San Benito County

Summary Strategic Analysis and Business Plan Recommendations

February 6, 2024

ECG MANAGEMENT CONSULTANTS

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Contents

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Overview

Background

ECG is pleased to submit our strategic recommendations for Hazel Hawkins Memorial Hospital (HHMH) and the future of healthcare in San Benito County. It is our perspective that the County of San Benito (COSB) and the San Benito Health Care District (SBHCD) can partner to create a viable path HHMH. In this report, we provide our recommendations for actionable strategies that will set the foundation to keep HHMH a locally controlled hospital.

In November 2022, HHMH declared a fiscal emergency with inflation, insurance reimbursement declines, and the pandemic as leading factors. By May 2023, HHMH voted to file chapter 9 bankruptcy. Given HHMH's current state and as it seeks partners (including out-of-state operators and for-profit entities), San Benito County leadership became concerned that the county could possibly lose its only locally controlled full-service hospital, skilled nursing facilities, and rural clinics.

As a result of the healthcare district exploring partnership options, COSB wanted to ensure that the future strategic direction of the hospital best met the needs of the community. As a result, the county engaged ECG to evaluate its strategic options and perform an assessment of HHMH. ECG has been working with COSB and its advisers (who have both legal and investment banking backgrounds) since July 2023 to provide a strategic analysis on future options for HHMH.

Overview of ECG and Engagement Objectives

ECG is a leading national consulting firm with a more than 50-year history of advising health systems, hospitals, medical groups, payers, and providers on a range of issues, including finance, strategy, hospital facilities, operational performance improvement, and interim leadership. COSB hired ECG to advise on the following key questions:

- Can a community the size of San Benito County support a Critical Access Hospital?
- Is there a future path to financial sustainability for HHMH?
- What core strategies are needed to ensure a financially sustainable future for the hospital?
- What options does the county have to support the hospital?

ECG's engagement with COSB had the following key objectives in two phases:

1. Phase One

    a. Meet with COSB executives to discuss the engagement objective, scope, timeline, and deliverable.

    b. Collect publicly available information about HHMH, including regional and national Critical Access Hospital benchmarks.

    c. Identify a range of strategic and operational scenarios for financial evaluation.

    d. Prepare and summarize the financial impact of the scenarios identified above.

    e. Prepare a brief assessment of the strategic considerations associated with each scenario.

    f. Prepare an executive summary of the results from the financial and strategic impact of the scenarios.

2. Phase Two

    a. Develop a preliminary strategic financial feasibility forecast with scenario sensitivities as well as a strategic business plan.

    b. Develop capital assumptions and financial forecast scenarios based on feedback from county leadership.

    c. Develop a detailed physician provider workforce assessment throughout San Benito County.

    d. Provide a strategic business plan summary report to meet long-term financial sustainability objectives.

ECG is extremely grateful to be hired to advise county leadership on HHMH's future viability. We are honored to work with the county's committed leadership team and the Board of Supervisors to help protect locally controlled and locally led healthcare for the residents of San Benito County. Thank you for trusting us with this ever-important task.

HHMH's Current State

HHMH Background

HHMH is a 25-bed critical access hospital located in Hollister, California, and has served San Benito County for more than 100 years. The organization converted to a Critical Access Hospital in March 2020 and serves a critical healthcare need for the community in San Benito County. The hospital provides primary and specialty care, orthopedics, obstetrics (OB), skilled nursing, surgical services, diagnostic imaging, laboratory services, emergency services, multiple rural health clinics, and more. HHMH in addition to the 25-bed critical access hospital, is composed of five rural clinics, two specialty centers, a home health agency, four satellite lab/draw stations, and two skilled nursing facilities (119 beds of SNFs). The organization is operated, and all assets are owned by the SBHCD and receives annual tax revenue support for locally controlled healthcare from the taxpayers of San Benito County.

