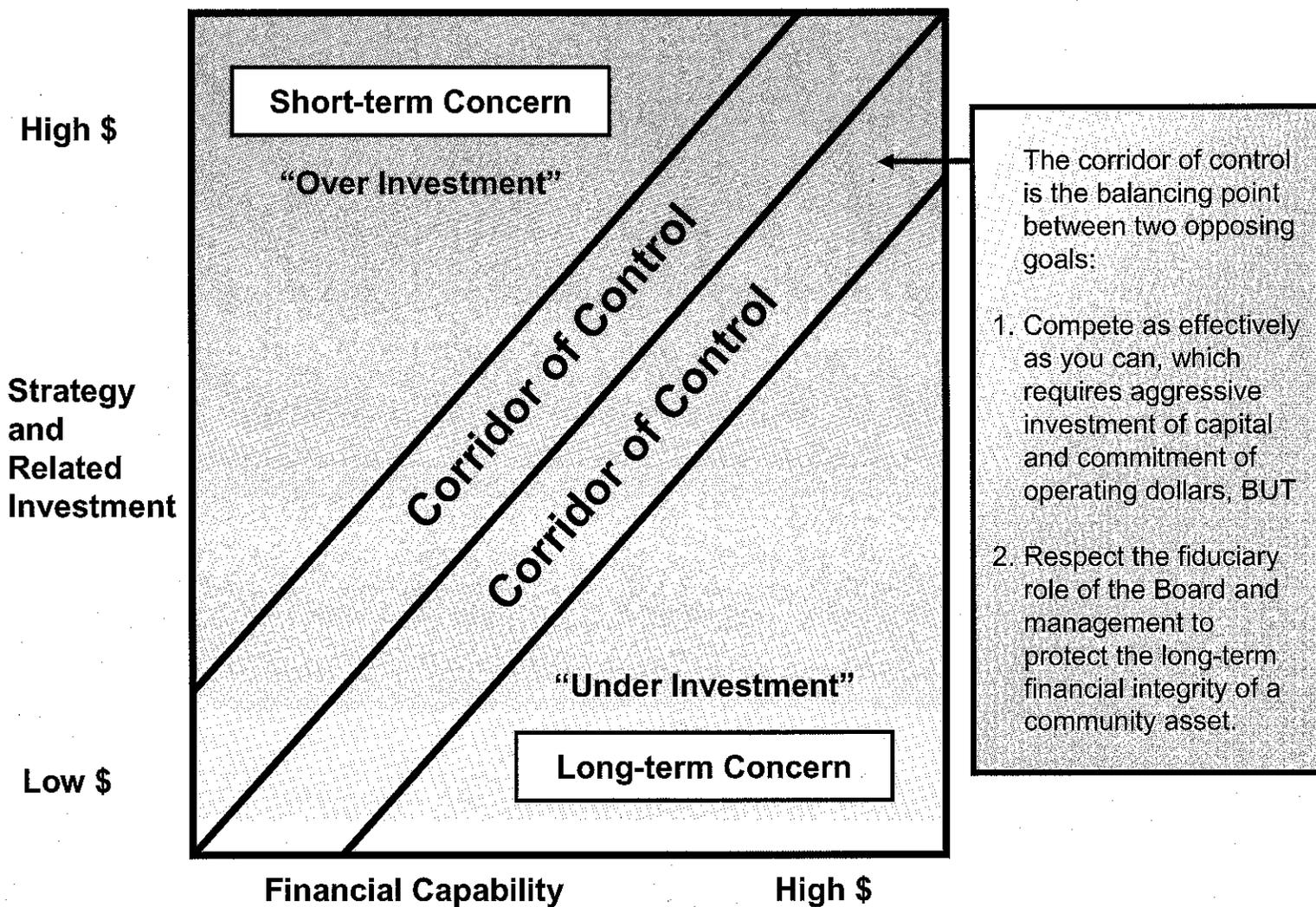
- Ken Kaufman, Managing Partner, KaufmanHall
- Barry Fick, Senior Vice President, Springsted, Inc.

THE CAPITAL MANAGEMENT CYCLE



Source: Kaufman Hall

THE CRITICAL RELATIONSHIPS BETWEEN STRATEGY AND FINANCIAL CAPABILITY



Source: Kaufman Hall

WHY DOES UIHC'S CREDIT POSITION MATTER?

- **Creditworthy Academic Medical Centers have improved capital market opportunities**
 - ✓ Access to commercial banks (e.g., direct loans / letters of credit)
 - ✓ Access to credit enhancement
 - ✓ Taxable or tax-exempt debt
- **Creditworthy organizations have a lower cost of capital**
 - ✓ "A" vs. "BBB" interest rate spread range of approximately 60+ bps
 - ✓ Access to low cost variable rate debt
 - ✓ Lower issuance costs: insurance premium, letter / line of credit, underwriting / remarketing
- **Creditworthy Academic Medical Centers have much greater capital structure flexibility**

