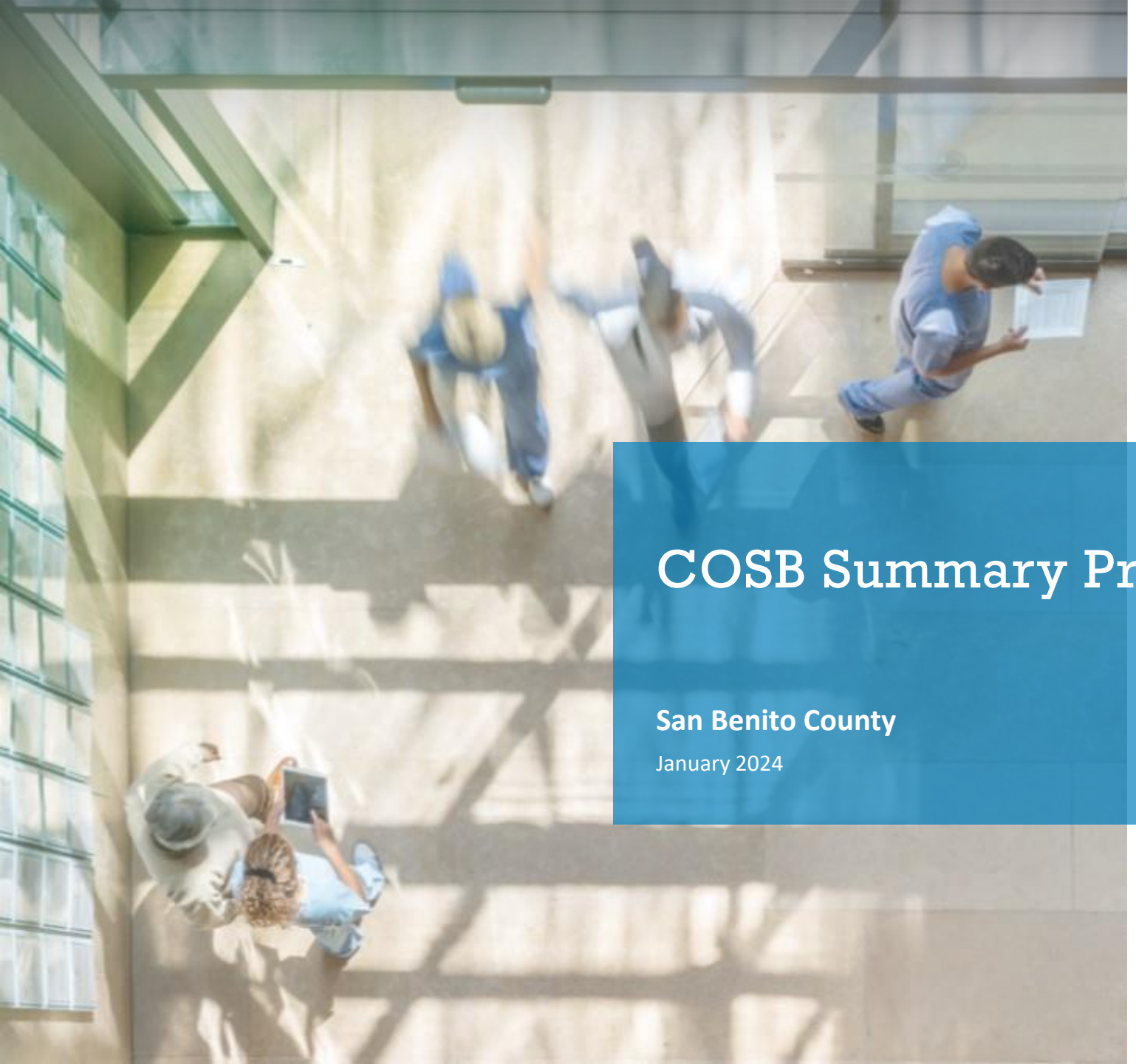
PRELIMINARY PROPOSAL FOR DISCUSSION



COSB Summary Proposal

San Benito County

January 2024

Agenda

1. Meeting Objectives
2. Summary of Proposal – County of San Benito (COSB) to San Benito Health Care District (SBHCD)
3. Vision, Strategies, and Funding
4. Financial Analyses
5. Next Steps

Our Objectives

1. Discuss the County of San Benito's (COSB) proposal to work with San Benito Health Care District (SBHCD) and support Hazel Hawkins Memorial Hospital (HHMH)

2. Present our vision, strategies, and funding options for HHMH

3. Discuss the process to work together to reach an optimal option for locally controlled healthcare for San Benito County citizens