Factors Contributing to HHMH'S Current Position

For the last 100 years, HHMH has been an essential community hospital providing care to its residents and has served as a leading employer in San Benito County. However, given circumstances outlined in the previous sections, HHMH is at an inflection point. A multitude of factors have contributed to HHMH's current vulnerable position, including the following:

- **Challenging Payer Mix:** San Benito County has proven to be a difficult healthcare payer environment to operate in, with a high percentage of Medi-Cal patients.
- **1099 Physician Contract Model:** HHMH does not employ or align physicians, and the lack of an integrated medical group, physicians who live and work full time in San Benito County have created staffing difficulties at HHMH and made local patient access to physicians extremely difficult. It appears over the years, SBHCD leadership prioritized investment in physical facilities and has not pursued the development of a locally supported physician and medical groups. The current 1099 model is less sustainable because providers are not fully integrated with the health system and some do not even live in the region full time. It is ECG's opinion that not investing in physicians and building a locally supported medical group has been a significant strategic failure. Building an aligned physician group or network has been one the more significant strategies that all hospitals in the U.S. have been deeply involved in over the past two decades. The State of California has even created special support for district hospitals to form and operate medical groups (e.g., 1206B exemption).
- **Out-Migration:** Due to lack of local physicians in multiple specialties, patient out-migration is a significant issue for HHMH, with 57% of inpatient (IP) cases leaving San Benito County for care

in 2021 (source: HCAI data). Both low acuity and higher-acuity cases are leaving the county. Leading factors of out-migration include the following:

  - **Physician shortages** in the market are prevalent. Based on an analysis of provider supply in San Benito County, ECG estimates a current shortage of over 50 physicians in the county (source: ECG independent research through ECG's Provider Network and Community Planning practice).
  - **A lack of local physician access** is leading patients to go elsewhere for both ambulatory and inpatient care. Appointment wait times for crucial services are too long. ECG's Provider Network and Community Planning Practice reached out to various provider offices in the region and found long wait times for third next available appointment that included (source: ECG independent research) the following:
    - Obstetrics/Gynecology: 39 days
    - Hematology-Oncology: 90 days
    - Psychiatry: 120 days
    - Cardiology: 52 days
    - Urology: 52 days
    - Adult Primary Care: 26 days

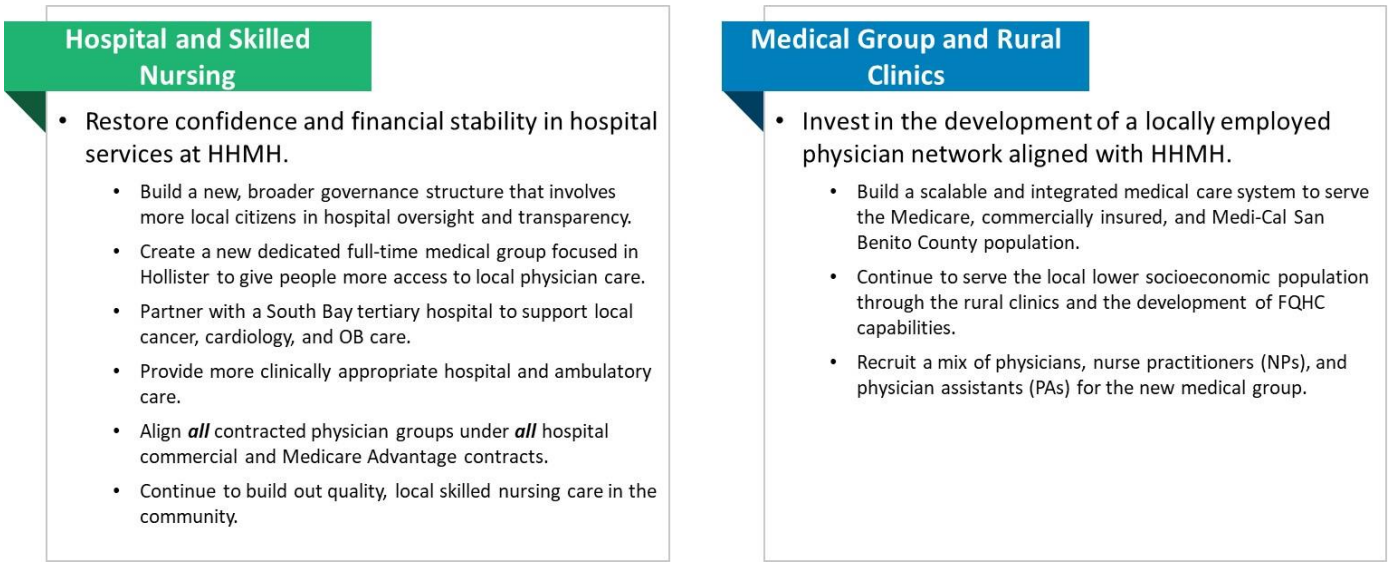
- **No Significant Clinical Partnership:** Without clinical program partnerships with other South Bay tertiary providers or other larger programs, people leave for care and have few alternatives to return for more routine care. Care is not kept local and integrated, causing patients to leave the county for care.
- **Hospital Reputation:** Issues regarding hospital reputation, district financial difficulties, issues with medical billing for some members of the community cause distrust in healthcare for San Benito County residents.

