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*Dr. Alan Hudson, CEO, University Health Network, Toronto*

## THE UNIVERSITY HEALTH NETWORK: BOND ISSUE IMPROVES FACILITIES, SAVES ENERGY AND LOWERS COSTS

### Overview

In spring 1997, Dr. Alan Hudson, CEO of the University Health Network,<sup>1</sup> realized that the facility's buildings were aging and failing to perform adequately. Some areas were cramped, others were too large, some buildings were inappropriately designed for modern applications, building services were inefficient and the quality of patient care was suffering.

Dr. Hudson speculated that savings from improved energy efficiency might contribute to the cost of significant upgrades to the Network's buildings. He was right – in fact, savings opportunities at the Network were so widespread that they became the backbone of support for a bond issue that raised more than

\$280 million. This money is being used to refurbish existing facilities and construct new facilities to improve medical services to Ontario residents. One principal reason for undertaking the project was to substantially reduce energy costs.

Traditional thinking for building retrofits often foresees several projects over many years, with small incremental improvements in services and patient-care quality. The project Dr. Hudson envisioned, however, would see massive improvements over a very short period.

It may have been possible – with some very creative thinking – to find a way to finance new buildings, equipment and retrofits through conventional hospital funding strategies. However, since the project was so large and complicated, a better alternative was sought. Issuing a bond was not an "easy" sell to all of the many players involved. However, with the assistance of Susan Conner, the

Network's Vice-President of Real Estate and Retail Services, bankers, politicians and investment firms were convinced of the potential.

Susan Conner outlines the prerequisites for the Network's project: "a compelling reason to proceed, a strong balance sheet and the ability to repay." She adds that a strong board and chairperson are also necessary. Although hospitals receive annual funding that can be the foundation of any borrowing plan, savings from energy and other efficiency improvements are now so commonplace and predictable that this new option can suit any well-run hospital in Canada.

The University Health Network managed to raise more than \$280 million, and, with support from the Government of Ontario and bond underwriters Scotia Capital, what seemed impossible is now a reality.

### Benchmarking with the World's Best

One of the first steps in the Network's buildings redevelopment project was to compare its facilities with other world-class hospitals, surgical suites and ICUs to ensure that the proposed redevelopment would offer the finest patient care anywhere. This benchmarking stage ensured that the finished project would be truly state of the art and that the facilities



*Toronto Hospital,  
University Street*

<sup>1</sup> The University Health Network is the result of a merger of the Toronto General Hospital, the Toronto Western Hospital and the Princess Margaret Hospital.

would perform well in the future. This meant developing a long-term vision that recognized that dividends would occur over the life of the facilities.

Dr. Hudson and Susan Conner worked with award-winning Toronto architectural design firm, Hellmuth Okata Kassabaum, to learn what was possible, what it would cost and what the benefits would be. This became the foundation of a business plan to encourage the investment community to consider providing financing for the project. It became evident that attention to energy efficiency details and that developing a superior building design would reduce operating costs sufficiently to support a large capital expenditure.

## Energy Savings Mean Reduced Emissions

Naturally, any modern, well-designed facility will consume less energy and other resources than less efficient facilities, and less energy consumed means reduced greenhouse gas (GHG) emissions. Not only does reducing GHG emissions create a healthier environment, it helps Canada meet its international commitments to reduce emissions to six percent below 1990 levels between 2008 and 2012 as established in Kyoto in 1997.

As a member of the Energy Innovators Initiative, a federal program that helps organizations reduce energy consumption and lower GHG emissions, the Network has committed to reduce its energy consumption. The Network's buildings upgrade project will help to make this happen and will help Canada achieve its own GHG emissions reduction targets.

## Bond Issue Sold Out in Four Days

Although using a bond issue to raise capital for a hospital is unorthodox, there is no doubt that it was successful. Initial reactions to the idea ranged widely; however, when the bond became available, investors embraced it.



Toronto Western Hospital

The success of the Network's innovative financing method could presage a new or modified way in which large organizations such as hospitals can raise funds. Although the Government of Ontario is not guaranteeing the bond issue, public support for it may have had an impact on investors. The three months required to launch the bonds was considered aggressive. Not only was this goal attained, the bonds sold out in four days. Even better, the issue was oversold by more than 60 percent, making it clear that investors liked what they saw.

## Lessons Learned

At first, the idea of using a bond issue to raise capital for a hospital was seen as risky and potentially unsuccessful. As the project proceeded, however, it was met with enthusiasm. In the end it was a complete success, largely because of the diligence of the Network's managers. Says Susan Conner, "Lead the process – don't be led." She adds, "Know your objectives."

The project's success was helped enormously by the Network's ongoing commitment to energy efficiency, as demonstrated by its membership in Natural Resources Canada's Energy Innovators Initiative. The Network may undertake a similar financing approach to make a range of other improvement opportunities a reality. Energy and other operating costs could be reduced sufficiently to pay

the cost of a new bond issue, and the improvement in health care service to residents in Ontario will, ultimately, be measured in lives.

## Further Information

For information on the Energy Innovators Initiative, please contact the following:

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*Leading Canadians to Energy Efficiency  
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The Office of Energy Efficiency of Natural Resources Canada is a dynamic organization with a mandate to renew, strengthen and expand Canada's commitment to energy efficiency in order to help address the challenges of climate change.