

- providing leading edge technology through targeted annual capital investment;
- controlling costs through physician partnerships, standardization and strategic affiliations with other providers;
- investing in research to advance the quality of healthcare services provided; and
- growing responsibly, adding services that meet community needs and maintaining the Organization's financial strength.

Master Facility Plan

In line with its strategic vision, the Holding Company's Board of Directors (the "Holding Company Board"), in consultation with its advisory team and the Corporation's executive team and medical staff, adopted a comprehensive Master Facility Plan for the Hospital and its other healthcare facilities located in Vail, Colorado (the "Vail Campus"). The Master Facility Plan is the result of two years of extensive research and review.

In the 50 years since the Hospital began serving the town of Vail, healthcare has become increasingly complex and the regional population and guest volume have grown substantially. The Organization has evolved with these trends, however, the Vail Campus is aging (with some buildings nearing 45 years of age) and the infrastructure requires modernization in order to meet the challenges of modern medicine and to ensure that the facilities provide the medical staff with the resources necessary to continue offering the highest quality health care. Implications of the aging facilities include: the basic mechanical and electrical systems are nearing the end of their useful lives; new services have historically been placed where room could be found, sometimes causing disjointed functional relationships between the types of services and patients' access to those services; and existing space is confined and not keeping pace with the state of the industry or with hospitals that have been recently built or renovated in Aspen, Frisco, Glenwood Springs, Steamboat Springs and other mountain communities. The Master Facility Plan addresses these operational, clinical and technical requirements and provides a framework for redevelopment of the Vail Campus. The Master Facility Plan also ensures that the Hospital remains in Vail, with a sustainable strategy to meet the long-term needs of the community.

The Master Facility Plan provides for expansions of the Vail Campus in two primary phases as described below. The Master Facility Plan increases square footage at the Vail Campus from 207,000 square feet to 290,000 square feet. Critical to the overall plan is the relocation of the main entrance for the Vail Campus from a heavily used pedestrian corridor in the town of Vail to South Frontage Road.

Phase 1 – West Wing Expansion. The west wing of the Hospital is a three-story building at which the Hospital's main surgery department, patient care unit, intensive care unit and a cardiac catheterization lab are located. Phase 1 of the Master Facility Plan includes the addition of a new fourth floor for the west wing which will provide new larger space for the Steadman Clinic (defined below) and the Steadman Philippon Research Institute, both of which currently reside in other areas of the Hospital. Smaller multi-level expansions are also planned at the south and west sides of the west wing. In addition, interior spaces throughout the west wing will be reconfigured to provide increased space, including a Howard Head Sports Medicine clinic and research facilities for Steadman Philippon Research Institute. Construction of Phase 1 improvements commenced in July 2015 and is expected to be completed in 2017 at an estimated cost of \$56 million.

Phase 2 – East/Central Wing Expansion and Emergency Helipad Building. The east and central wings of the Hospital include the Hospital's emergency and imaging departments on the first two floors. Vail Valley Surgery Center, LLC ("Surgery Center") operates one of its multi-specialty ambulatory surgery centers on the third floor of the central wing of the Hospital in space it leases from the

Corporation. The Surgery Center's space includes among other things four orthopedic and general outpatient surgery rooms. Phase 2 of the Master Facility Plan includes demolishing the east wing and replacing it with a new 45,000 square foot three story-facility. The central wing will be remodeled in order to better integrate with the new east wing. The ground level of the combined space will include an enclosed loading/delivery facility and a central utility plant; the second story will be devoted to a new, larger emergency department, a new imaging department and existing inpatient units; and the third story will include space for Hospital admissions, Vail Summit Orthopaedics (an unaffiliated physician practice group) ("VSO") and Vail-Summit Orthopaedic Foundation (the "VSO Foundation") (both of which currently reside in the Medical Professional Building on the Vail Campus).

Located below the east wing will be a multi-level parking structure accessible from the reconfigured main entrance for the Vail Campus, which will provide the majority of on-site parking for the Vail Campus. The existing parking structure on the Vail Campus will be demolished. Phase 2 of the Master Facility Plan also includes the construction of a new four story 13,500 square foot building on the north side of the Vail Campus, which will include an emergency helipad and space for future service line expansions. Construction of the new east wing (including the parking structure) and improvements to the central wing are expected to commence in 2017, with completion scheduled for 2019. Construction of the new emergency helipad building is expected to commence in 2018, with completion scheduled for 2020. The estimated cost of the Phase 2 improvements is \$124 million.

An essential consideration in the design and construction sequencing of the Master Facility Plan is preventing disruption of ongoing patient care. Phase 1 of the Master Facility Plan includes development of the west wing, which will create new space and allow for consolidation of a number of existing uses. This consolidation will free up existing space on the Vail Campus that can then accommodate existing uses currently located in the east wing during Phase 2 construction (uses that would otherwise be displaced during demolition and reconstruction of the east wing).

Proceeds of the Series 2015 Bonds will be used to pay a portion of the costs of the Master Facility Plan improvements. The Vail Health Services Foundation, doing business as Vail Valley Medical Center Foundation (the "Foundation"), is undertaking a capital campaign with a goal of \$75 million in order to raise additional funds for the costs of implementing the Master Facility Plan, with the remainder of the costs to be paid out of available reserves. To date, the Foundation has received approximately \$24 million in pledges.

The Corporation has engaged Heery International of Denver, Colorado, as architect, Project One Construction of Englewood, Colorado, as construction manager, and GE Johnson Construction Company of Colorado Springs, Colorado, as general contractor. Heery International is a national architectural firm with more than 40 years of experience designing healthcare facilities throughout the country. Project One has provided construction management services for 20 years on projects in Colorado and elsewhere in the United States, including managing the construction of health care facilities. GE Johnson Construction was founded in 1967 and has built numerous hospital facilities, medical office buildings and medical clinics both in Colorado and nationally. The Corporation has entered into a guaranteed maximum price contract with GE Johnson with respect to Phase 1 of the Master Facility Plan. Prior to commencement of Phase 2, the Corporation expects to enter into a second guaranteed maximum price contract with GE Johnson which covers the Phase 2 improvements.