Proposed Business Plan Strategies

The Future of Healthcare at HHMH

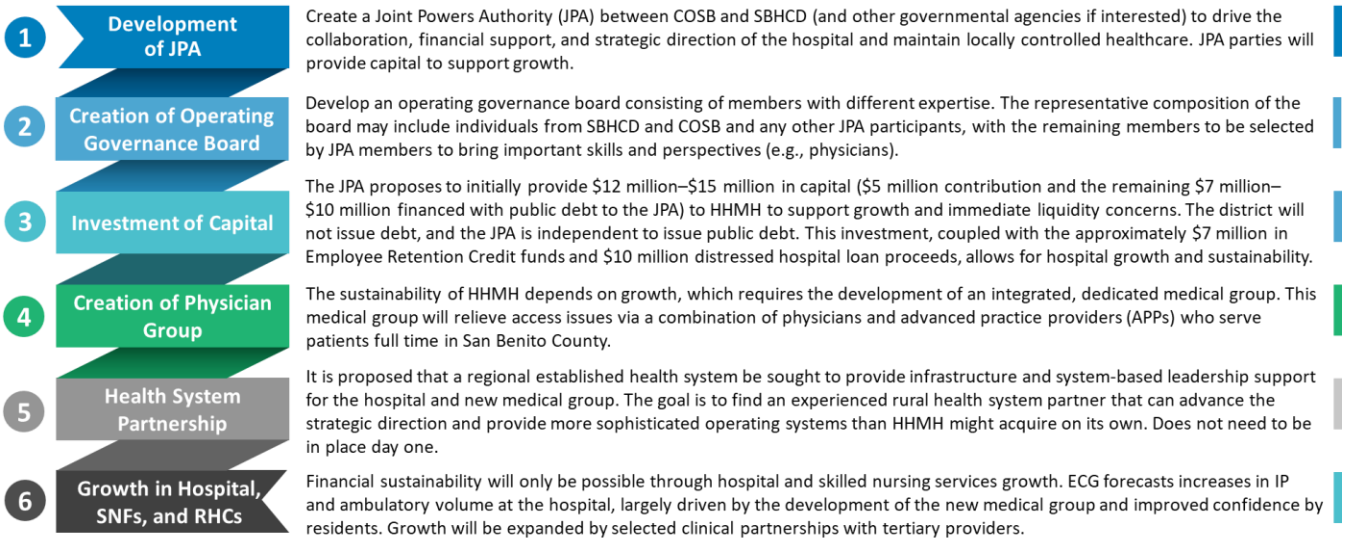
As part of this process, ECG outlined the vision (figure 1) for HHMH to remain a viable community hospital. This vision is anchored in the HHMH staying locally controlled and expanding the quality of healthcare and access to all residents of San Benito County. Perhaps most importantly, a key driver of this concept is further investing in medical providers or a medical group who are aligned and integrated with HHMH to keep care more local and to increase volume of healthcare served locally.