SIX YEAR SUMMARY OF OPERATIONS

	1998-99	1999-00	2000-01	2001-02	2002-03	Preliminary 2003- 2004
**Acute Admissions	23,399	23,179	23,286	23,388	24,104	25,384
**Length of Stay	7.34	7.48	7.51	7.59	7.24	6.94
Surgical Cases	17,537	18,217	18,986	19,814	20,269	20,644
Clinic Visits	545,496	570,065	592,752	615,242	631,443	669,045
Market Share	6.3%	6.1%	6.1%	6.2%	6.7%	N/A
Net Patient Revenue	\$432.7M	\$457.1M	\$506.9M	\$525.2M	\$547.2M	\$563.9M
Operating Margin	5.8%	5.1%	3.5%	2.0%	1.4%	1.6%
Case Mix Index*						
All Acute Inpatients	1.5586	1.5569	1.5712	1.5866	1.6272	1.5950
Medicare Inpatients	1.7243	1.7414	1.7778	1.7602	1.8182	1.7822

*Case mix index is a national (Medicare) measure of inpatient severity, where the average case intensity is 1.0

** All years presented exclude newborn nursery utilization.

AA BOND RATING KEY FINANCIAL RATIO COMPARISON

	Audited UIHC FY 1999	Audited UIHC FY 2000	Audited UIHC FY 2001	Audited UIHC FY 2002	Audited UIHC FY 2003	Prelim UIHC FY 2004	Median Moody's Aa Rating*
Days Cash on Hand	252.5	257.2	244.1	239.4	221.1	213.3	219.8
Operating Margin	6.0%	5.3%	3.6%	2.0%	1.4%	1.6%	2.5%
Debt to Capitalization Percent	2.3%	2.6%	2.1%	1.6%	4.3%	4.0%	34.3%
Days in Accounts Receivable	76.7	79.1	69.1	67.3	101.3	72.4	62.2
Average Age of Plant	9.9	9.0	7.9	8.9	9.0	9.7	8.8

*Data is compiled from Moody's Investors Service Publication "Not for Profit Healthcare: 2003 Outlook and Medians."

DEFINITION OF FINANCIAL RATIOS

Operating Margin:
$$\frac{\text{Operating Income}}{\text{Total Operating Revenue}}$$

Excess Margin:
$$\frac{\text{Operating Income} + \text{Non-operating Revenue}}{\text{Total Operating} + \text{Non-operating Revenue}}$$

Operating EBITDA Margin:
$$\frac{\text{Operating Income} + \text{Depreciation, Amortization and Interest}}{\text{Total Operating Revenue}}$$

Debt Ratios:

Historic Debt Service Coverage:
$$\frac{\text{Excess Revenue Over Expenses} + \text{Interest} + \text{Dep} + \text{Amort}}{\text{Annual Debt Service}}$$

Capitalization Ratio:
$$\frac{\text{Long-term Debt} + \text{Short-term Debt}}{\text{Long-term Debt} + \text{Fund Balance}}$$

Liquidity Ratios:

Days Cash on Hand:
$$\frac{\text{Cash and Marketable Securities} + \text{Board Desig Funds}}{((\text{Total Operating Expense} - \text{Depreciation}) / 365)}$$

Cushion Ratio:
$$\frac{\text{Unrestricted Cash} + \text{Investments}}{\text{Maximum Annual Debt Service}}$$

Other Ratios:

Compensation Ratio:
$$\frac{\text{Salaries, Wage and Benefits}}{\text{Total Operating Revenues}}$$

CREDITWORTHINESS COMMENTS

- **Profitability and Cash Flow**
Operating Profitability is below “Aa” levels in 2003 and 2004, with the decline beginning in 2001. Fiscal Year 2004 preliminary results show stability with a slight improvement in operating margin. UIHC’s FY2005 operating budget projects a 3.0% operating margin in 2005, which will bring it slightly above the Aa median. Consistency in operating profitability will be critical to maintaining and enhancing credit potential.
- **Debt Position**
UIHC has very low leverage compared to “Aa” medians. UIHC has historically relied on operating cash flows to fund the majority of capital expenditures. The low amount of debt has a very positive impact on UIHC’s credit position.
- **Liquidity**
The cash position (both actual dollars and days cash) is a strong component of UIHC’s credit, with days cash on hand at the median of “Aa” credits.

THE ESSENTIAL QUESTIONS OF CAPITAL PLANNING RELEVANT TO UNIVERSITY OF IOWA HOSPITALS & CLINICS (UIHC)

