STANDING COMMITTEES

Finance and Asset Management Committee

UW Medicine Clinical Transformation: Approve Project, Budget, and Internal Lending Program (ILP) Funding

RECOMMENDED ACTION

It is the recommendation of the Administration and the Finance and Asset Management Committee that the Board of Regents:

1. Approve the Clinical Transformation project for UW Medicine;
2. Approve the direct project budget of $159.5 million;
3. Approve use of the Internal Lending Program (ILP) to fund up to $129 million, including financing costs; and
4. Delegate authority to the President or her designee to execute the vendor contract, and/or other related documents as necessary

SCOPE OF FINANCIAL DUE DILIGENCE

Prior to the Administration’s recommending a debt-funded project for Board approval, the Treasury Office conducts a financial due diligence. The process for due diligence is well-defined but not exhaustive. It involves a financial risk assessment based on conversations with the borrower, an in-depth review of provided data, and an evaluation of the impact of a series of stress tests on the proforma. It is not intended to replace the work of the management team, and offers no assurance of financial performance.

Specific due diligence tasks included the following:

1) Reviewed update and noted variances of the Consolidated Clinical Enterprise proforma to the 2017 FIT Plan
2) Met with Impact Advisors to understand their role and approach to determining project costs and benefits
3) In partnership with UW Medicine:
   - Developed a FY2019 - FY2027 project proforma
   - Identified key risks
   - Conducted critical stress tests
   - Identified mitigation plans
   - Provided guidance on loan structuring
STANDING COMMITTEES

Finance and Asset Management Committee

UW Medicine Clinical Transformation: Approve Project, Budget, and Internal Lending Program (ILP) Funding (continued p. 2)

APPROVALS

The project and the funding plan have been reviewed and approved by the Chief Financial Officer for UW Medicine, the UW Chief Information Officer, the Vice President for Finance, and the Executive Vice President for Finance and Administration.

Attachments

1. Project Background and Financial Review
2. UW Medicine Clinical Transformation (CT): Credit Report Summary – UW Treasury
Project Background & Financial Review

Purpose and Benefit
As part of planned Project FIT strategic investments, UW Medicine is embarking on a project to improve workflows and reduce cost through the transformation of the foundational clinical systems throughout the enterprise.

UW Medicine is comprised of 8 entities, UW Medical Center (UWMC), Harborview Medical Center (HMC), Northwest Hospital (NWH), Valley Medical Center (VMC), UW Physicians, Airlift NW, UW Neighborhood Clinics and the UW School of Medicine. For purposes of this project, the Consolidated Clinical Enterprise represents the borrowing entity. The Consolidated Clinical Enterprise is made up of UWMC, NWH, UW Physicians, Airlift NW, UW Neighborhood Clinics as well as the Shared Service departments of the Consolidated Clinical Enterprise.

Currently, UW Medicine clinicians document clinical care across a mosaic of systems. Specifically, there are numerous medical record systems which clinicians and support teams must access every time care is provided to a patient. The Clinical Transformation Project (CT) will reduce the number of systems and create workflows and efficiencies that will simplify and standardize work across the care continuum for years to come.
Project Description

CT is a journey that will be led by clinical and business leaders to standardize and simplify the systems used to do work on a daily basis. CT includes the expansion to an enterprise-wide single electronic health record (EHR) solution. It will enable the larger transformation effort by serving as a catalyst for change as defined in the UW Medicine FIT Plan. It is a transformational project enabled by technology.

In 2003, UW Medicine implemented Cerner Millennium for the inpatient electronic health record (EHR) for UWMC and HMC. The EHR in use at NWH is Cerner Soarian and the contract for Soarian ends June 30, 2020. Across all UW Medicine entities, Epic is the outpatient EHR as well as our registration, scheduling, and billing system.

Moving to a single outpatient/inpatient EHR will not only mitigate the risk related to the end of the Soarian contract at NWH, it will allow for UW Medicine to sunset more than 70 other ancillary systems that are currently in use across the enterprise. IT estimates significant savings in the licensing and subscription costs, and in the cost incurred to support the proliferation of systems across UW Medicine.