FIGURE 1: Proposed Vision for Healthcare in San Benito County



To achieve this vision, ECG is advising the county to develop six critical strategies summarized in figure 2.

FIGURE 2: Core Strategies for HHMH to Remain a Viable Hospital



With the necessary investment, governance and oversight, ECG believes HHMH has a path to financial sustainability under local control. Just reducing operating expenses is not a viable option for long-term sustainability; there must be a strategy of growth built on physician recruitment, clinical program partnerships, the expansion of clinical services, an infusion of capital, and instilling in the community that safe and effective healthcare can be delivered by HHMH.

Strategy One: Development of a Joint Powers Authority (JPA)

ECG and other county advisers are recommending a JPA among the district, San Benito County, and any other governmental agencies to oversee decision-making, strategic thinking, and control of HHMH. JPAs are exercised when the public officials of two or more agencies agree to create another legal entity or establish a joint approach to work on a common problem, fund/invest in a project, or act as a larger broader representative body for a specific important activity. JPAs offer another way for governments to deliver services (source: Government's Working Together, California State Legislature Senate Local Government Committee). As part of this proposed JPA, the district will maintain ownership of all assets relating to the hospital, SNFs, and rural clinics and will continue to collect all current and future tax revenue. ECG believes that a JPA will benefit the community by:

- Creating better channels of communication between the district and COSB and the community.
- Improving real-time collaboration between the district and COSB on strategic planning and decision-making.

- Maintaining local control and local input assuring that a broad array of healthcare services remains in the community through HHMH (as opposed to the district selling hospital assets to an out-of-state operator and/or for-profit entity to determine local healthcare services).
- Improving financial support for HHMH. COSB being more invested and directly involved in supporting the long-term future of HHMH, the county will have a clearer sense on the overall direction of the hospital and be more comfortable to providing incremental funding support for growth strategies.

Strategy Two: Creation of a Community-Based Operating Governance Board

ECG recommends creating a community-based operating governance board composed of a broader spectrum of community members. Via the JPA, there will be an elected county board of supervisors and elected district members serving on the JPA board. ECG also recommends creating an operating governance board similar to most non-profit community hospitals by adding nonelected members. These nonelected members will have the best interest of the hospital and be able to add specific expertise to oversee hospital operations. These boards will bring more local citizens to oversee and guide HHMH, they build trust among varying factions of the community, will be closer to patients and employees of the hospital, and can build solid expertise to govern a complex entity.

For example, a local prominent physician can serve on the board to guide the expansion of the medical group. Having a community governing board for not-for-profit hospitals is very common and allows hospitals to be nimbler and more focused on strategy. Also, having a larger board of nonelected community-based members allows for greater continuity as district- and county-elected officials are at the behest of election cycles.

Strategy Three: Investment of Capital

As the JPA executes on the strategies outlined in the report, along with investment in capital from JPA members, free cash flows will be improved. Sources of this improved liquidity include the following:

- Distressed Hospital Loan: $10 million
- Employee Retention Credit: $7 million
- JPA Funding: $12 million–$15 million ($5 million contribution and remaining $7 million-$10 million financed with public debt to the JPA)

In addition to the funding sources above, ECG projects that by year five (assuming the JPA executes on the other five strategies), the hospital will have 93 days cash on hand (DCOH) ($47 million) to maintain liquidity and invest in growth and other commitments.

If invested correctly, this additional cash can make a significant difference at HHMH. Figure 3 outlines potential uses of this capital.

FIGURE 3: Potential Uses of Capital

Medical Group Development	In addition to the cash generation projected from operations, the capital investments will be toward 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.
EHR Funding	Additional capital will be used to fund HHMH's new and enhanced EHR, 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 DCOH concerns in the future.