Summary of Proposal to SBHCD

Development of JPA	Create a Joint Powers Authority (JPA) between COSB and SBHCD (and other governmental agencies if interested) to drive collaboration, financial support, strategic direction of the hospital, and maintain locally controlled healthcare. JPA parties will provide capital to support growth.
Creation of Operating Governance Board	Develop an operating governance board consisting of members with different expertise. The representative composition of the Board may include individuals from SBHCD and from COSB, any other JPA participants with the remaining members to be selected by JPA members to bring important skills and perspectives (e.g., physicians).
Investment of Capital	The JPA proposes to initially provide $12-15M in capital ($5M contribution and remaining $7-$10M will be financed with public debt to the JPA) to HHMH to support growth and immediate liquidity concerns. The district will not issue debt and the JPA is independent to issue public debt. This investment, coupled with the ~$7M in Employee Retention Tax Credit funds, and $10M distressed hospital loan proceeds allows for hospital growth and sustainability.
Creation of Physician Group	Sustainability of HHMH is dependent on growth, which requires the development of an integrated, dedicated medical group. This medical group will relieve access issues via a combination of physicians and APPs who serve patients full-time in San Benito County.
Health System Partnership	It is proposed that a regional established health system is sought to provide infrastructure, and system-based leadership support for the hospital and new medical group. The goal is to find an experienced rural health system partner that can help advance the strategic direction and provide more sophisticated operating systems that HHMH might acquire on its own. Does not need to be in place day one.
Growth in Hospital, SNF, & RHCs	Financial sustainability will only be possible through hospital and skilled nursing services growth. ECG forecasts increases in inpatient and ambulatory volume at the hospital, largely driven by the development of the new medical group and improved confidence by residents. Growth will be expanded by selected clinical partnerships with tertiary providers.

Hazel Hawkins – Health System Vision

Hospital & Skilled Nursing

- Restore confidence and financial stability in hospital services at Hazel Hawkins.
  - Build new broader governance structure that involves more local citizens in hospital oversight – transparency
  - Create new dedicated full-time medical group focused in Hollister to give local people more access to local physician care
  - Partner with South Bay tertiary hospital to support local cancer, cardiology care and OB care
  - Provide more clinically appropriate hospital and ambulatory care
  - Align ALL contracted physician groups under ALL hospital commercial and Medicare Advantage contracts
  - Continue to build out quality, local skilled nursing care in the community

Medical Group & Rural Clinics

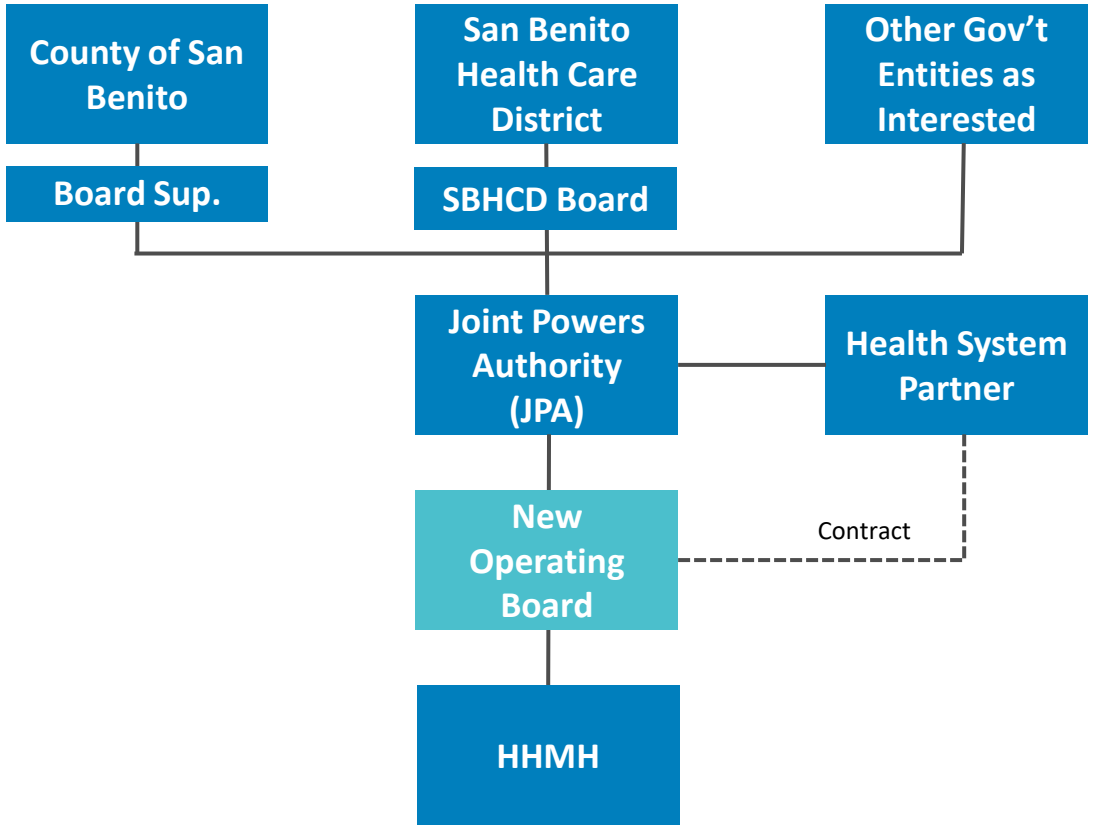
- Invest in the development of a locally employed physician network aligned with Hazel Hawkins
  - Build a scalable and integrated medical care system to serve the Medicare, commercially insured, and Medi-Cal San Benito County population
  - Continue to serve the local lower socio-economic population through the rural clinics and through the development of FQHC capabilities
  - Recruit a mix of physicians, nurse practitioners and physician assistants for the new medical group

Strategies and Funding

Development of JPA

The County proposes a Joint Powers Authority (JPA) to govern HHMH, with Board seats offered to each involved party. The JPA will enter into a contract with a local system to support the operations of HHMH.