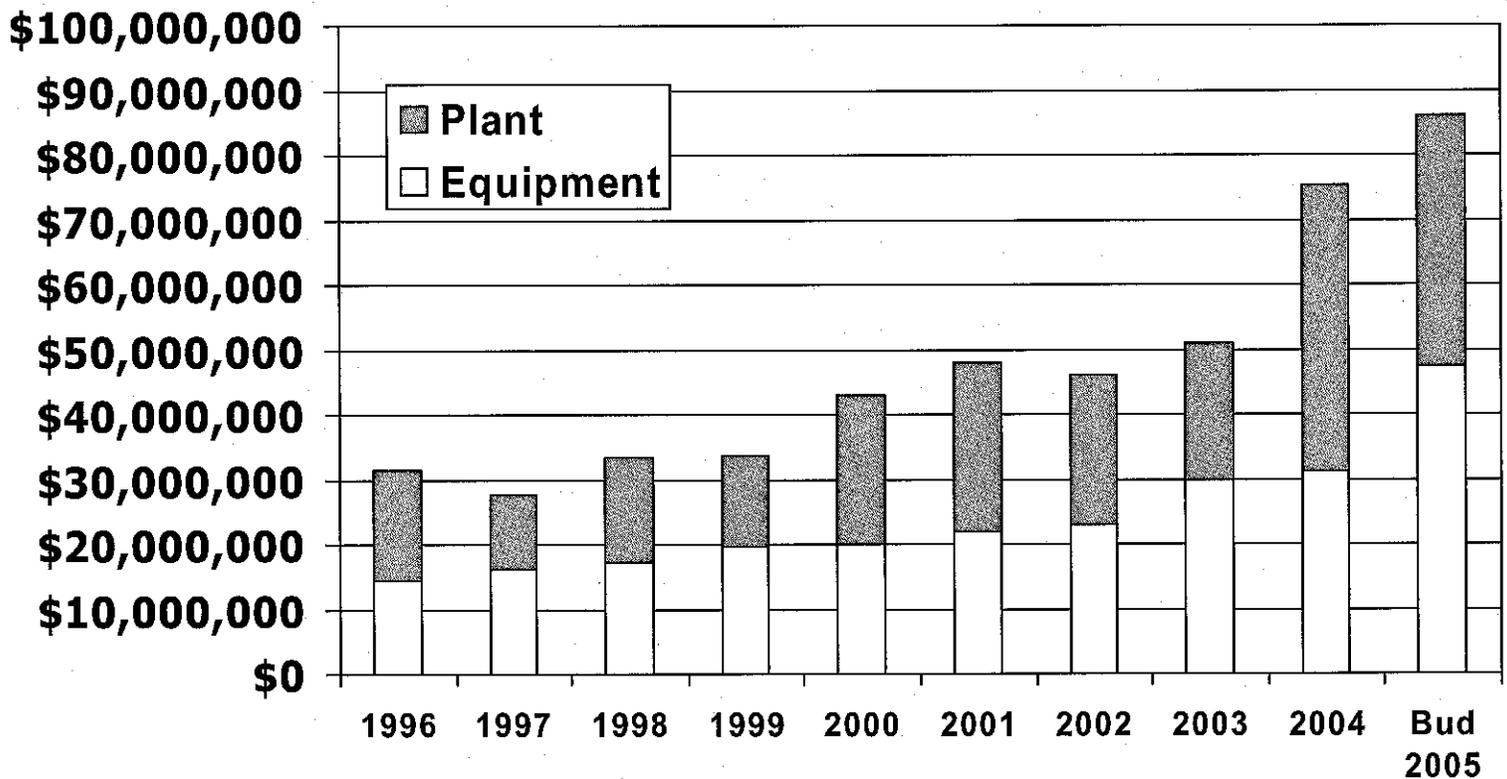
1. What are UIHC's anticipated capital requirements over the next 10 years?
2. How much cash should UIHC have?
3. How much debt can UIHC afford?
4. What are UIHC's sources and uses of cash?
5. What is the magnitude of UIHC's capital shortfall?

THE ESSENTIAL QUESTIONS OF CAPITAL PLANNING RELEVANT TO UNIVERSITY OF IOWA HOSPITALS & CLINICS (UIHC)

1. What are UIHC's anticipated capital requirements over the next 10 years?

LINK BETWEEN STRATEGIC PLAN AND FUNDS ALLOCATION

Capital Spending at the UIHC



***UIHC's Capital Allocation Committee had internal requests of \$166.5 million for FY05 with a final approved budget of \$86 million.**

PHASED CAPITAL REPLACEMENT PROGRAM AND CAPITAL DEVELOPMENT PLAN FINANCING SUMMARY 1970 - 2014

COMPLETED OR UNDERWAY AS OF 2003 - 2004							YET TO COMPLETE					
BOYD TOWER	CARVER PAVILION	COLLTON PAVILION	PAPPA JOHN PAVILION	POMERANTZ FAMILY PAVILION	WEST ADDITION	CONTINUING INVESTMENT IN MODERN- IZATION & MAJOR NEW TECH- NOLOGY	POMERANTZ FAMILY PAVILION AND WEST ADDITION	POMERANTZ FAMILY PAVILION	EMERGENCY TREATMENT CENTER EXPANSION AND RENOVATION	WEST ADDITION	SPORTS MEDICINE CENTER AND UNIVERSITY OF IOWA/UI HEALTH CARE COMPUTER FACILITY	FUNCTIONAL & CODE- MANDATED RENOVATION AND CONTINUING INVESTMENT IN MODERNIZATION & MAJOR NEW TECHNOLOGY
(1976)	(1978 - 88)	(1980 -92)	(1987-04)	(1992 - 01)	(2003-2005)	(1970 - 2004)	(2005-2007)	(2005-2007)	(2005 - 2008)	(2006 - 2008)	(2008 - 2008)	(2005 - 2014)
186,153 GSF \$14,090,919	466,219 GSF \$46,910,003	597,046 GSF \$89,096,965	535,494 GSF \$102,780,832	422,759 GSF \$61,285,370	218,500 GSF \$39,644,000	132,250 GSF \$332,967,879	\$20,000,000	\$22,500,000	43,000 GSF \$30,000,000	\$15,700,000	60,000 GSF \$14,900,000	\$636,900,000
\$687,375,968							\$740,000,000					
GIFTS AND FEDERAL GRANTS	UNIVERSITY HOSPITAL EARNINGS FROM PAYING PATIENTS & TAX EXEMPT REVENUE BONDS						(FUTURE GIFTS FUNDS, UNIVERSITY HOSPITAL EARNINGS FROM PAYING PATIENTS & TAX EXEMPT REVENUE BONDS)					
\$13,972,661	\$673,403,307											