Strategy Four: Creation of a Physician Group

ECG believes that to create a sustainable growth future for HHMH, it is crucial that the organization has an integrated local medical staff that is committed full time to the San Benito County residents. As noted previously, HHMH's lack of an employed network of physician providers has led to issues with staffing, specifically in the SNFs, and additional billing nuances create difficulties for patients.

The current physician strategy at HHMH is to not employ physicians but to use a 1099 model to staff physicians in the rural clinics and new providers to the community often join an independent practice. This is resulting in many providers working part time in Hollister and the other time in communities north of San Benito County. In ECG's view, this does not take into account the realities of a rural/small town medical practice in 2024. District hospitals in California have alternative models (e.g., HHMH, as a district hospital, is exempt from California Health and Safety Code Section 1206 and is legally permitted to employ physicians via 1206b clinics) to employ physicians and allied providers to build solid, committed, self-perpetuating medical communities in smaller communities and more rural areas. Ongoing financial subsidies for these providers will be required, but without a change in physician strategy, it is unlikely HHMH's financial situation will improve.

ECG recommends, beginning immediately and continuing over the next five to seven years, for the JPA to develop a medical group with 25 to 30 dedicated providers from a range of specialties, with the

inclusion of advanced practice providers (APPs) to support physicians. Though recruiting and retaining providers to smaller communities will be difficult, San Benito County and the city of Hollister is home to a fast growing market, comparatively lower-cost-of -living, moderate housing costs. These factors makes Hollister and San Benito County an attractive location (when compared to high-cost-of-living areas like Salinas Valley, Monterrey or San Jose – South Bay) for young medical professionals interested in rural practice. Young physicians today are largely seeking employment in a supported medical group situation. Very few young physicians are seeking independent practice opportunities or working in independent groups. They prefer employment in supported medical groups.

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 improvement to its reputation from residents. As part of this strategy, ECG recommends that a 25 to 30 provider group can consist of the following:

- **28.5 providers over next seven years**
    - **9.0 primary care (MDs, APPs)**
        - 3.0 in community
        - 6.0 net new
    - **9.5 surgical (e.g., General Surgery, OB/Gyn, Orthopedics)**
        - 3.0 in community
        - 6.5 net new
    - **10.0 medical (e.g., Oncology, Cardiology, Gastroenterology, Pulmonology)**
        - 2.0 in community
        - 8.0 net new

Strategy Five: Health System Partnership

As a part of the county's proposal for a JPA, ECG recommends that the JPA could partner with a larger health system to provide operating systems support and other expertise to HHMH. ECG recommends that HHMH finds an experienced not-for-profit and mission-aligned health system in California to provide expertise and support in the following areas:

- Support development of new medical group by providing expertise.
- Provide experience in strategic deployment of large amounts of capital.
- Potentially enable medical record use. HHMH management has stressed the important of an EHR upgrade within the organization. Through a partnership, HHMH has potential to join the

EHR of a local system. An upgraded EHR will help integrate care and provide a better patient and provider experience.

- Drive progress at HHMH, and execute the strategic business plan. The systems with which the JPA has been in contact have a track record of success and are familiar with the local healthcare landscape. Their experience in the state and expertise with California rural hospital turnarounds is crucial to growth at HHMH.

Additionally, looking for tertiary health systems that will not operate or invest in HHMH, but offer varying levels of support to local healthcare, ECG and The County of San Benito have reached out to tertiary health systems to vet their interest. Stanford Health Care as one such prestigious academic health system expressed interest in an opportunity to partner with Hazel Hawkins Memorial Hospital on supporting clinical care. Stanford offers a Second Opinion Program that provides access to expertise to their vast expertise network for care without patients having to leave their community (source: Stanford Health Care).

During these conversations, clinical partnerships have been discussed for high acuity specialties such as cancer, high-risk obstetrics, and cardiology. Similar discussions have been held with multiple health systems in the region relating to similar partnerships. These partnerships will help to enhance care offerings to San Benito County residents who would otherwise seek care elsewhere.