JPA Governance Structure



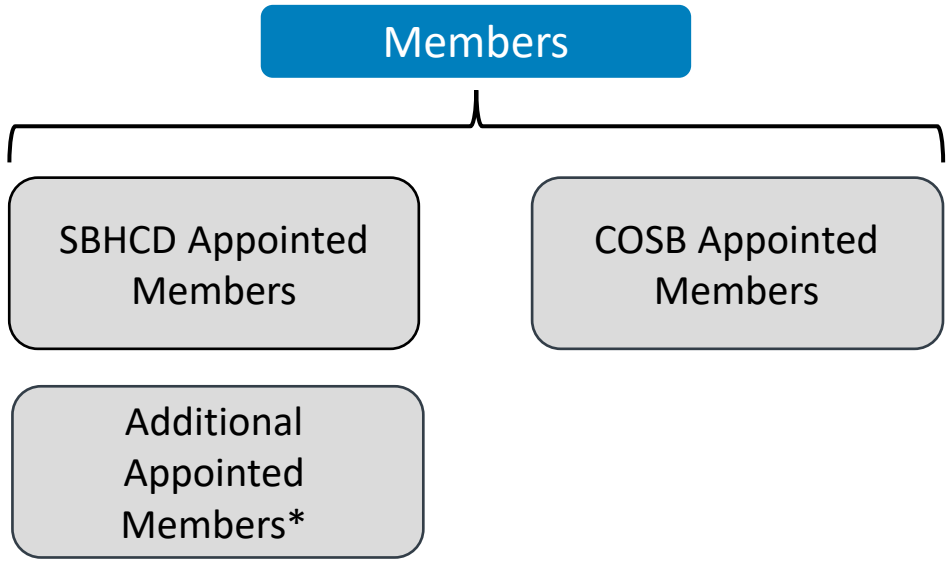
Proposal Overview

- The Joint Powers Authority (JPA), **consisting of the San Benito Healthcare District, the County of San Benito, and possibly others as interested,** will come together to support a new vision to invest, grow, and manage HHMH.
- The District will continue to own all assets relating to the hospital, SNF, and rural clinics, and will continue to collect all current and future tax revenue.
- The County of San Benito proposes the possibility of adopting of an ongoing fee for any new Community Facilities District "CFD" (a special tax district formed when property owners within a geographic area agree to impose a tax) on the property to fund hospital services.
- The JPA will enter into a contract with an experienced rural health system providing HHMH with oversight, operating systems, and functional expertise.
- The JPA will delegate specific operational and governance authorities to the new local community board selected by the JPA.

Creation of Operating Governance Board

The County proposes the creation of an operating governance Board made up of local community members to help guide hospital strategy and operations.

Potential Operating Governance Board Composition



- **Physicians, nurses, and other providers** will be ideal options for new operating governance board members.

Key Characteristics and Implications

- The operating governance Board is to be **comprised of local community members**, starting with four appointments from both the San Benito Health Care District and the County of San Benito, as well as additional members.
- The JPA partners will jointly select the additional members, potentially **including healthcare providers** and others to help drive the strategic mission of HHMH.
- All Board members will be **local San Benito County residents** with varying backgrounds and areas of expertise.
- To ensure the success of HHMH going forward, this operating governance **Board made up of community members is imperative.** To improve the reputation of the organization, provide broader input into strategic and operational decisions, as well as support quality developments. Residents must feel that the governing body has additional skills necessary to drive change for people of San Benito County.

Investment of Capital

With the combination of the distressed hospital loan, employee retention tax credit, and JPA funding, HHMH will be provided with a substantial influx of cash that can be deployed within the new organization under new broader public governance and experienced rural hospital management.