Project Timeline

The overall timeline for this program is 30 months, with the first cohort going live in 21 months and the remaining sites going live 6 months later. The proposed dates are as follows:
Total Project Costs (All Entities)

The project consists of designing, building, and implementing the workflows, processes, and systems to support standardization and efficiencies throughout UW Medicine. The total cost of the project is $180 million which is comprised of $159.5 million in direct project costs and $20.8 million in site-specific costs for the medical centers, such as staff training. Of the project cost, 67% involves labor costs, 12% software, 12% vendor services, 1% hardware, and 8% other non-labor costs. The actual costs are listed below:
## UW Medicine Clinical Transformation

Costs in the above chart are in millions

*Note: “Direct Medical Center Ops Cost” is excluded from the direct project budget of $159.5 million*

<table>
<thead>
<tr>
<th>Category</th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal Labor</td>
<td>$19.0</td>
<td>$25.2</td>
<td>$11.9</td>
<td>$-</td>
<td>$-</td>
<td>$56.1</td>
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<td>External Labor</td>
<td>$14.9</td>
<td>$26.4</td>
<td>$8.7</td>
<td>$-</td>
<td>$-</td>
<td>$50.1</td>
</tr>
<tr>
<td>Non-Labor</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional EHR Software Licenses</td>
<td>$0.8</td>
<td>$1.6</td>
<td>$3.5</td>
<td>$3.2</td>
<td>$2.4</td>
<td>$13.3</td>
</tr>
<tr>
<td>Vendor Services</td>
<td>$2.3</td>
<td>$3.8</td>
<td>$5.0</td>
<td>$4.7</td>
<td>$3.5</td>
<td>$19.3</td>
</tr>
<tr>
<td>Other Software</td>
<td>$2.8</td>
<td>$5.9</td>
<td>$0.3</td>
<td>$0.4</td>
<td>$0.3</td>
<td>$6.0</td>
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<tr>
<td>Hardware</td>
<td>$-</td>
<td>$1.5</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$1.5</td>
</tr>
<tr>
<td>Other Non-Labor</td>
<td>$1.2</td>
<td>$4.5</td>
<td>$2.6</td>
<td>$1.7</td>
<td>$1.4</td>
<td>$13.2</td>
</tr>
<tr>
<td>Direct Project Total</td>
<td>$41.0</td>
<td>$68.9</td>
<td>$32.0</td>
<td>$10.0</td>
<td>$7.6</td>
<td>$159.5</td>
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<tr>
<td>Direct Medical Center Ops Cost</td>
<td>$1.6</td>
<td>$12.0</td>
<td>$7.2</td>
<td>$-</td>
<td>$-</td>
<td>$20.8</td>
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<td>Grand Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$180.3</td>
</tr>
</tbody>
</table>
Total Project Benefits (All Entities)

CT will provide significant savings and efficiencies through the following:

- Allowing increased time for clinicians to spend with patients
- Developing standards of care across UW Medicine
- Streamlining documentation
- Providing a continuum of care across the system
- Improving revenue cycle
- Simplifying and standardizing across operations and IT
- Optimizing resource utilization

In addition to the above benefits, additional benefits will be outlined during the design process. Based on the known benefits and costs, the following table shows the timeline for reaching a positive return on investment for this program:

<table>
<thead>
<tr>
<th></th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24</th>
<th>FY25</th>
<th>FY26</th>
<th>FY27</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td><strong>Project Costs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Recurring</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Capital</td>
<td>26.70</td>
<td>36.9</td>
<td>32.0</td>
<td>10.00</td>
<td>7.60</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>$82.80</td>
</tr>
<tr>
<td>Operating</td>
<td>14.30</td>
<td>32.0</td>
<td>18.70</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>$76.70</td>
</tr>
<tr>
<td>Total Non-Recurring</td>
<td>41.00</td>
<td>68.90</td>
<td>50.70</td>
<td>10.00</td>
<td>7.60</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>$159.50</td>
</tr>
<tr>
<td>Direct Medical Center Costs</td>
<td>1.60</td>
<td>12.00</td>
<td>7.20</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>$20.80</td>
</tr>
<tr>
<td><strong>Total Cost of Completing the Project</strong></td>
<td>42.60</td>
<td>80.90</td>
<td>57.90</td>
<td>10.00</td>
<td>7.60</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>$180.30</td>
</tr>
</tbody>
</table>