COST SOURCES

\$1,427,375,968
UNIVERSITY HOSPITAL SELF GENERATED
CAPITAL REPLACEMENT FUNDS

CAPITAL DEVELOPMENT PLAN FINANCING SUMMARY FY 2005 - 2014

CAPITAL PROJECTS/INVESTMENTS IN MAJOR TECHNOLOGY AND TIMETABLE

NEW CONSTRUCTION					FUNCTIONAL & CODE-MANDATED RENOVATION AND CONTINUING INVESTMENT IN MODERNIZATION & MAJOR NEW TECHNOLOGY
POMERANTZ FAMILY PAVILION AND WEST ADDITION	POMERANTZ FAMILY PAVILION	EMERGENCY TREATMENT CENTER EXPANSION AND RENOVATION	WEST ADDITION	SPORTS MEDICINE CENTER AND UNIVERSITY OF IOWA HOSPITALS AND CLINICS/UI HEALTH CARE COMPUTER FACILITY	
(FINISHING OF SHELL SPACE ON LEVEL 3 FOR OB/GYN, DERMATOLOGY, & INTERNAL MEDICINE SPECIALTY CLINICS)	(FINISHING OF SHELL SPACE ON LEVEL 4 FOR AMBULATORY SURGERY CENTER, IVF & DERMATOLOGIC SURGERY PROCEDURE SUITES)		(FINISHING OF SHELL SPACE ON LEVELS 1 & 2 FOR CLINICAL CANCER CENTER CLINIC, INFUSION THERAPY SUITE AND PATHOLOGY LABORATORY)		
(2005-2007)	(2005-2007)	(2005-2008)	(2006-2008)	(2006-2008)	(2005-2014)
\$20,000,000	\$22,500,000	\$30,000,000	\$15,700,000	\$14,900,000	\$636,900,000

TOTAL UNIVERSITY HOSPITALS CAPITAL NEEDS \$740,000,000

FUTURE UNIVERSITY HOSPITALS EARNINGS FROM PAYING PATIENTS AND GIFTS
\$665,000,000

TAX EXEMPT REVENUE BONDS
\$75,000,000

TOTAL FUNDING SOURCES \$740,000,000

THE ESSENTIAL QUESTIONS OF CAPITAL PLANNING RELEVANT TO UNIVERSITY OF IOWA HOSPITALS & CLINICS (UIHC)

2. How much cash and “cash reserves” should UIHC have?

HOW MUCH CASH SHOULD UIHC HAVE? IN FY 2005? IN FY 2014?

Estimated FY 2005 Cash Operating Expenses	\$614 million
Per Day	\$1.68 million
Days Cash on Hand Target (Moody's Aa Median)	220 days
FY 2005 Cash Target	\$370 million

Estimated FY 2014 Cash Operating Expenses	\$1.079 billion
Per Day	\$2.96 million
Days Cash on Hand Target (Moody's Aa Median)	220 days
FY 2014 Cash Target	\$650 million

**THE ESSENTIAL QUESTIONS OF
CAPITAL PLANNING RELEVANT TO
UNIVERSITY OF IOWA HOSPITALS & CLINICS (UIHC)**

3. How much debt can UIHC afford?

DEBT CAPACITY OVERVIEW

- **Access to incremental new debt capital is a function of creditworthiness (factual) and the willingness of the capital markets to support an organization's perceived strategy (evaluative)**
- **The following are three standard industry approaches to determine debt capacity**
 - 1. Cash flow approach**
 - ✓ Widely viewed as the most important indication of debt capacity
 - ✓ Dependent on the relationship between current profitability and maximum annual debt service
 - 2. Cash to debt approach**
 - ✓ Dependent on the relationship of liquidity to debt
 - 3. Debt to capitalization approach**
 - ✓ Dependent on the relationship of debt to total capitalization

ESTIMATED 2004 POTENTIAL DEBT CAPACITY (\$ in 000s) *Assumes Maintenance of "AA" Ratios*

	Financial Target	Indicated Capacity	Weighting
1. Cash Flow Approach	> 4.0x	\$110,315	60%
2. Debt to Capitalization Approach	< 34%	\$353,770	20%
3. Cash to Debt Approach	> 159%	\$179,360	20%

Weighted Debt Capacity: \$172,815

UIHC plans to issue \$75 million in March 2005.

THE ESSENTIAL QUESTIONS OF CAPITAL PLANNING RELEVANT TO UNIVERSITY OF IOWA HOSPITALS & CLINICS (UIHC)

4. What are UIHC's sources and uses of cash?
5. What is the magnitude of UIHC's capital shortfall?

CAPITAL POSITION ANALYSIS 2005-2014 (\$ in 000s)

Uses (2005-2014) (000s)	
Estimated Capital Investment	\$740,000
Funding of Minimum Cash Position (220 days of operating expenses in 2014)	650,000
Principal Payments on Debt	28,800
Working Capital Needs*	121,000
Total Capital Uses	\$1,539,800

Sources (2005) (000s)	
Existing Cash (2004 Projected Cash and Marketable Securities and Board Designated Assets)	\$344,000
Net Available Debt Capacity (less non-project proceeds)	172,815
Philanthropy	25,000
Total Capital Sources	\$541,815

Estimated 10-Year Capital Shortfall:	\$997,985
Annual Cash Flow Requirement:	\$ 99,798
<i>Cash Flow is Defined as Net Income Plus Depreciation</i>	

*Working capital is the difference between current assets and current liabilities.