2024 HHMH Capital Additions

Capital Items	Amount ($M)
Distressed Hospital Loan	$10M
Employee Retention Tax Credit	$7M
JPA Contribution	$5M
Public Debt Issued to JPA	$7M-$12M
Total Additional Capital in 2024	**$29-32M**

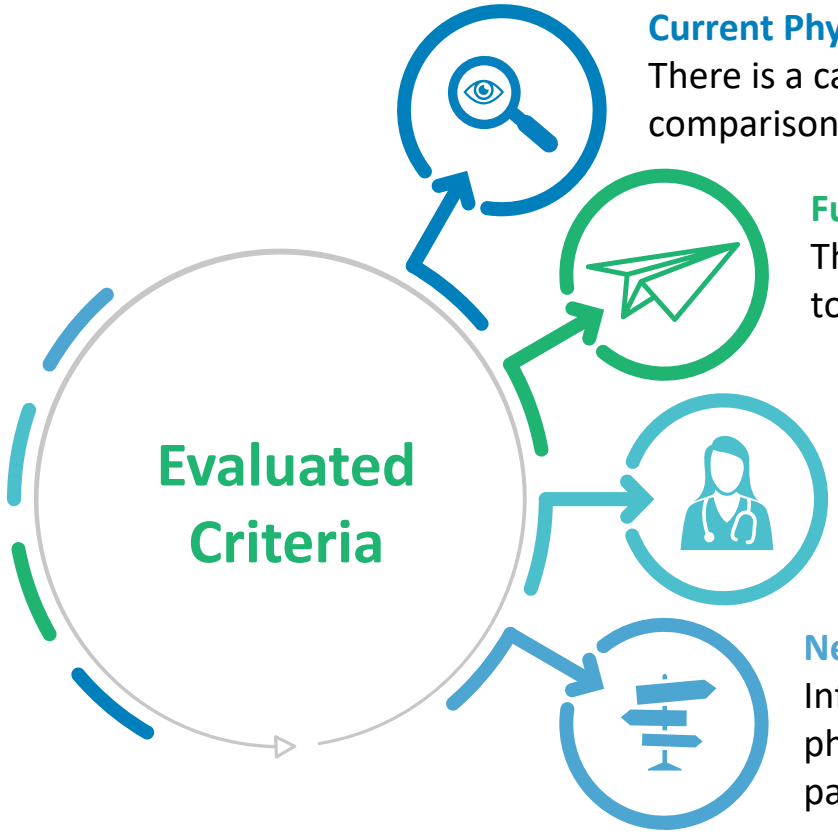
These potential uses of capital have been included in financial sensitivity analyses and forecast a financially sustainable organization when doing so.

Potential Uses of Capital

Medical Group Development	In addition to the cash generation projected from operations, the capital investments will be invested in developing the medical group to serve local citizens and drive growth.
Deferred Capital Expenditures	HHMH management has outlined the immediate need for infrastructure upgrades within the hospital which can be funded through the influx of cash.
EMR Funding	Additional capital will be used to fund HHMH's new and enhanced EMR, possibly through the health system management company. This will help attract physicians and improve patient care.
Pension Liability Funding	SBHCD has an unfunded pension liability that over time will be addressed with the additional cash and growth initiatives.
Reserves to Assist with Liquidity Concerns	While HHMH has immediate capital needs to address, a portion of the added cash can be used to build up reserves and curb days cash on hand concerns in the future.

Creation of Physician Group

ECG performed an analysis of overall physician needs in the County of San Benito. The physician need analysis for the County of San Benito was summarized into four categories.



Current Physician Shortage/(Surplus)

There is a calculated shortage of physicians in the community based on a comparison of physician demand less verified physician supply.

Current Shortage
52.5 Physician FTEs

Future Incremental Growth Need

There is an additional projected demand for physician services due to anticipated population growth over the next five years.

Future Incremental Growth Need
7.4 Physician FTEs

Known Succession Risk

There are physicians in the service area over age 60 who will eventually require succession replacement.

Known Succession Risk
6.3 Physician FTEs

New-Patient Access Barriers

Information gathered during primary source verifications indicates physicians have long average days to third next, non-urgent new-patient appointment.

Creation of Physician Group *Cont.*

The development of an integrated medical group is critical to support the local population and combat the physician shortages in the market. In addition, medical group development is needed to grow local healthcare services.

Medical Group Development: Key Assumptions

- **28.5 providers over 7 years**
  - **9 Primary Care (MDs, NPs, PAs)**
    - 3 in community
    - 6 net new
  - **9.5 Surgical**
    - 3 in community
    - 6.5 net new
  - **10 Medical**
    - 2 in community
    - 8 net new
- **MGMA West Region median compensation benchmarks**
- **Overhead costs:**
  - One-time EMR cost per provider: $20,000
  - Additional annual physician overhead: $175,000
  - Additional annual APP overhead: $100,000

Total annual support costs per provider and staffing ratio of physicians to APPs is assumed in all financial analyses.

