



Results are just the beginning

## **VHA Energy Asset Finance Program**

**March, 2010**

VHA Inc. Confidential Information.

# World Health Organization 2009 Report on Hospital Energy Procurement

**“The health sector can... become more climate-friendly, while at the same time saving money and generating significant health, environmental and social co-benefits. Many of these strategies can be implemented by a shift in the health sector’s procurement policies and practices.**

**“Energy efficiency measures are the easiest and... most important first step that hospitals can take to cut costs, reduce emissions, and improve human and environmental health.”**

# VHA's Unified Hospital Energy Program

**Since 1996, VHA's Hospital Energy Program has organized collaboration among large numbers of members to:**

- **Procure less costly energy supplies**
- **Finance energy efficiency improvements**
- **Decrease emissions and environmental impacts**

## Hospital Energy Investment Lags

- **Hospitals wish to preserve capital for investment in healthcare assets that create top-line revenue and are reluctant to spend on energy efficiency assets that do not create such revenue.**
- **Impending Financial Accounting Standards Board (FASB) rule changes will force hospitals to treat all operating leases as capital leases starting in 2011. This means that all leased assets will be accounted as hospital balance-sheet obligations, further reducing borrowing capacity and diminishing capital for investment in energy assets.**

## Energy “Virtual Utility” Financing

- **VHA’s Energy Asset Financing Program acts as a Virtual Utility, providing use of energy assets without encumbering Hospital balance sheet**
- **Outsourced energy supply preserves Hospital borrowing capacity**
- **Compliant with pending FASB lease rule changes**
- **Lowest cost tax-exempt financing**
- **State-of-the-art fuel procurement using financial hedge tools**
- **Eligible assets include:**

**Central Utility Plants, (Boilers, Chillers, Controls),  
Cogeneration, Fuel Cells, Wind, Solar, etc.**

## How the Virtual Utility Finance Program Works

- **Higher efficiency campus energy asset is placed in tax-exempt entity which sells output back to the hospital at reduced cost.**
- **Proprietary VHA contracting structure allows hospital auditors to treat asset as off-balance-sheet to hospital. Contract is “not a lease” in accordance with impending FASB lease accounting changes.**
- **Use of tax-exempt financing provides lower cost of funds than energy equipment vendors can provide to hospitals.**



# Unified VHA Energy Program Aggregated Member Financing Demand

	High Efficiency Energy Asset Capital Investment Value	Potential Annual Operating Savings From Program Participation	Potential Reduction in Carbon Emissions in tons per year	Equivalent Potential Carbon Reductions from Program Participation
Northeastern Regions	\$2.0 billion	\$100 million	260,000 tpy	removing 40,000 cars
Central, Mid-Am UMW Regions	\$3.0 billion	\$150 million	350,000 tpy	removing 60,000 cars
Southern Regions	\$2.0 billion	\$100 million	200,000 tpy	removing 33,000 cars
Western Regions	\$3.0 billion	\$150 million	260,000 tpy	removing 40,000 cars
<b>Totals</b>	<b>\$10 billion</b>	<b>\$500 million</b>	<b>1,070,000 tpy</b>	<b>removing 173,000 cars from road</b>

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