|                      |      |      |      |      |      |      |      |      |      |       |
| **Project Benefits** |      |      |      |      |      |      |      |      |      |       |
| IT Services Cost Reduction | -    | -    | 10.33| 18.60| 19.35| 19.82| 20.42| 21.03| 21.56| 131.19|
| Revenue Cycle Management Benefits | -    | -    | -    | 1.91 | 3.24 | 4.06 | 4.18 | 4.31 | 4.44 | 22.84 |
| Clinical Staff Efficiencies | -    | -    | 0.80 | 3.29 | 3.40 | 3.50 | 3.60 | 3.71 | 3.82 | 22.12 |
| HIM Cost Reduction     | -    | -    | -    | 0.73 | 1.28 | 1.32 | 1.36 | 1.40 | 1.45 | 7.52  |
| Other Cost Management Benefits | -    | -    | 0.05 | 0.85 | 1.25 | 1.29 | 1.33 | 1.37 | 1.41 | 7.54  |
| **Total Project Benefit** | 0.00 | 0.00 | 11.11 | 25.47 | 29.12 | 29.99 | 30.86 | 31.82 | 32.77 | $191.24 |

**UW CIO Review**

UW CIO has reviewed the CT Project and supports approval of the project as proposed based on the following:

- Robust governance and status reporting
- Detailed project plan
- Resource plan in place
- Strong business case
- Realistic cost estimate
- Third party readiness assessment and risk development
Financing Plan and Credit Analysis

The Treasury Office believes that, while the potential benefits of the project are substantial, there is risk in undertaking this project. The project cost is significant and the operating performance of the Consolidated Clinical Enterprise is lagging FIT Plan projections (see Statement of Revenue and Expenses--page 11).

UW Medicine worked closely with the Treasury Office to perform a financial and credit analysis to assess the financial viability of the project. For the purpose of the analysis, the proforma provides a “project-based look” from the Consolidated Clinical Enterprise perspective (the enterprise responsible for repaying debt service).

The project expenditures will be funded with a loan through the University’s Internal Lending Program (ILP). Project debt will first be repaid from net income of the Consolidated Clinical Enterprise (plus Harborview funding), followed by reserves of the Consolidated Clinical Enterprise, and reserves of the School of Medicine. Ultimately, the Provost backstops all loans.

The equity contribution will consist of $32 million in cash from UWMC, NWH, HMC, and SCCA.

<table>
<thead>
<tr>
<th>Sources</th>
<th>Uses</th>
</tr>
</thead>
<tbody>
<tr>
<td>ILP Debt</td>
<td>$128.4</td>
</tr>
<tr>
<td>UWMC Equity</td>
<td>3.0</td>
</tr>
<tr>
<td>NWH Equity</td>
<td>3.0</td>
</tr>
<tr>
<td>HMC Equity</td>
<td>3.0</td>
</tr>
<tr>
<td>SCCA Equity</td>
<td>23.0</td>
</tr>
<tr>
<td><strong>Total Sources</strong></td>
<td><strong>$160.4</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Project Cost (1)</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Cost of Financing</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Total Uses</strong></td>
</tr>
</tbody>
</table>

(1) Excludes $20.8 million of Direct Medical Center Operating Costs (hospital site preparation costs)

Key Assumptions

Benefits and costs for entities outside the Consolidated Clinical Enterprise are removed from the project proforma. Project costs and benefit assumptions have been generated and quantified by Impact Advisors, a well-respected health care advisory firm:

Revenue:

- Harborview will pay the University 33.5% of annual debt service ($4.4 million/year beginning in FY22+), including interest during the implementation period (2 years)
Expenses:
- Higher operating costs are planned related to site preparation (FY19 – FY21). A portion of costs related to HMC and SCCA site preparation are excluded from the proforma.

Benefits (e.g. reduction in expenses):
- Approximately 70% of the project benefits are derived from cost reduction in IT services. The savings in the proforma reflect 100% of potential gains related to the reduction in or elimination of contracts and systems.
- The remaining 30% of benefits are derived from a variety of sources, including revenue cycle gains related to improved documentation, preventable denials and point-of-service/online cash collection, clinical staff efficiencies related to the review and reconciliation of data, potential cost reductions related to scanning, reduced adverse drug events and transaction costs. These benefits are generally incorporated in the proforma at a conservative 20% - 25% of the potential cost reductions identified.
- Medicine has identified additional soft savings related to clinical efficiencies that have not been included in the attached proforma.