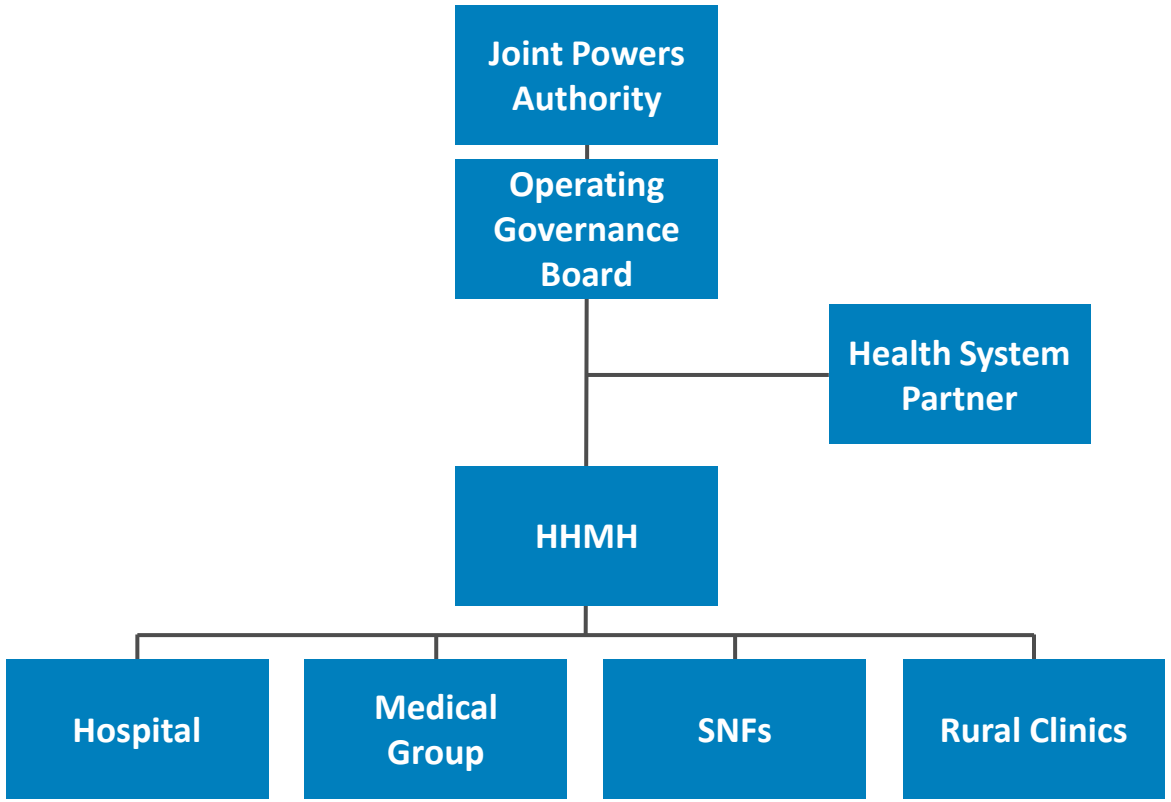
Key Insights

- To create a sustainable future for HHMH, **it is crucial that the organization has an integrated medical staff that is committed full time to the County of San Benito residents**.
  - HHMH's lack of an employed network of providers has led to issues with staffing, specifically in the SNF, and additional billing nuances creating difficulties for patients.
- Over 5 to 6 years, ECG forecasts the development of a **medical group with 25-30 dedicated providers from a range of specialties**, with the inclusion of APPs to support physicians.
- ECG has included **substantial overhead for providers in its analyses, including EMR funding**, and projects a financially sustainable future through overall growth
- Though recruiting and retaining providers will be difficult, a growing market and comparatively affordable living **makes Hollister and the County of San Benito an attractive location for young professionals interested in rural practice.**
- A reimagined medical staff at HHMH is crucial to ensuring high quality care to members of its community, growth of inpatient and ambulatory services, and **improving its reputation in the eyes of local residents.**

Health System Partnership

As a part of the County's proposal for a JPA, it is proposed that the JPA would partner with a health system to provide operating systems and other expertise to HHMH.

HHMH Management Structure



Management Initiatives

- As a result of HHMH's bankruptcy, declining volumes, and shrinking service profile, it is proposed that the JPA brings in a comprehensive and experienced health system to partner with the enterprise operating a community-based hospital.
- Partnering with a local health system will help grow HHMH's scope as a critical access hospital**. This could also evolve into clinical partnerships with the selected system or others, including academics.**

Contract Rationale

- Expertise in new medical group development
- Experience in strategic deployment of large amounts of capital
- Potential for new EMR development
- Drive progress at HHMH and execute the strategic business plan
- Expertise in CA rural hospital turn-arounds

Growth in Hospital, SNF, & RHCs

ECG forecasts an improved financial outlook at the hospital largely driven by growth resulting from reduced outmigration, medical group development, and improved community reputation.

Hospital: Strategic Initiatives & Goals

Volume Growth (IP and OP)	Financial sustainability at the hospital is contingent upon growth in patient volume, specifically Medicare and Commercial payers. As a result of consistent staffing and improved reputation, occupancy is forecasted to increase from ~70% to ~90%.
Revenue Increase (IP and OP)	As higher acuity cases remain local and CMI increases, revenue per unit of service in both the inpatient and outpatient setting is forecasted to slightly increase, specifically for Medicare and Commercial payers.
Service Line Expansion	HHMH has the opportunity to partner with regional tertiary systems on certain specialties such as cancer, OB, and cardiac. Through preliminary discussions, multiple organizations have expressed interest in discussions.
CMI Increase	By expanding on the services offered at HHMH and keeping more cases local, CMI at HHMH is expected to increase to a level in line with other California critical access hospitals. This increase in CIM will correspond to increases in revenue.
Improved Community Reputation	Growth in the hospital is dependent on an improved reputation of the hospital within the community. To reduce outmigration, specifically with higher acuity cases, the County of San Benito population must have trust and confidence in its local healthcare provider. This will be done by investing in a medical group with high quality providers dedicated to San Benito County.