Strategy Six: Growth in the Hospital, SNFs, and RHCs

ECG believes that the JPA will position HHMH for improved financial outlook at the hospital largely driven by growth resulting from capital investments in medical group development, and improved community reputation. Given these factors, ECG believes HHMH has further opportunity to improve financial operations for the hospital, SNF, and RHCs. Key strategies include:

- **Clinical Service Line Expansion at Hospital:** By expanding on the clinical services offered at HHMH and keeping more cases local, case mix index (CMI; which measures patient acuity) at HHMH is expected to increase to a level in line with other California Critical Access Hospitals. This increase in CMI will correspond to increases in revenue. With a new physician base, ECG has forecasted a 10% increase in overall market share driven by the following:
    - **Cardiology:** Develop a cath lab at HHMH to help keep more cardiology cases in the community.
    - **OB:** In 2021, HHMH delivered 412 births, 49% of the San Benito County total. This market share of births is low in relation to the clinical capability and facilities available at the hospital. Based on the growth rate of births in the county from 2017 to 2021 (3.2% CAGR), ECG estimates over 1,000 births by 2027. This creates significant opportunity to

keep more births at HHMH for a service that residents should not have to out-migrate for. Obstetric clinical partnerships are a way to further support local care.

  - **General Surgery/Orthopedics:** Adding more dedicated general and orthopedic providers allows for lower-acuity surgeries to stay local. Given favorable rates for these surgeries, HHMH will be able to serve these patients locally.

- **Clinic Strategy:** ECG recommends continuing to serve the local lower socioeconomic population through the rural clinics and by converting two rural clinics to FQHCs in the long term. FQHCs offer a vehicle to serve Medi-Cal patients in a more efficient and sustainable manner.
- **SNF Strategy:** The SNFs remain one of the most profitable components (and serve as a critical mission to the local community) of HHMH, but there is capacity to grow volume here and use the HHMH provider base and improved reputation to reach capacity (recommend target of 85%–90%).

Financial Summary

ECG conducted multiple sensitivity analyses to determine the future financial sustainability of HHMH. This included the testing of various volume and expense growth levels, medical group development of different sizes, FQHC conversion and various financial impacts, the inclusion of capital commitments such as a new EHR, and much more. Two final financial forecast scenarios were ultimately developed: the status quo (baseline) and a growth scenario. An overview of each scenario and the resulting outlook is seen in figure 4.

FIGURE 4: Financial Scenario Overview

Status Quo (baseline)	Growth Scenario

• Assumes that no material changes are made to the hospital and its operations
  • Minimal volume growth aside from the already high-performing SNFs
  • No development of a medical group
  • Expenses growing at inflationary levels
  • Less revenue growth than growth scenario due to a lack of a medical group
  • No FQHC conversion of rural clinics
  • No JPA development/funding
  • $3 million downward pro forma adjustment to labor expense
  • Employee Retention 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.
	• Increase hospital IP occupancy to roughly 90% by year 10
	• SNF to reach capacity (90%) by year 2
	• Development of a medical group leading to increases in volume/revenue
	• Conversion of two rural clinics to FQHC status
	• $3 million downward pro forma adjustment to labor expense
	• Inclusion of the following items:
	  • Employee Retention Credit
	  • Distressed hospital loan
	  • Gradual pension payment
	  • EHR 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 IP and ambulatory services volume at the hospital, with increasing liquidity.

The following additional items were also included in ECG's analysis:

- Status Quo (baseline)
  - Employee Retention Credit: $7 million favorable pro forma adjustment to 2023 financials
  - Distressed hospital loan: $10 million favorable pro forma cash adjustment, $10 million associated liability
- Growth Scenario (the same additions mentioned above, in addition to those below)
  - Gradual pension payment: $2 million annual pension payment, $2 million associated cash decrease annually
  - EHR funding: $2 million annual capital commitment in years one to five

- JPA funding: $12 million–$15 million ($5 million contribution and remaining $7 million–$10 million financed with public debt to the JPA)

The resulting summary-level financial projections for each scenario are seen in figure 5.

