Planning, Developing and Financing Public Hospitals and insight into the growing Medical Tourism Industry

Healthcare providers and developers face a plethora of decisions and obstacles in planning, developing and financing health care real estate and capital projects. This article will address key points in both the planning and development phase as well as in project financing.

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Hospitals and other types of health care assets have unique requirements. To properly access these, the development team should work closely with the healthcare operator and the proposed clinical practitioners during the planning and design process to analyze how those professionals plan to carry out their practices. In some instances, education will be an additional component in the practice. It is possible that exploration of new designs and technological improvements will increase efficiency and effectiveness. Additionally, the team must work closely with in-country experts to understand the local practices, standards and customs that must be included as integral elements of the new hospital.

All health care facilities require five basic elements to succeed: a clear vision, a defined demand and identified market, a strong development team, a scope that is in alignment with the available funding, and a plan that lays out a strategy for both short and long-term sustainability.

Here are the fundamental steps that will take you from the planning stage to being operational:

- Initial planning for clinical programs, facilities, organizational structures, and other critical components
- Selection of Development Team including architect, developer, contractor, legal advisor and financial advisor
- Development and refinement in the pre-commissioning stage of clinical program plans, preliminary equipment selection, IT planning, and quality management
- Construction Financing, including whether to own the facility and how best to finance the project, or whether to lease as an alternative way to fund the construction and possibly the equipment purchase
- Start-up of operations including operational implementation, leadership and staff development, and other key preparations

When selecting your development team of architects, developers and contractors, you should ensure that each have the requisite experience and knowledge that fits your needs. You should also evaluate how you wish to build the new hospital. Many healthcare systems are turning to the "turn-key" design, build and finance model. This entails selecting a developer or contractor who assembles a complete development team under the supervision and management of one entity that is responsible for all facets of the project and that ensures the project is built on time and on budget. This reduces the need for oversight and management by the healthcare provider and transfers financial and delivery risk to the turn-key development team. The design, build and finance model is also commonly used in healthcare development whereby the turn-key process includes construction financing in addition to complete design and construction of the facility.

In order to make an informed decision about building a new healthcare facility, you should include the following tasks to ensure a sound strategic plan and feasibility analysis:

- Assist in defining a clear vision for the hospital that aligns key stakeholders
- Analyze workforce supply, local patient demographics, disease burden trends, unmet patient demand, competition, regulatory constraints, and other factors
- Assemble a strong planning and development team
- Develop a comprehensive project roadmap aligned with available funding and realistic with respect to timeframes and contingencies
- Assist in defining a marketing strategy that will differentiate the new hospital from competitors
- Support long-term planning related to sustainability, expansion, and integration with education and research or government sponsored programs

Financing New Health Care Facilities

Most healthcare facility project decisions are, in reality, financial decisions. Once the need or economic potential for a particular real estate development or asset is established, the next decision is strictly financial. Once a healthcare provider or public healthcare agency has determined the need and demand for a new facility, one must determine what will it cost and how and under what terms can you can finance the construction. With these two elements defined, the operator's financial advisors can analyze the project costs and operating costs to projected income to make a determination if the project is financially justifiable.

Due to the economic downturn of recent years, raising large amounts of capital for new hospitals has become more challenging. However, different financing options do exist, and must be analyzed carefully to determine the best fit for a specific healthcare operator's needs and resources.

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Historically, mid- to large-sized healthcare systems have utilized bond financing to construct government buildings and to fund capital projects. However, deteriorating economic conditions, lack of available financing and higher finance costs have often stalled critical projects or made them financially infeasible.

When evaluating construction financing of a new hospital, you must first consider if it would better to own the facility, or if leasing would be the superior option.

Own versus Lease?

Real Estate Leasing: Leasing provides several advantages compared to ownership. When using leasing the healthcare operator does not need to provide financing or make investments in the project, because lease financing can provide 100% of the needed investment. In instances where little or no equity is available, or a health system does not want to place more debt on their balance sheet, leasing can be an excellent solution. The tenant's only obligation using this funding mechanism is to make rental payments and to maintain the asset. Leases can be structured as either operating leases or as capital leases. Under most capital leases the tenant may gain ownership at the maturity of the lease by using a lease-purchase style arrangement. Under a lease arrangement in many cases the landlord and investor may also include the costs of medical equipment as part of a package and one lease for equipment and real estate. Leases for health care properties are generally for 15 to 30 year periods.