Base Case Proforma (see attached)
- Debt service is projected to be $13.1 million per year (beginning in FY22)
- Benefits will begin to be realized after implementation, beginning in mid-FY21
- Cash flow is positive in every year after implementation, averaging $9 million per year

ILP Loan Requirements
As part of the November 2017 Financial Stability Plan approved by the Board, ILP loan requirements were suspended through June 30, 2019. The Board of Regents will revisit the Internal Lending Program loan covenants for the outstanding loans by October 2019.

Stress Tests & Sensitivity Analysis
- A range of stress tests was performed, as highlighted on the next page.
  - Project benefits were reduced at various levels
  - Project costs were increased by various amounts (increase funded by reserves)
  - Project benefits were reduced and expenses increased simultaneously
- In each stress test scenarios, the project generated positive cash flow beginning in FY22
- In 7 out of 8 stress test scenarios, the project generated a positive Net Present Value
The chart below compares the Net Present Value of these various scenarios for the Consolidated Clinical Enterprise (excluding HMC and SCCA). The base case proforma generated a Net Present Value for the Consolidated Clinical Enterprise of $59.7 million assuming a 15 year term and 4.5% discount rate. Including HMC and SCCA, the project generated a Net Present Value of $94.5 million.

### CT - Consolidated Clinical Enterprise

<table>
<thead>
<tr>
<th>Project Cost</th>
<th>Benefits</th>
<th>Net Present Value ($ in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>120%</td>
<td>29.1</td>
<td>13.9</td>
</tr>
<tr>
<td>110%</td>
<td>44.4</td>
<td>29.2</td>
</tr>
<tr>
<td>100%</td>
<td>59.7</td>
<td>44.4</td>
</tr>
</tbody>
</table>

**Note:** 100%/100% is Base Case

*Excludes benefits from Harborview and SCCA*

### Risk Mitigation Plan

There are several key factors in place to mitigate risks related to the project.

To stay within budget, UW Medicine has:

- Created governance and oversight, including:
  - A structure with specified roles and authority, comprised of UW Medicine enterprise leaders
  - A strong and experienced UW Medicine leadership team
  - A robust project plan done in conjunction with external expert consultant and technology vendor
  - Specific milestones, goals, and staffing plans to achieve targeted objectives

- Designed cost controls:
  - Governance oversight of project costs through the life of the project
  - Rigor in budget setting and adherence
  - Monthly expense monitoring by IT, Central and system leadership

If there are cost overruns of less than 5%, UW Medicine will use identified reserves. If cost overruns are greater than 5%, the project scope will be re-evaluated.
UW Medicine Clinical Transformation

To achieve project efficiencies, UW Medicine has:

- Based its approach on proven, realized benefits at other leading provider organizations
  - Benefits for practical value and applicability were based on industry experience and applicability to UW Medicine
  - Benefits were quantified and validated with clinical and business operational leaders across the enterprise
- Included conservative assumptions for the reduction of soft costs

If efficiencies are not achieved, identified reserves will be used to make up the shortfall. Additionally, UW Medicine will look for opportunities to increase revenue growth in clinical departments and further control costs across the enterprise.

**Ongoing Communication Plan**

The Board of Regents will have several ongoing opportunities to monitor the project.

- Review of Consolidated Clinical Enterprise SABRE reports twice a year in the fall and spring
- UW Medicine’s Annual Financial Report presented in January/February of each year, to include an update of the FIT Plan status
- Spring update related to UW Medicine’s budget development and approval
- Milestone reporting throughout the life of the project until go-live date