AVERAGE REQUIRED ANNUAL CASH FLOW VERSUS HISTORIC CASH FLOW

2005-2014 Average Annual Cash Flow Requirement:	\$99.8 million
FY 2004 Cash Flow:	\$57.8 million
FY 2003 Cash Flow:	\$66.0 million
FY 2002 Cash Flow:	\$64.7 million
FY 2001 Cash Flow:	\$84.7 million
FY 2000 Cash Flow:	\$77.7 million

SUMMARY FINANCIAL PLAN

3% OPERATING MARGIN, \$75 M NEW DEBT

(\$000s)

Ratio/Statistic	Moody's Aa 2002 Median	Pre-audit FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
EBDITA	\$ 77,803	\$ 51,573	\$ 71,315	\$ 74,723	\$ 78,819	\$ 79,753	\$ 82,452	\$ 86,464	\$ 90,039	\$ 87,840	\$ 87,520
Operating Income	\$ 23,235	\$ 10,273	\$ 20,554	\$ 21,514	\$ 23,152	\$ 24,894	\$ 26,411	\$ 27,713	\$ 29,478	\$ 31,605	\$ 33,367
Net Income	\$ 52,291	\$ 16,481	\$ 31,580	\$ 42,903	\$ 45,004	\$ 47,544	\$ 49,933	\$ 52,257	\$ 55,266	\$ 58,834	\$ 61,970
Unrestricted Cash	\$ 396,899	\$ 369,961	\$ 428,770	\$ 438,025	\$ 453,954	\$ 471,332	\$ 491,725	\$ 516,545	\$ 545,311	\$ 572,988	\$ 600,699
Long-Term Debt	\$ 316,443	\$ 35,728	\$ 109,460	\$ 105,050	\$ 102,531	\$ 99,900	\$ 97,151	\$ 94,279	\$ 91,269	\$ 88,091	\$ 85,072
Excess Margin	6.3%	2.5%	4.5%	5.7%	5.7%	5.7%	5.6%	5.5%	5.5%	5.5%	5.5%
Debt Service Coverage	6.38	9.6	7.9	8.4	9.7	9.7	10.3	10.9	11.4	11.4	11.9
EBDITA Margin	11.1%	8.0%	10.4%	10.3%	10.2%	9.8%	9.5%	9.4%	9.2%	8.5%	8.0%
Debt to Capitalization	34.3%	4.4%	11.8%	10.9%	10.2%	9.5%	8.9%	8.2%	7.6%	7.0%	6.5%
Cushion Ratio	20.0	32.7	37.9	38.7	40.1	41.6	43.4	45.6	48.1	50.5	52.9
Days Cash on Hand	219.8	228.7	255.0	245.3	239.6	233.3	228.8	226.2	224.6	220.5	216.5
Operating Margin	2.5%	1.6%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Annual Cash Flow (EBDITA + Investment Income)	-	\$ 57,781	\$ 82,341	\$ 96,112	\$ 100,672	\$ 102,403	\$ 105,974	\$ 111,008	\$ 115,827	\$ 115,069	\$ 116,123

CAPITAL STRUCTURE

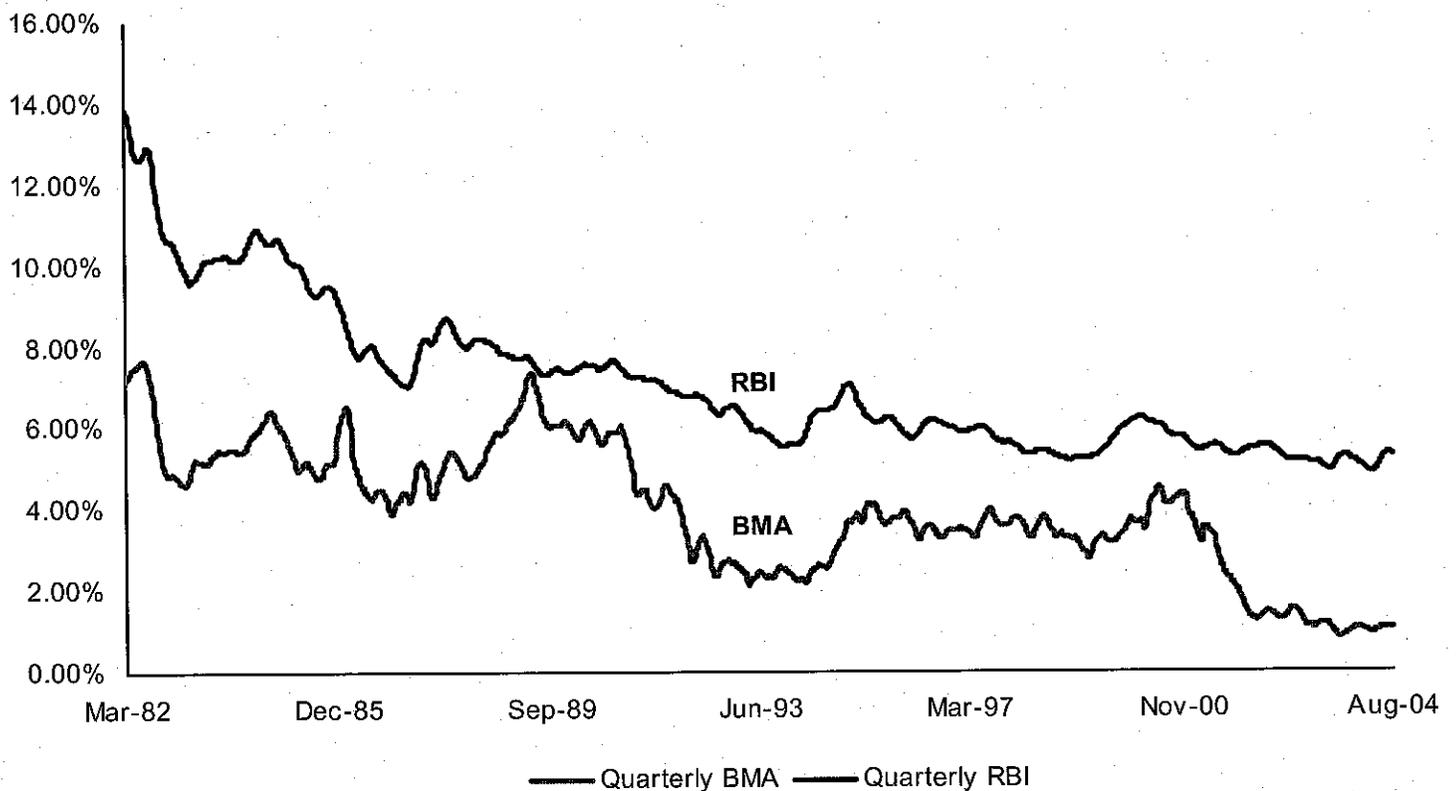
Academic Medical Centers tend to have some of the largest and most complex capital structures in municipal finance. Organized properly, a capital structure can be flexible and easily adjusted to meet changes in interest rates and the changing shape of interest rate yield curves. Capital structures by themselves can lower the overall cost of capital and can maximize the return of assets versus liabilities. Clearly for many Academic Medical Centers, the capital structure, creatively managed, has become a competitive advantage. Perhaps, most importantly, over a 10 to 20 year planning horizon, the quality of an Academic Medical Center's capital structure can cost or save millions of dollars.

