

# Local Notes

Central New York HFMA Chapter

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## Developer-Owned Projects Help Community Hospitals Meet Capital Demands

By Matthew T. Huber, Senior Vice President, Central New York District, KeyBank N.A.

Nine out of 10 requests for proposal (RFPs) from hospitals to developers today are seeking developer ownership of the project. Only a few years ago, just one in 10 RFPs sought this, according to Landmark Healthcare Facilities, a national full-service developer of healthcare facilities.

This trend illustrates how structural constraints on liquidity and debt capacity are challenging hospitals to develop new strategies for meeting capital demands. Increasingly, hospitals are unwilling or unable to use their own liquidity and/or debt capacity to develop strategically important outpatient healthcare services on their campus. Increasingly, they are seeking the assistance of knowledgeable developers to construct and own the asset, either in total or in partnership with the hospital and/or its physicians.

Fortunately, community hospitals have valuable options available to financing construction of needed outpatient buildings or physicians' offices. These options allow hospitals to develop ancillary revenue streams through strategic partnerships and to control projects on their campuses.

Developer-owned projects do not effect hospitals' debt capacity, enabling them to invest in their core business without diverting resources. At the same time, new state-of-the-art medical offices — built on campus but owned by a developer — help hospitals attract allied physician practices without the burden of being landlords.

*(continued on page 6)*



## A Word From Our President.....

Dear Fellow Members,

It is an honor to be the Central New York Chapter President for the next two fiscal years through May 31, 2007. Since the new fiscal year began on June 1, 2005 we have been working hard to prove that the confidence you have shown in your new chapters leaders will continue to result in educational seminars, member support, in addition to enhance and further your career in the healthcare industry. To that end, the Officers, Board Members and Committee Members have been meeting every month to plan for this year's seminars events, communications and membership directory.

With HFMA's primary objective being education, the Chapter has already held its first seminar "Establishing & Setting a Hospital Charge Structure," and its second seminar is scheduled "State & Federal Reimbursement Update; Issues & Budget Implications."

Future seminars we are working on include;

- Physician Practice Billing & Coding
- Nursing Home Updates
- Reimbursement Review
- Projecting the Financial Impact of Regulatory Changes
- Budgeting
- Financial Forecasting & Decision Making
- Capital allocation
- ICR Training
- Healthcare Financing 101
- Healthcare "Hot Topics," and
- Finance Staff Skill Set Improvement
- Medicare & Medicaid update

Suggestions on education, events, communication, etc. are encouraged and welcomed by all your leaders.

The Central NY chapter is also a fun chapter. In July we held our first event for members and their families at the Syracuse SkyChiefs Baseball Game. On September 22<sup>nd</sup> the annual Golf tournament was held at the Links at Erie golf course in East Syracuse and later in the year we'll have HFMA night at the Syracuse Crunch hockey game.

Did you know that 2005 marks HFMA's 50<sup>th</sup> anniversary? As part of the celebration of this great milestone the Chapter Event's Committee will be planning an opportunity for its members to gather and celebrate. More information will follow soon!

We hope you enjoy reading this newsletter and find the information timely and informative. The Chapter is always looking for ways to improve the newsletter as well as new information that can help the members. If you have something you'd like to have published in the next newsletter, don't hesitate to contact John Milligan at [jmilligan@fcc-cpa.com](mailto:jmilligan@fcc-cpa.com), or myself at [Matthew T. Huber@keyBank.com](mailto:Matthew.T.Huber@keyBank.com).

To contact me with your thoughts and ideas, please feel free to call my office at (315) 470-5130 or email me at the above noted address.

Best Regards,

Matthew T. Huber  
President - HFMA Central New York Chapter

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## ***Welcome New Members to the Central New York Chapter:***

Marc Flood  
Vice President, Sales Marketing  
Pomco

Jessica Egan  
Ass't Director, Finance  
Syracuse Orthopedic Specialists

John Hamel  
Vice President  
Billing Solutions, LLC

Carrie Fuller  
Senior Auditor  
Pricewaterhousecoopers

Shannon Flood  
Controller  
Crouse Hospital

Glenn Harding  
Director of Finance  
Syracuse Orthopedic Specialists

Sean Curtin  
Accountant  
Massena Memorial Hospital

John Rey  
Branch Manager Director of Sales  
Beacon Federal

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## ***Interested in Writing for the Local Notes***

The Central New York Chapter of the HFMA is always looking to promote and publish articles from the local membership!!!!!!!