Key Assumptions – Growth Scenario

- **~10% market share increase from 2023 to Year 10**
- **Annual inpatient volume increases Y1-Y5**
  - Medicare: 3%
  - Medi-Cal: 3%
  - Commercial: 5%
- **Annual inpatient revenue per discharge increases Y1-10**
  - Medicare, Medi-Cal, Commercial: 1.5%
- **CMI Increase: 1.15 to 1.30**
- **Outpatient**
  - Visit growth in line with aggregate IP growth
  - Revenue per visit growth: 2% annually
- **Labor expense decrease:** $3M pro forma adj.
- **Inclusion of the following additional items:**
  - Employee retention tax credit: $7M
  - Distressed hospital loan: $10M
  - Gradual pension funding: $2M annually
  - EMR funding: (initial) $10M

Financial Analysis

Financial Sensitivity Analysis Overview

ECG has developed preliminary financial sensitivity analyses for the following scenarios:

Status Quo

- Assumes that no material changes are made to the hospital and its operations.
  - Stable volume declines with minimal volume growth aside from the already high performing SNF
  - No development of a medical group
  - Expenses growing at inflationary levels
  - Less revenue growth than baseline scenario due to lack of medical group.
  - No FQHC conversion of rural clinics.
  - No JPA development/funding
  - $3M downward pro forma adjustment to labor expense
  - Employee retention tax credit
  - Distressed hospital loan

» **Outlook:** In the absence of outside assistance or substantial changes, ECG forecasts HHMH's financial position to continue deteriorating as expenses outpace revenue.

Growth Scenario

- Increase hospital inpatient occupancy to roughly 90% by year 10
- SNF to reach capacity (90%) by year two
- Development of a medical group leading to increases in volume/revenue.
- Conversion of two rural clinics to FQHC status.
- $3M downward pro forma adjustment to labor expense
- Inclusion of the following items:
  - Employee retention tax credit
  - Distressed hospital loan
  - Gradual pension payment
  - EMR funding

» **Outlook:** In the growth scenario, ECG forecasts net income margin to increase from 4% to 8% in the 10-year period, largely led by increased inpatient and ambulatory services volume at the hospital, with increasing liquidity.

Key Operating Assumptions – Status Quo

Four status quo financial forecast models were developed using the following key assumptions for the hospital, SNF, rural clinics, and medical group financials:

Hospital

- **Annual inpatient volume increases Y1-Y10**
  - Medicare: 0.5%
  - Medi-Cal: 0.5%
  - Commercial: 0.5%
- **Annual inpatient revenue per discharge increases Y1-10**
  - Medicare, Medi-Cal, Commercial: 1.25%
- **CMI remains consistent**
- **Outpatient**
  - Visit growth of 0.5% annually
  - Revenue per visit growth of 1.5% annually
- **Labor expense decrease:** $3M pro forma adj.

SNF

- **3.0% discharge growth in Y1, tapering off to 0% in Y5.**
- **Revenue per patient day growth**
  - 2.0% annually
- **Inflationary expense projections**

Rural Clinics

- **No conversion of clinics to FQHC**
- **Rural Health Clinic visit growth:**
  - 0.5% annually
- **Rural Health Clinic revenue per visit growth:**
  - 1.0% annually
- **Inflationary expense projections**

Medical Group

- **N/A**

Note: Status quo model also assumes no JPA development/funding, or cath lab development.

Key Operating Assumptions – Growth Scenario

Growth scenario was developed using the following key assumptions for the hospital, SNF, rural clinics, and medical group financials:

Hospital

- **~10% market share increase from 2023 to Year 10**
- **Annual inpatient volume increases Y1-Y5**
  - Medicare: 3%
  - Medi-Cal: 3%
  - Commercial: 5%
- **Annual inpatient revenue per discharge increases Y1-10**
  - Medicare, Medi-Cal, Commercial: 1.5%
- **CMI Increase: 1.15 to 1.30**
- **Outpatient**
  - Visit growth in line with aggregate IP growth
  - Revenue per visit growth: 2% annually
- **Labor expense decrease:** $3M pro forma adj.