CAPITAL STRUCTURE

The Appropriate Relationship Between Fixed to Variable Rate Debt. One of the most important capital structure jobs is to select the appropriate relationship of fixed to variable rate debt. This decision involves many factors including bond ratings, availability of bond insurance, amount of free cash, investment policy, and the changing shape of interest rate yield curves.

HISTORICAL BOND MARKET ASSOCIATION INDEX (BMA) AND REVENUE BOND INDEX (RBI)¹

HISTORICAL BMA² & RBI



1. Past performance may not indicate future results.
2. The BMA index was created in 1989; periods before 1989 are based on the J.J. Kenny index a similar index of seven day tax-exempt floaters.
3. BMA is variable rate debt, RBI is fixed rate debt.

Source: Citigroup.

LEVERAGE INDICATOR FOR SELECT ACADEMIC MEDICAL CENTERS¹

System/Hospital	Location	Ratings ⁶	Long-Term Debt	Debt to Capitalization
University of Iowa Hospitals and Clinics ³	Iowa City, IA	AA/Aa2/NR	\$32,460	4.0%
Catholic Health Initiatives	Denver, CO	AA/Aa2/AA	2,070,172	36.3%
Genesis Medical Center	Davenport, IA	NR/A1/NR	93,575	33.1%
Iowa Health System	Des Moines, IA	NR/A1/A+	487,112	35.2%
Johns Hopkins Hospital	Baltimore, MD	AA-/A1/AA-	329,336	46.6%
Mayo Foundation	Minneapolis, MN	AA/Aa2/NR	1,431,700	43.4%
Shands Teaching Hospital and Clinics	Gainesville, FL	NR/A2/NR	436,877	48.1%
Stanford Hospitals and Clinics	Palo Alto, CA	A-/A3/NR	433,242	65.2%
The University of Colorado Hospital	Denver, CO	NR/A3/A-	295,690	61.1%
Thomas Jefferson University Hospital	Philadelphia, PA	Not rated	227,984	57.9%
University Health System, Inc.	Knoxville, TN	NR/Baa1/A-	212,861	84.7%
University of Chicago Hospitals & Health System	Chicago, IL	Not rated	352,720	49.9%
University of Kansas Medical Center	Kansas City, KS	NR/NR/A	109,563	53.0%
University of Michigan Health System ⁴	Ann Arbor, MI	AA/Aa2/NR	331,551	26.5%
University of Pennsylvania Health System	Philadelphia, PA	A/A3/NR	775,027	82.7%
University of Pittsburgh Medical Center	Pittsburgh, PA	A/NR/A	1,825,153	57.7%
University of Wisconsin Hospitals and Clinics ⁵	Madison, WI	A+/A1/NR	255,588	45.7%
Average			\$570,624	48.9%
Median			\$331,551	48.1%

¹ Note: *Italicized entities are not considered academic medical centers. Source: Audited financial statements for the fiscal year ended 2003, unless otherwise noted.*

² *Unaudited fiscal year 2004 financial statements*

³ *Audited financial statements for fiscal year 2002*

⁴ *Fiscal year 2003 financial statements adjusted for \$24MM of incremental commercial paper issued in 2004*

⁵ *Fiscal year 2003 financial statements adjusted for \$60MM of incremental debt to be issued in 2004*