If you have written or would like to write a healthcare related article and have it published in the Local Notes, please contact John Milligan at 315-446-3600 or email him at [jmilligan@fcc-cpa.com](mailto:jmilligan@fcc-cpa.com)

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## **SPONSORSHIPS FOR THE** **CENTRAL NEW YORK CHAPTER**

The lifeblood of the Central New York Chapter is their ability to receive sponsorship dollars every year. These funds enable the Chapter to provide low cost educational seminars and events to all members of the Chapter. Where else can you get timely information about the constantly changing reimbursement regulations for as little as \$35.00?

Over the past year Sponsorship opportunities have become much more flexible. While the HFMA's fiscal year ends May 31<sup>st</sup>, we are now offering sponsorship throughout the HFMA's fiscal year as well as a calendar year. The levels of sponsorship have not changed in years. These affordable sponsorship levels make for great exposure and benefits to the companies involved.

Sponsorship Levels are:

### **\$1,500 Gold Level**

- Recognition at all HFMA seminars, events and newsletters
- 8 free passes to HFMA Central NY Educational Seminars
- 2 free passes to the HFMA Central NY Annual Golf Event

### **\$1,000 Silver Level**

- Recognition at all HFMA seminars, events and newsletters
- 6 free passes to HFMA Central NY Educational Seminars

### **\$500 Bronze Level**

- Recognition at all HFMA seminars, events and newsletters

***Call Eric Fehrman, Sponsorship Chair at 315-446-3600 to commit to a sponsorship.***

## Fifth Annual Central New York Chapter HFMA/Syracuse SkyChiefs Night



For the fifth consecutive year, the Central New York Chapter held its annual Family Night with the SkyChiefs. According to President Matt Huber, “this year was definitely better than any other year!!!!”



The Chapter had reserved the Hank Sauer Room and Patio on July 16<sup>th</sup> where members and their family enjoyed the baseball game out in the grandstands as well in an air-conditioned room—A great time was had by all!!!!

# Central Chapter HFMA Corporate Sponsors

## Gold Sponsors



## Developer-Owned Projects Help Community Hospitals Meet Capital Demands

(continued from page 1)

Developer-owned projects allow hospitals and their partners to create new outpatient facilities and medical offices that are completely “off balance sheet” and “off credit” — even further removed than a synthetic lease.

Working with the right developers, hospitals can retain control over projects that developers create on their campuses. In fact, hospitals become partners with developers, closely involved in every key decision. Hospital officials may meet with the developer several times a week during the project’s early stages to discuss and review everything from drawings to the best mix of physicians to meet the hospital’s strategic objectives.

Hospitals can help determine who can lease space in the building, for example, ensuring that only physicians’ groups or healthcare services that have relationships with the hospital or are willing to operate within one will become tenants. In many cases, a hospital’s ground lease and space lease prohibit occupancy by physicians or other healthcare providers who compete with the hospital.

An example of how these partnerships can help hospitals meet their development goals within constraining debt and liquidity limitations involves a mid-sized community hospital that wanted to construct a new building to increase its cancer treatment capabilities and facilitate physician recruitment. The hospital turned to KeyBank and Landmark Healthcare Facilities. Both had experience in hospital and healthcare construction and both had the expertise to develop the project on the hospital’s campus: a 70,000-square-foot, three-story medical office building with a cancer center and physicians’ offices, and a 310-space parking garage.

The hospital wanted to own the 24,600-square-foot, second-floor cancer center and the parking garage. Due to debt capacity considerations, however, it did not want to own the (continued on page 9)

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**Silver Sponsors**



**\$156 Billion Capital  
Investment Needed for a  
National Health Information  
Network, Expert Panel Says**

Achieving a desirable, workable national health information network will cost \$156 billion over five years in capital investment and \$48 billion in annual operating costs, according to a new Commonwealth Fund-supported study published in the Aug. 2 issue of *Annals of Internal Medicine*. Hospitals as an industry will bear \$53 billion of the capital costs, and physician practices will invest nearly \$50 billion, mostly to achieve interoperability.

The estimates were developed by a panel of experts, including David J. Brailer, MD, national coordinator for health information technology at the Department of Health and Human Services; Janet Corrigan, formerly of the Institute of Medicine, and now president and CEO of the National Committee for Quality Health Care; and others.

In "The Costs of a National Health Information Network," Rainu Kaushal, MD, of Brigham and Women's Hospital; David Blumenthal, MD, of Massachusetts General Hospital; and their colleagues detail the findings of the panel in the first published article to use a sound methodology to model and estimate the cost of implementing a national health information network across the United States, given the current state of IT infrastructure.

Findings from a Commonwealth Fund survey of physicians and their use of IT published in *Medscape General Medicine* in December 2004 revealed that startup cost was named a "major barrier" to physicians' adoption of IT by 56 percent of those surveyed, and lack of uniform standards was second, with 44 percent of physicians saying it was a major barrier.