SNF

- **90% occupancy in year 2,** assume SNFs can be staffed at this level
- **Revenue per patient day growth**
  - 2% annually
- **Inflationary expense projections**

Rural Clinics

- **Conversion of two largest rural clinics to FQHC**
  - 4180 Sunset
  - 4187 4th Street
- Increased revenue per visit growth at the two FQHC clinics
- **Rural Health Clinic visit growth:**
  - 2% annually

Medical Group

- **28.5 providers over 7 years**
  - **9 Primary Care (MDs, NPs, PAs)**
    - 3 in community
    - 6 net new
  - **9.5 Surgical**
    - 3 in community
    - 6.5 net new
  - **10 Medical**
    - 2 in community
    - 8 net new
- **MGMA West Region median compensation benchmarks**
- **Additional annual overhead:**
  - Physician: $175k
  - APP: $100k

Additional Key Operating Assumptions by Scenario

The status quo and growth scenarios also include the following items:

Status Quo – Additional Items Included

- **Employee retention tax credit**
  - $7M favorable pro forma adjustment to 2023 financials
- **Distressed hospital loan**
  - $10M favorable pro forma cash adjustment, $10M associated liability. Principal payments

Growth – Additional Items Included

- **Employee retention tax credit**
  - $7M favorable pro forma adjustment to 2023 financials
- **Distressed hospital loan**
  - $10M favorable pro forma cash adjustment, $10M associated liability. Principal payments
- **Gradual pension payment**
  - $2M annual pension payment (could be greater)
- **EMR funding**
  - $2M annual capital commitment in years 1-5
- **JPA Funding**
  - $12-15M - $5M contribution $7-10M in long-term debt issued to JPA.

Scenario Analysis Comparison: Financial Summary

Under the growth scenario, there is a path to long-term financial sustainability that is dependent on execution of the strategic plan. However, under the status quo scenario expenses will outpace revenue and erode margins.

	Historical		Forecast									
	2023	Nov 2023 TTM	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Status Quo												
Operating Income	($1,018,530)	$2,933,447	$154,948	($1,869,879)	($3,929,619)	($5,226,364)	($5,918,239)	($6,017,683)	($6,441,472)	($6,716,398)	($7,193,800)	($7,866,222)
EBIDA	$6,239,017	$10,340,818	$8,327,304	$6,443,359	$4,437,707	$3,207,846	$2,595,260	$2,587,141	$2,261,361	$1,720,793	$1,028,782	$242,480
EBIDA Margin	4.1%	6.9%	5.5%	4.1%	2.8%	2.0%	1.6%	1.5%	1.3%	1.0%	0.6%	0.1%
Operating Cash	$14,441,825	$18,849,384	$35,909,306	$35,114,765	$32,309,491	$28,003,195	$22,807,680	$19,233,907	$15,310,911	$11,642,345	$8,066,653	$3,646,778
Operating DCOH	35.0	48.4	88.6	83.4	74.0	62.4	49.7	41.1	32.0	23.8	16.1	7.1
Growth												
Operating Income	($1,018,530)	$2,933,447	$2,091,338	$2,298,824	$2,077,104	$3,734,047	$5,204,917	$7,265,337	$9,129,696	$10,969,987	$12,881,716	$14,689,706
EBIDA	$6,239,017	$10,340,818	$12,163,693	$12,212,062	$12,244,430	$14,168,256	$15,418,416	$17,070,161	$19,032,529	$20,407,179	$21,904,298	$23,398,409
EBIDA Margin	4.1%	6.9%	7.6%	7.2%	6.9%	7.6%	7.9%	8.5%	9.1%	9.4%	9.8%	10.1%
Operating Cash	$14,441,825	$18,849,384	$37,183,402	$39,285,752	$40,402,326	$42,994,648	$46,651,951	$54,004,258	$63,281,722	$74,769,823	$88,510,924	$103,678,867
Operating DCOH	35.0	48.4	89.1	89.0	87.1	89.0	93.0	104.7	119.1	136.4	157.3	179.4

Next Steps

- Develop a plan for collaboration discussions moving forward
- Schedule additional follow-up meetings if interested