⁶ *Ratings are shown from left to right as Standard & Poors, Moody's and Fitch*

SUMMARY OBSERVATIONS

1. **Current Credit Position.** UIHC has a current bond rating of "AA" with a strong cash position and very little debt.
2. **Debt Capacity.** Assuming a continuation of a "AA" bond rating, existing debt capacity is approximately \$173 million.
3. **Capital Shortfall.** UIHC's capital requirements are significant, but are affordable assuming an ongoing operating margin of 3%.
4. **Use of Debt.** All academic medical centers currently have significant financial requirements to meet clinical, research and education responsibilities. Funding of these needs requires strong earnings, philanthropic support and the constructive use of debt capital.
5. **Capital Structure.** Capital structure can be a powerful competitive advantage. The use of variable rate debt and careful balance sheet management can generate cost of capital savings and investment earnings which over a 10-year planning period can make a significant contribution toward the funding of the academic medical center mission.

Historical UIHC Debt Financing

Ratio/ Statistic	1981- 1985	1986- 1990	1991- 1995	1996- 2000	2001- 2004	Moody's Aa 2002 Median
Unrestricted Cash	\$32.3 M	\$94.0 M	\$113.8 M	\$236.1 M	\$336.4 M	\$396.9 M
Debt	\$50.1	\$50.8	\$37.6	\$25.1	\$27.5	\$316.4 M
Fund Balance	\$114.5	\$246.0	\$403.2	\$586.5	\$741.7	N/A
Debt to Capitalization	30.8%	17.8%	8.8%	4.2%	3.5%	34.3%
Cash to Debt Ratio	64%	187%	309%	997%	1,437%	>159%

•Data represents the average for each time period based on KPMG Audits 1994-2003 and internal data for all other periods

Current Legislative Authority

- In 2002 the University of Iowa Hospitals and Clinics received authority from the Iowa legislature to issue up to \$100 million of revenue bonds.
- After receiving authority from the Board of Regents, State of Iowa, UIHC issued \$25.0 million of fixed rate revenue bonds in December 2002.
- UIHC has \$75 million of additional borrowing authority from the perspective of the State legislature.
- The General Assembly has authorized the construction, improvement, remodeling, repairing, furnishing, and equipping inpatient and outpatient facilities and patient care facilities, including facilities for image guided radiation therapy services and mechanical and other supporting facilities at the University of Iowa Hospitals and Clinics and has approved the issuance of bonds to finance the Project and to capitalize bond reserves and issuance costs.

Summary and Next Steps

- Authorization is requested to proceed in preparing to issue \$75 M of variable rate debt in March 2005.
- The UI Hospitals and Clinics has the capacity to incur more debt while remaining strong financially. Its capital needs cannot be met in a timely manner without the use of debt. In addition, interest rates are favorable so now is a good time to issue bonds.
- The \$75 M issuance is consistent with original plans that bond proceeds would be generated on different occasions over the next several years, as determined by the Board of Regents, to support up to \$100 million of a major capital development program at the UI Hospitals and Clinics. To date \$25 M in bonds have been issued. A second issue of \$75 M now has less issuance costs than splitting the debt into even more issues.
- Failure to invest in modernization through these capital projects will limit the state's ability to offer the latest and best medical treatments. This would make it necessary for Iowans to leave the state for health care services in places like Rochester, Chicago and St. Louis. This means not only Iowans but the associated dollars will leave Iowa. The UI Hospitals and Clinics will quickly lose its edge as one of the nation's best teaching hospitals if its facilities become obsolete.

UNIVERSITY OF IOWA HOSPITALS AND CLINICS
 FY 2006 - FY 2010*
 FIVE-YEAR CAPITAL PROGRAM SUMMARY
 (All Projects Contingent Upon Availability of Self-Generated UIHC Funding and Approval through UIHC's Annual Capital Budget Process)
 (\$ Thousands)

Project	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	Five-Year Total	Source of Funds
<u>Fire and Environmental Safety Resolution</u>							
JCAHO Plan for Improvements (Multiple Projects)	\$ 400	\$ 400	\$ 400	\$ 400	\$ 400	\$ 2,000	9
Installation of Addressable Fire Alarm System - Phase C (Support Areas)	270	270	270	150	150	1,110	9, 11
General Hospital Sprinkler Systems Improvements	100	100	500	150		750	9
Subtotal - Fire and Environmental Safety Resolution	\$ 670	\$ 770	\$ 1,170	\$ 700	\$ 550	\$ 3,860	
<u>New Construction</u>							
Clinical Cancer Center Clinic and Infusion Therapy Suite	\$ 1,000	\$ 6,000	\$ 8,000	\$ 688		\$ 15,688	9, 11
Sports Medicine Center and UI/VI Health Care Computer Facility**	700	9,000	5,219			14,919	9, 12
Off-Site Storage Facility**	600	1,300				1,900	9
Subtotal - New Construction	\$ 2,300	\$ 16,300	\$ 13,219	\$ 688	\$ -	\$ 32,507	
<u>Remodeling/Renovation/Rehabilitation</u>							
Phased Floor Covering Replacement and Wall Refurbishment - UIHC Wide	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 7,500	9
Roof Replacements and Recovers - UIHC Wide	1,000	950	950	950	1,250	5,100	9
Air Handling Unit Replacements - Hospital Wide	1,513	4,135	4,135	4,805	3,593	18,181	9
General Hospital Utility Infrastructure Replacement and Equipment Upgrading	1,283	1,784				3,067	9
Energy Conservation and HVAC Upgrades	750	500	250	250		1,750	9, 11
Phased Ceiling Refurbishment - UIHC Wide	500	450	450	450		1,850	9
Pediatric Specialty Clinic Expansion and CHI Entrance Lobby Development	500	5,000	3,636			9,136	9
Center for Disabilities and Development - Energy Conservation & HVAC Upgrades		500	500	500	500	2,000	10
Pediatric Cardiac Catheterization Laboratory Development	100	650				750	4, 9
Biplane Angiographic Procedure Room		100	500			600	9