Ownership: Ownership allows for complete control over the facility during construction and during operation. This is a sound option for health care providers who have strong financials and access to inexpensive financing. This option can be less expensive than leasing when a health care operator has the financial resources to finance a large portion of the project directly and requires only a limited amount of debt financing.

Financing Options for Construction Financing

- Bank construction loan
- Bond financing
- Sponsor equity (self-funded)
- Leasing
- Grants, Donations

Medical Tourism….A New Trend in Health Care for Emerging Markets

What is "Medical Tourism?"

"Medical tourism" (MT) is defined as patient movement from highly developed nations to less developed areas of the world for medical care, bypassing services offered in their own communities. Medical tourism is different from the traditional model of international medical travel where patients generally journey from less developed nations to major medical centers in highly developed countries for medical treatment that is unavailable in their own communities. While the general definition of the MT above covers most of the aspects of the phenomenon, there is no international consensus yet on the name of this growing trend. MT is often related to globalization and implementation of new healthcare policies that might undermine the quality and availability of the services in a person's home country.

Services typically sought by travelers include elective procedures as well as complex specialized surgeries such as joint replacement (knee or hip), cardiac surgery, dental surgery, and cosmetic surgeries. Individuals with rare genetic disorders may travel to another country where treatment of these conditions is better understood. However, virtually every type of health care, including psychiatry, alternative treatments, convalescent care and even burial services are available.

(Reference: Wikipedia)

Various countries/regions around the world, including India, Asia, and Latin America, have investigated the ideas behind Medical Tourism. Local and national governments see Medical Tourism as an "attractive" growth industry as it promotes tourism, commerce, and tax revenue, creates new jobs and raises the quality of health care to the local community. With the economic downturn many smaller and emerging nations are seeking new industries and ways to grow their economies and increase tourism. Medical Tourism has the ability to address these needs, and promises to be a growing industry.

Economic Development/New Gov't Revenue Impact Analysis

A medical tourism surgical specialty hospital with emergency services and a full diagnostic compliment of approximately 330,000 square feet, with 10 operating rooms as the business base would yield approximately (adjusted for some local cost factors) U.S. $350 million in immediate Foreign Direct Investment.

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Further, such a hospital would yield an approximately U.S. $471 million increase in general revenues to the country, more than U.S. $60 million in increased tourism revenues and approximately U.S. $70 million in local payroll. This includes more than 200 local jobs, not to mention the value of knowledge and technology transfer. Since these are newly constructed and developed facilities, they will represent a technology platform only the most recently build hospitals in the U.S. can equal. Projects of different sizes will yield different returns, but even smaller facilities will offer considerable returns based on a constant infrastructure base in healthcare facility and service deployment.

According to a study by Deloitte, in 2009 between five and six million individuals left their home countries to seek medical care principally because the medical care they sought was not available locally or they could not afford it locally. Deloitte went on to estimate that number as growing by as much as 35 percent annually. Further, McKinsey and Company segment those medical travelers based on reasons for travel and found that (a) 40 percent travel in order to seek the most (or more) advanced technologies, (b) 32 percent are seeking better quality care than is locally available for medically necessary procedures, (c) 15 percent are seeking faster access to care for medically necessary procedures, (d) 9 percent are seeking lower cost care for medically necessary procedures and (e) 4 percent are low cost shoppers for discretionary procedures. Currently, these medical travelers are visiting a variety of countries in their quest. McKinsey studied the origins/destinations of medical travelers and found the U.S. and Asia currently get the bulk of the medical tourists.

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Russell A. Duke is Managing Principal of National Standard Finance, LLC. Mr. Duke is responsible for leading the company´s strategic growth, managing its daily business operations globally, setting corporate strategy and maintaining and building relationships with institutional investors, business partners and clients. He also is actively engaged in day to day operations and oversight of the firm´s most complex and highest priority investment transactions leading a global team of officers, deal makers, underwriters and legal professionals.

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