FIGURE 5: Financial Summary of Scenarios

	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 (baseline)												
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 Scenario												
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

Under the growth scenario, there is a path to long-term financial sustainability that depends on executing the strategic plan. However, under the status quo scenario, inflationary expense increases will outpace revenue and erode margins. Under the status quo scenario, days cash on hand (DCOH) increases initially as a result of the Employee Retention Credit and the distressed hospital loan. However, without significant changes to operations, ECG forecasts DCOH to decline substantially as margins erode. On the other hand, the growth scenario forecasts DCOH to be over 150 days by year 10. ECG tested a variety of scenarios to analyze the impact on liquidity. This included additional pension funding (both scenarios assume a $2 million pension payment for the first 10 years), EHR investment, and medical group subsidy. In addition, ECG assumed HHMH will exit bankruptcy and salaries will increase to a level in line with historical amounts. Under reasonable assumptions relating to these items, the growth scenario continued to show substantial improvements in DCOH.

Conclusion

Given the approaches outlined in this document, ECG believes a community hospital in this growing market, with JPA support and relatively good facilities, can be successful and can stay under local control and not be sold to a for-profit provider. A future path must be about growth of services, which inherently is about developing a dedicated medical staff. As such, we recommend that district and county leadership continue to explore options to collaborate.

Appendix A
Market Assessment

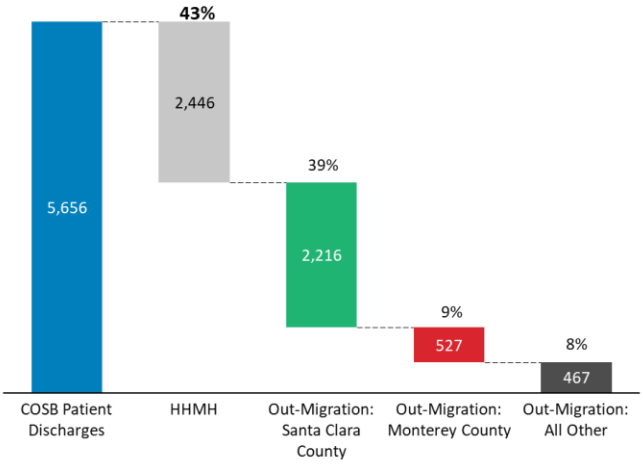
APPENDIX A

Market Assessment

Based on ECG's assessment, San Benito County is a growing market that can support a Critical Access Hospital like Hazel Hawkins Memorial Hospital (HHMH). From 2019 to 2022, San Benito County grew at a rate more than 2.5% higher than that of Monterey County and California. ECG expects this trend to continue as new developments are arising in the county and housing remains more affordable than that of surrounding areas.

Out-migration is an issue that needs to be addressed at HHMH, as 57% of inpatient (IP) cases are occurring outside of San Benito County (source: HCAI). In 2021, 39% of San Benito County residents sought IP care in Santa Clara County, led by Stanford Health Care and Good Samaritan Hospital–San Jose. Just under 10% of San Benito County residents received IP care in Monterey County, led by Salinas Valley Health Medical Center and Community Hospital of the Monterey Peninsula. HHMH's low CMI—over 0.50 less than that of Salinas Valley, Good Samaritan–San Jose, and Stanford Health Care—suggests that higher-acuity cases are often leaving the county (source: HCAI).

IP Discharges of Patients Living in San Benito County (2021)



Top-Five Out-Migration IP Discharge Destinations (2021)

Facility	Out-Migration Discharges (2021)	Discharge Market Share
Stanford Health Care	422	7%
Good Samaritan–San Jose	422	7%
Kaiser Permanente San Jose Medical Center	350	6%
St. Louise Regional Hospital	323	6%
Salinas Valley	232	4%
All Other	1,461	26%

Provider Shortage

Based on an analysis of provider supply in San Benito County, ECG estimates a current shortage of over 50 physician FTEs in the county.

