

Colorado Strategies

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Economic Impact Analysis of Exempla Transaction

This study is in response to your request for economic impact information regarding the proposed transaction between SCLHS and Exempla (hereafter “transaction”).

The study assumes readers have detailed knowledge of the transaction and focuses on the economic impact. The important aspects of the transaction are as follows: First, \$300 million in resources will be available to Exempla, comprised of a \$200 million loan facility and \$100 million in essentially cash for investment in the Good Samaritan and Lutheran hospitals. Second, \$311 million will be available to the Community First Foundation (CFF) for a variety of mission-specific purposes.

\$300 Million to Exempla

As described to Colorado Strategies, the \$300 million to Exempla would be comprised of a \$200 million loan facility and a \$100 million cash infusion. The \$100 million would be used for capital infrastructure improvements at Good Samaritan and Lutheran hospitals. Based on the multipliers available for the Denver-Aurora MSA and given \$100 million in new spending, we can expect a total economic impact ranging between \$222 and \$233 million. The reason for the range stems from the fact that the planned spending may be properly categorized in more than one industry classification.

\$311 Million to Community First Foundation

The transaction will result in \$311 million made available to CFF as follows:

- \$61 million backed by a debenture for re-investment in the Exempla system,
- \$90 million for direct health care services in the greater metro Denver community, and
- \$160 million for longer-term strategic health-related initiatives.

Based on Colorado Strategies’ understanding of these categories, the \$61 million portion of these categories is a standing line of credit, which will provide spending opportunities over time. The SCLHS believes a conservative estimate is approximately \$3 million drawn down annually for projects. Using present value analysis, over 50 years, this would equate to \$47 million in today’s dollars.

The remaining \$250 million of this spending, while speculative, should also have some multiplier effect. These funds will be placed essentially in trust and paid over time. Assuming a 5% annual distribution rate, which is typical for this type of trust, the present value of these distributions over 50 years is roughly \$197 million in today's dollars. As for classifying these funds, the most likely category would seem to be "Ambulatory Health Care Services", which would result in a total economic impact of approximately \$447 million. However, the research and consultative nature of some of the potential initiatives may require some of the spending to be re-categorized.

Another aspect of the CFF spending would be to categorize and quantify the health benefits of those served by the new or expanded programs. If more specific spending plans are available, cost-benefit analyses could be performed. These results would likely enhance the economic impact arguments.

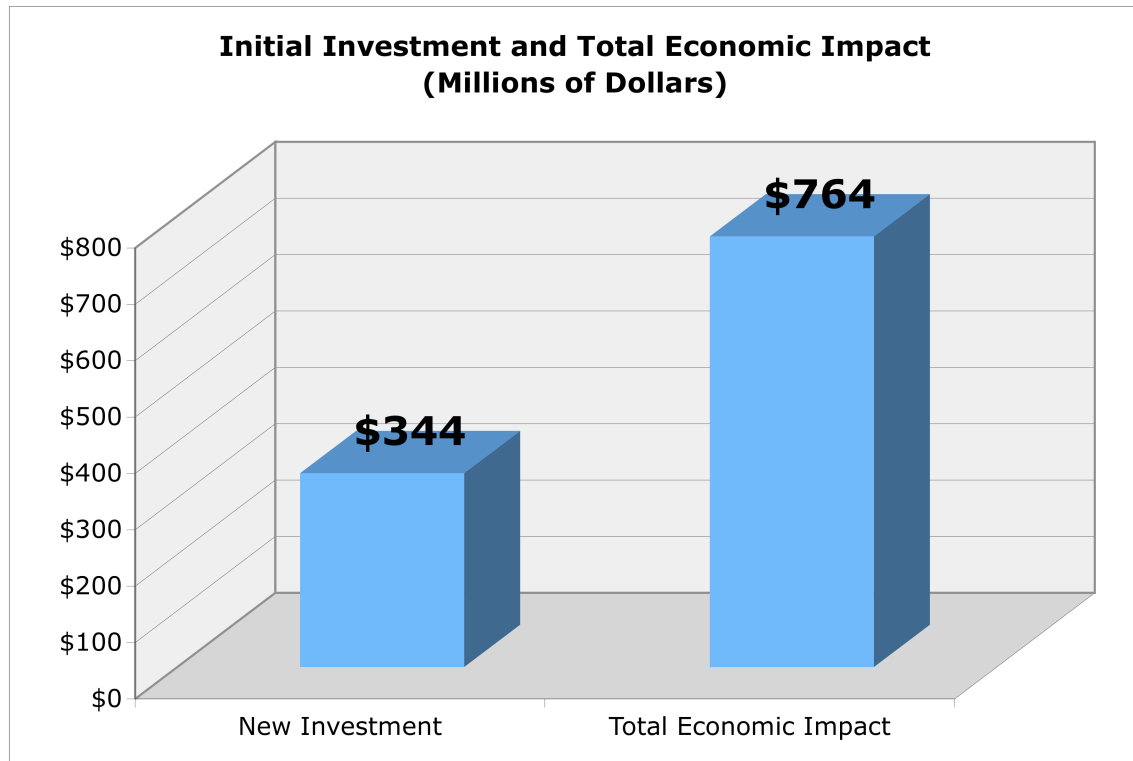
Summary of Impact

Based on the information provided by Corporate Advocates, the SCLHS, and the CFF, Colorado Strategies finds that at least \$411 million of the \$611 million made available in the transaction will be put to some use that would not have occurred otherwise. However, because some of the money will be spent over a long time period, the present value of the spending is around \$344 million (\$100 million new investment, \$47 million from the line of credit, and \$197 million from the trust).

The \$200 million remaining from the loan facility may add to this total as Exempla takes advantage of this resource. At a minimum, the availability of this capital at presumably favorable rates, certainly imparts a positive operational and planning impact to the Exempla system. In this case, what is at issue is how the transaction made this new resource available. Put another way: would Exempla have been able to secure this resource without the transaction? If not, the impact would be bigger. If yes, the benefit may be limited to the favorable cost of capital with little spillover benefit to the general economy.

In summary, based on \$344 million in new spending in the metro Denver area, the RIMS II multipliers indicate a total economic impact of approximately \$764 million to \$811 million. In addition, this total economic impact will generate approximate state and local tax revenue ranging from \$60 to \$70 million.

The chart below reflects the economic impact of the activity excluding the potential rehabilitation and expansion.



Definition of Economic Impact

When investigating the economic impact of a transaction, it is essential to identify first those resources that, absent the transaction, would not have been put to use. Second, if there are new resources, we must identify and categorize how these resources will be allocated.

The most common method of estimating economic impact is to utilize multipliers available from the Bureau of Economic Analysis. These multipliers are called “RIMS II” and they show the impact of a new dollar invested as it moves through the economy. The categories of multipliers that seem to encompass the potential use of these dollars are: construction, ambulatory health care services, and hospitals and nursing and related care facilities.

Multipliers take into account the initial investment and then try to capture indirect economic benefits. For example, the rehabilitation or expansion of an existing building will entail numerous direct expenditures for design, project management, construction employment, and materials purchases. Subsequently, the payments to these service and material providers will be re-spent in all manner of activities throughout the economy and the re-spending continues from there. Thus, multiplier analysis captures and summarizes the direct and indirect impact of an investment.