**Project Timeline**

UW/Treasury Due Diligence – May-July 2018 (complete)
Upon BOR approval, immediate kick-off of project – July 13, 2018
<table>
<thead>
<tr>
<th></th>
<th>FY 2019</th>
<th>FY 2020</th>
<th>FY 2021</th>
<th>FY 2022</th>
<th>FY 2023</th>
<th>FY 2024</th>
<th>FY 2025</th>
<th>FY 2026</th>
<th>FY 2027</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments from Harborview (33.5% of DS)</td>
<td>140,150</td>
<td>1,001,074</td>
<td>2,684,334</td>
<td>4,376,183</td>
<td>4,376,183</td>
<td>4,376,183</td>
<td>4,376,183</td>
<td>4,376,183</td>
<td>4,376,183</td>
<td>30,082,658</td>
</tr>
<tr>
<td>Total Net Revenue to Consolidated Clinical Enterprise</td>
<td>140,150</td>
<td>1,001,074</td>
<td>2,684,334</td>
<td>4,376,183</td>
<td>4,376,183</td>
<td>4,376,183</td>
<td>4,376,183</td>
<td>4,376,183</td>
<td>4,376,183</td>
<td>30,082,658</td>
</tr>
<tr>
<td><strong>BENEFITS FROM PROJECT</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>IT Services Benefits</td>
<td>-</td>
<td>-</td>
<td>12,992,000</td>
<td>21,432,000</td>
<td>22,075,000</td>
<td>21,432,000</td>
<td>22,737,000</td>
<td>23,419,000</td>
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<td>-</td>
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<td>4,060,000</td>
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<td>4,987,000</td>
<td>5,445,000</td>
<td>5,914,000</td>
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<tr>
<td>Clinical Staff Efficiencies</td>
<td>-</td>
<td>-</td>
<td>800,000</td>
<td>1,200,000</td>
<td>1,590,000</td>
<td>1,978,000</td>
<td>2,367,000</td>
<td>2,757,000</td>
<td>3,147,000</td>
<td>3,537,000</td>
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<td>-</td>
<td>700,000</td>
<td>1,200,000</td>
<td>1,590,000</td>
<td>1,978,000</td>
<td>2,367,000</td>
<td>2,757,000</td>
<td>3,147,000</td>
<td>3,537,000</td>
</tr>
<tr>
<td>Other Cost Management Benefits</td>
<td>-</td>
<td>-</td>
<td>50,000</td>
<td>1,200,000</td>
<td>1,590,000</td>
<td>1,978,000</td>
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<td>2,757,000</td>
<td>3,147,000</td>
<td>3,537,000</td>
</tr>
<tr>
<td>Allocation of Benefits to Other Entities (41%)</td>
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<td>-</td>
<td>(4,582,160)</td>
<td>(10,441,060)</td>
<td>(11,937,560)</td>
<td>(12,297,540)</td>
<td>(12,664,080)</td>
<td>(13,046,610)</td>
<td>(13,441,850)</td>
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<td>9,259,840</td>
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<td>21,224,920</td>
<td>21,865,390</td>
<td>22,527,150</td>
<td>133,265,140</td>
</tr>
<tr>
<td><strong>OPERATING EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Medical Center Operating Cost</td>
<td>(900,000)</td>
<td>(6,973,000)</td>
<td>(4,183,000)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(12,056,000)</td>
</tr>
<tr>
<td>IT Services Costs</td>
<td>-</td>
<td>-</td>
<td>(2,666,000)</td>
<td>(2,746,000)</td>
<td>(2,829,000)</td>
<td>(2,913,000)</td>
<td>(3,001,000)</td>
<td>(3,091,000)</td>
<td>(3,184,000)</td>
<td>(20,430,000)</td>
</tr>
<tr>
<td>Total Net Expenses to Consolidated Clinical Enterprise</td>
<td>(900,000)</td>
<td>(6,973,000)</td>
<td>(6,849,000)</td>
<td>(2,746,000)</td>
<td>(2,829,000)</td>
<td>(2,913,000)</td>
<td>(3,001,000)</td>
<td>(3,091,000)</td>
<td>(3,184,000)</td>
<td>(32,486,000)</td>
</tr>
<tr>
<td><strong>NET OPERATING INCOME</strong></td>
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<td></td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Clinical Transformation (Estimated)(^1)</td>
<td>(418,359)</td>
<td>(2,988,281)</td>
<td>(8,012,936)</td>
<td>(13,063,234)</td>
<td>(13,063,234)</td>
<td>(13,063,234)</td>
<td>(13,063,234)</td>
<td>(13,063,234)</td>
<td>(13,063,234)</td>
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<tr>
<td><strong>TOTAL DEBT SERVICE</strong></td>
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<tr>
<td>Subtotal: Net Operating Cash Flow</td>
<td>(1,178,209)</td>
<td>(8,960,207)</td>
<td>(2,917,762)</td>
<td>(6,337,890)</td>
<td>(8,491,390)</td>
<td>(9,009,410)</td>
<td>(9,536,870)</td>
<td>(10,087,340)</td>
<td>(10,656,100)</td>
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<td><strong>CASH FLOW</strong></td>
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<td>(78,410,860)</td>
</tr>
</tbody>
</table>