UNIVERSITY OF IOWA HOSPITALS AND CLINICS
 FY 2006 - FY 2010*
 FIVE-YEAR CAPITAL PROGRAM SUMMARY
 (All Projects Contingent Upon Availability of Self-Generated UIHC Funding and Approval through UIHC's Annual Capital Budget Process)
 (\$ Thousands)

Project	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	Five-Year Total	Source of Funds
Window Refurbishment and Replacement - Hospital Wide	898	2,394	1,895	646		5,833	9
Pediatric Faculty and Staff Office Development**	500	1,250	770			2,520	9
Autopsy Suite Relocation**	200	1,500	300			2,000	9
Medical Air and Vacuum System Enhancements**	375					375	9
Carver Pavilion Inpatient Unit Renovation - Level 7		200	4,095	2,860		7,155	9
Development of a Patient Discharge Service Center		338	2,500	300		3,138	9
Colloton Pavilion Chilled Water System Enhancements**	390					390	9
South Wing Energy Conservation and HVAC Upgrades	550	500	500	500		2,050	9
Neurosurgery Clinic Expansion and Renovation**	400	1,400				1,800	9
Patient Financial Services Office Renovation		1,033	443			1,476	9
General Hospital Elevator Replacement - Phase III		178	584	415		1,177	9
Upgrade and Expand Internal Wayfinding - Hospital-Wide		400	590			990	9
Facilities Safety & Security Control Room & Operations Center - Phase 2		100	350			450	9
Computer Room Chiller Installation**	375					375	9
H. P. Smith Conference Room Refurbishment		200	140			340	9
JCP Water Pressure Regulator Replacement**	338					338	9
Phased Carver Pavilion Inpatient Unit Renovations			500	5,000	4,126	9,626	9
Holden Comprehensive Cancer Center Administrative Offices**		50	600	750		1,400	9
Development of an Expanded Ambulatory Renal Dialysis Suite		992	1,983	330		3,305	9
South Wing Elevator Replacement	210	1,215	370			1,795	9
Center for Disabilities and Development - Inpatient Unit Renovation		350	500	310		1,160	10
UI Heart Care Clinic and Diagnostic Laboratories Expansion**		300	500	4,500	3,500	8,500	9
Former Microbiology Laboratory Redevelopment			390			390	9
Pneumatic Tube System Capacity Enhancements			1,975	1,975	1,975	5,925	9
Main Kitchen Renovation**			200	1,800	3,000	5,000	9
C-44 Renovation			443	443	1,033	1,476	9

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Project	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	Five-Year Total	Source of Funds
UIHC Exterior Building Wall Restoration and Upgrades			1,131	599		1,730	9
Digestive Disease Center Clinic and Procedure Suite Expansion**				2,000	5,279	7,279	9
Staff Dining Room Renovation				500	475	975	9
General Hospital First Level East Utilities and HVAC Upgrades				69	391	460	9
Coloton Pavilion Utility Infrastructure Replacement and Equipment Upgrading					1,180	1,180	9
Installation of Revolving Doors at Main-Entry Points					612	612	9
Subtotal Remodeling/Renovation/Rehabilitation	\$ 11,382	\$ 27,969	\$ 32,237	\$ 31,452	\$ 28,414	\$ 131,454	
Grand Total - UIHC	\$ 14,352	\$ 45,039	\$ 46,526	\$ 32,840	\$ 28,964	\$ 167,821	

* Includes only those projects anticipated to be initiated during FY 2006 - FY 2010; does not include projects with previously approved budgets for which expenditures will be made during this five year period.

** Not included in previous Five Year Plans

Source of Funds Table:

- 1 State Appropriation or Bonding Authorization
- 2 General Fund Building Renewal
- 3 Income from Treasurer's Temporary Investments
- 4 Gifts and Grants
- 5 Departmental Renewal and Replacement Funds
- 6 Auxiliary Service or Enterprise Revenue Bonds
- 7 Iowa DOT (Road Use Tax Funds)
- 8 Student Health Fee
- 9 University Hospital Building Usage Fund
- 10 Center for Disabilities and Development Building Usage Fund
- 11 UIHC Bonds

The "cutting edge" responsibility of the UIHC constantly brings about some revision in planning. While the foregoing enumeration includes all projects now envisioned for the FY 2006-2010 period, it is likely that the dynamics of clinical service-educational demands and corollary societal forces and accreditation regulatory requirements will mandate other projects as time moves on. Furthermore, results of the master planning efforts that are now being implemented by the General University in support of the College of Medicine's initiative in the biosciences may continue to cause the need for some revisions to this program. In accord with long-standing practice, any such changes which arise will be fully documented for consideration and approval by the Board of Regents, State of Iowa.