Appendix

Medical Group Development - Physician Shortages & Succession Risks

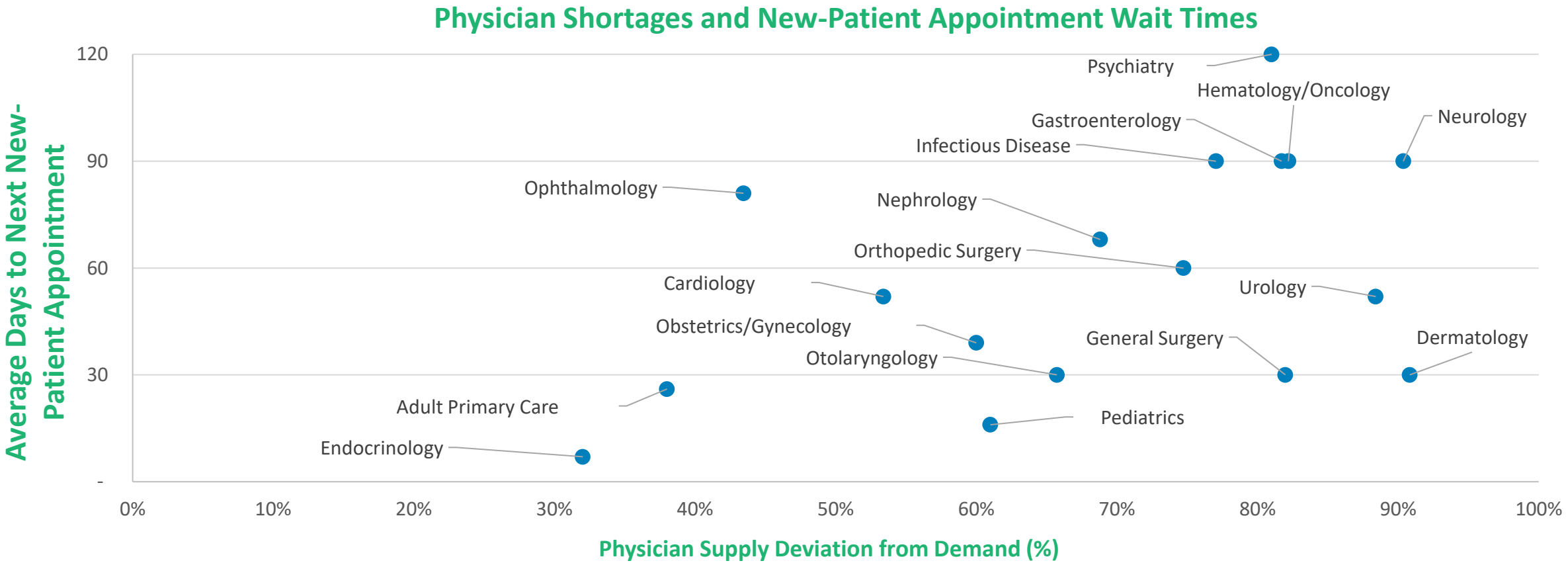
There is a shortage of almost 60 physician FTEs in the San Benito County in the evaluated specialties based on the current physician supply plus projected incremental demand due to population growth.

Specialty	Current Shortage[1]	Growth Need[2]	Physician Succession Risk[3]
Core Specialties			
Adult Primary Care[4]	8.8	2.1	2.4
Pediatrics	4.2	0.6	1.7
Obstetrics/Gynecology	4.4	0.6	-
Psychiatry	4.2	0.5	0.4
Core Specialties Total	**21.6**	**3.8**	**4.5**
Medical Specialties			
Allergy/Immunology	1.0	0.1	-
Cardiology	2.4	0.4	0.8
Dermatology	2.0	0.2	0.2
Endocrinology	0.5	0.1	-
Gastroenterology	2.2	0.2	0.3
Hematology/Oncology	2.0	0.2	0.2
Infectious Disease	1.5	0.2	-
Interventional Radiology	0.8	0.1	-
Nephrology	1.1	0.1	0.2
Neurology	1.9	0.2	-
Physical Medicine/Rehab	1.8	0.2	-
Pulmonology/Critical Care	2.3	0.2	-
Rheumatology	1.1	0.1	-
Medical Specialties Total	**20.6**	**2.3**	**1.7**
Surgical Specialties			
General Surgery	3.6	0.4	-
Ophthalmology	1.4	0.3	-
Orthopedic Surgery	3.0	0.3	-
Otolaryngology	1.2	0.2	-
Urology	1.5	0.2	0.1
Surgical Specialties Total	**10.7**	**1.4**	**0.1**
Grand Total	**52.5**	**7.4**	**6.3**

1 Represents the average current specialty demand, based on 2023 San Benito county demographics, less the current supply of physician FTEs.
2 Represents the projected incremental demand due to demographic changes from 2023 to 2028.
3 Physician FTEs age 60 or greater are considered potential succession risks.
4 Adult primary care includes family medicine and internal medicine.

Current Shortages and New-Patient Wait Time Magnitude

Specialties with the largest deviations between current physician supply and demand also have among the longest new-patient appointment wait times. These specialists have lengthy referral backlogs that impede timely access to care.



Note: Allergy/immunology, interventional radiology, physical medicine/rehabilitation, pulmonology/critical care, rheumatology are not included on the scatter plot as there are no physician FTEs in San Benito County.

Physician Supply Verification

ECG's primary source verification methodology quantifies time spent in clinical practice for individual physicians at all locations, confirms specialty/subspecialty, and measures new patient access.

Physicians were initially identified through various sources:

- State licensure database
- Hospital staff and large group provider listings in the region
- Third-party provider databases
- Provider directories

Additional research was necessary when calls did not yield accurate data or sources are not cooperative:

- Noncooperative practices
- Physicians who cannot be located as listed

A physician had a presence in the defined market. → **The physician was verified either by phone . . .** → **. . . or via other research methods.** → **A clinical FTE was assigned.**

Calls were made to most practices to determine the following:

- Specialties and subspecialties
- Clinical practice locations
- Time spent in clinical practice in each location (by zip code)
- Acceptance of new patients (any new patient, Medicare, and Medicaid)
- Wait time for new patient appointment (third available baseline)

Clinical FTEs were preliminarily assigned based on the following:

- Any physician with a 0.1 or greater FTE for clinical practice in the defined market area
- With an FTE based on 0.1 for each half day of practice up to a maximum FTE of 1.0
- Regardless of age