**NOTES**

\(^1\) Assumes 4.50% ILP loan. Interest only for 2 years, then 13-year amortization
The Consolidated Clinical Enterprise is expecting lower than budgeted margins in FY18, but has still experienced significant improvement over FY17 performance. The Consolidated Clinical Enterprise is $15.9 million behind FIT Plan targets in FY18.

UW Medicine (all 8 entities) is exceeding budget targets through May 2018 by more than $40 million. Primary drivers are strong financial performance at Valley Medical Center and higher than anticipated philanthropy at the School of Medicine.
UW Medicine Clinical Transformation (CT)

Credit Report Summary – UW Treasury

May–June 2018
Due Diligence Conclusions

> IT Conclusions
  – The project is well-structured
  – Readiness assessment is a key element for the decision to move from design to implementation phase

> Treasury Conclusions
  – With recent operating losses, the Consolidated Clinical Enterprise on a stand-alone basis is a weak credit
  – The business plan for the CT project is reasonable
    > Funding for debt service identified
    > Planned efficiencies are conservative

> Ongoing monitoring of CT and FIT Plan is imperative
### Background: CT Project Summary

- $160 million project including standardization of all outpatient/inpatient electronic health records systems throughout UW Medicine
- ~30 month implementation

<table>
<thead>
<tr>
<th>Sources</th>
<th>Uses</th>
<th>Cost ($)</th>
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<tr>
<td>ILP Loan</td>
<td>Project Cost (1)</td>
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<td>UWMC Equity</td>
<td>Cost of Financing</td>
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<td>NWH Equity</td>
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<td>HMC Equity</td>
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<td>SCCA Equity (preliminary)</td>
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<td><strong>Total Sources</strong></td>
<td><strong>Total Uses</strong></td>
<td><strong>$160.4</strong></td>
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</tbody>
</table>

(1) Excludes $20.8 million of Direct Medical Center Operating Costs
Background: $129m Loan Supported By Consolidated Clinical Enterprise

UW Medicine
Project Net Present Value: $94.5 million

Consolidated Clinical Enterprise
Project Net Present Value: $59.7 million

Note: NPV assumes 15 year term at a 4.5% discount rate
Scope of Project Review

> IT Review
  - Project costs and schedule
  - Governance/implementation

> Treasury Review
  - Review of FIT Plan proforma – Consolidated Clinical Enterprise
    > FIT Plan vs FY18 actual*
    > FIT Plan vs FY19 Budget
  - Project due diligence:
    > Project assumptions with independent consultant
    > Project proforma (FY19-FY27)
    > Key risks
    > Stress test of key risks
    > Mitigation plans
    > Guidance on loan structuring

* Actual through May 2018 + 1 month of budget
CIO Review

CIO found the Project has:
> Robust governance and status reporting
> A detailed project plan
> A resource plan in place
> A strong business case
> Realistic cost estimates
> A solid plan for third party readiness assessment and risk development to be conducted during the design phase
  - Key element for decision to move from design to implementation
Project Generates Net Financial Savings

> Assumptions supporting Project benefits of $191 million appear reasonable
  – $131 million in estimated IT “hard costs” savings realized at 100%
  – $60 million in other “soft cost” efficiencies realized at 0% - 25%

> Positive cash flow beginning after full implementation in FY22
  – Negative cash flow FY19–FY21 covered by Medicine as shown in FIT Plan
  – NPV is positive at $59.7 million (assuming a 15 year life and amortization, and a 4.5% interest rate)

> $13.1 million annual debt service payment is expected to be fully offset each year
  – 1/3 of debt service will be offset by payments from Harborview ($4.4 million per year)
  – 2/3 of debt service will be offset by “hard savings” to the Consolidated Clinical Enterprise ($9.8 million per year)