The survey of 1,837 physicians across the United States found that practice size plays a role, with physicians in solo and smaller practices more likely to cite barriers to IT adoption. Just 13 percent of physicians in solo practice said they use electronic medical records, compared with 57 percent of physicians in practices of 50 or more physicians.

To read the Commonwealth Fund press release, go to [www.cmwf.org/publications](http://www.cmwf.org/publications) and click on "How Much for a National Health IT Network?"

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## AHIMA Defines Personal Health Record

On July 25, the American Health Information Management Association released its standard definition of a personal health record, including attributes and minimum common data elements. Defined as an electronic, universally available, lifelong resource of health information maintained and owned by the individual, AHIMA said that the personal record is critical to the development of a safer, more efficient, consumer-driven healthcare system. The personal record should be maintained in a secure and private environment, with the individual determining rights of access. A personal health record would be separate from, and would not replace, the legal record of any provider.

The definition was formulated by an electronic information management work group consisting of health information management professionals and other industry leaders. To ensure proper functionality among different care settings and different providers, AHIMA said, a standardized personal health record must include common data elements, some of which include personal demographic information, allergies and drug sensitivities, hospitalizations, and surgeries.

To read the AHIMA press release defining the personal health record, go to [www.ahima.org/press/press\\_releases/05.0725.asp](http://www.ahima.org/press/press_releases/05.0725.asp).

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**Developer-Owned Projects Help Community Hospitals Meet  
Capital Demands (continued from page 6)**

physician office portion of the building. Taking advantage of tax-exempt financing for the hospital space, the parties agreed on a condominium structure for the building with two condo units — one for the cancer treatment center and garage and the other for the physician office space.

Both Landmark and KeyBank understood the challenges facing this hospital, and both were open to a creative approach to financing the project, which included construction loans, mezzanine financing, and mini-perm debt. This short-term loan is often put into place following construction but prior to long-term financing, when the facility is signing up tenants and stabilizing.

Today, Landmark owns the cancer treatment center and garage, and the developer shares ownership of the physician offices with a limited liability corporation jointly owned by the physicians. The developer manages the building and is responsible for renting vacant space. The physicians participate in key decision-making and receive a percentage of the return on those floors.

Construction of medical offices on a hospital campus is different from other office construction projects and is rarely a straight real estate transaction. A hospital considering having a developer build and own a facility on its campus should be sure that both the banker and the developer have experience working with hospitals in developing these types of projects, as well as experience working closely with physicians.

The banker should have significant real estate and construction financing expertise, plus experience working in situations involving ground leases, which enable hospitals to maintain control over the project.

When ascertaining risk, banks that are familiar with hospital financing can look at factors in addition to the balance sheet and consider the hospital's competitive position, leadership, physician relationships, geographic proximity to other hospitals, and population base. Banks also can look at how a particular investment will further the strategic goals of the institution, and they can

provide creative financing alternatives to help move the hospital's strategic mission forward.

The developer should have a history of maintaining hospital outpatient facility investments for at least five years (rather than quickly flipping the asset) and should also have experience creating ownership opportunities for physicians.

In some hospital-related projects, developers may own the entire construction project, or a hospital may own one part of the project and the developer and physicians may own another part. When physicians on a hospital staff participate in the ownership of the campus office building, it strengthens the bond between the hospital and the physicians. The physicians' long-term investment in the building makes them more likely to remain as tenants on campus and to continue their relationship with the hospital.

As the financial and regulatory challenges that affect hospital operations evolve over time, the trend toward developer-owned outpatient construction is expected to grow for at least another five to six years. Hospitals must continue to put new capital projects in place to facilitate the development of important alliances and revenue streams.

Across the United States, the need for outpatient services will continue to increase dramatically, driven by breakthroughs in surgical procedures, increased competition and increased demand for services as the baby boom generation ages. Developer-owned outpatient buildings are an important financing mechanism to enable hospitals to move forward with this strategic imperative.

***About the author:** Senior Vice President and Healthcare Specialist for the Commercial Banking Division of the Central New York District of KeyBank. Matthew Huber has over 18 years of business experience in the Upstate New York markets, with the past 6 years focused on commercial banking services to the healthcare industry in Central and Northern New York. Mr. Huber is a Graduate of St. John Fisher College and the William E. Simon Graduate School of Business Administration, University of Rochester and resides with his family in Syracuse, NY. Mr. Huber can be reached at 315-470-5130 or [Matthew\\_T\\_Huber@KeyBank.com](mailto:Matthew_T_Huber@KeyBank.com).*