Specialty	Current Shortage	Growth Need	Physician Succession Risk
Core Specialties			
Adult Primary Care	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	-
Medical Specialties *(continued)*			
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**

This shortage stresses the need for a committed medical group in San Benito County that can attract young professionals to the region.

Appendix B
Financial Assumptions

APPENDIX B

Financial Assumptions

Key Operating Assumptions: Status Quo (baseline)

Hospital

- **Annual inpatient (IP) volume increases, years 1–10**
  - Medicare: 0.5%
  - Medi-Cal: 0.5%
  - Commercial: 0.5%
- Year 1 acute IP discharges: 2,141
- Year 10 acute IP discharges: 2,238
- **Annual IP revenue per discharge increases, years 1–10**
  - Medicare, Medi-Cal, and commercial: 1.25%
- **CMI remaining consistent**
- **Outpatient**
  - Visit growth of 0.5% annually; year 1: 111,574; year 10: 116,697
  - Revenue per visit growth of 1.5% annually
- **Labor expense decrease:** $3 million pro forma adj.

SNF

- **3.0% discharge growth in year 1, tapering off to 0% in year 5**
- **Revenue per patient day growth**
  - 2% annually
- **Inflationary expense projections**

Rural Clinics

- **No conversion of clinics to FQHC**
- **RHC visit growth**
  - 0.5% annually
- **RHC revenue per visit growth**
  - 1.0% annually
- **Inflationary expense projections**

Medical Group

- **n/a**

Key Operating Assumptions: Growth Scenario

Hospital

- **~10% market share increase from 2023 to year 10**
- **Annual IP volume increases, years 1–5**
  - Medicare: 3%
  - Medi-Cal: 3%
  - Commercial: 5%
- Year 1 acute IP discharges: 2,202
- Year 10 acute IP discharges: 2,749[1]
- **Annual IP revenue per discharge increases years 1–10**
  - Medicare, Medi-Cal, Commercial: 1.5%
- **CMI increase: 1.15 to 1.30**
- **Outpatient**
  - Visit growth in line with aggregate IP growth; year 1: 114,905; year 10: 145,572.
  - Revenue per visit growth: 2% annually
- **Labor expense decrease:** $3 million 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 FQHCs**
  - 4180 Sunset
  - 4187 Fourth Street
- Increased revenue per visit growth at the two FQHCs
- **RHC visit growth**
  - 2% annually

Medical Group

- **28.5 providers over seven years**
  - **9.0 primary care (MDs, NPs, and PAs)**
    - 3.0 in community
    - 6.0 net new
  - **9.5 surgical**
    - 3.0 in community
    - 6.5 net new
  - **10.0 medical**
    - 2.0 in community
    - 8.0 net new
- **MGMA West Region median compensation benchmarks**
- **Additional annual overhead**
  - Physician: $175,000
  - APP: $100,000

[1] Growth is predicated on general surgery, OB/GYN, cardiology, and other focused specialties.

Appendix C
About ECG

APPENDIX C

About ECG

ECG has organized a team of professionals with an extensive background in strategic planning, competitive market analysis, advanced demand modeling, and comprehensive merger and acquisition planning. We are forward thinking; we challenge ourselves and our clients to plan for the health systems of tomorrow, envision the evolution of care delivery, foresee breakthroughs in treatment and technology, and imagine a care environment that will dramatically change health outcomes for our clients' communities.

ECG is a national healthcare consulting firm composed of approximately 240 consultants, with nine offices nationwide: Atlanta, Boston, Chicago, Dallas, Minneapolis, San Diego, Seattle, St. Louis, and Washington, DC.

Since our founding in 1973, ECG has specialized in providing consulting assistance exclusively to healthcare providers. We have completed nearly 17,700 major consulting projects for more than 3,100 leading healthcare organizations. Our clients include hospitals and health systems, children's hospitals, health sciences centers, faculty practice plans, physician group practices, and research organizations. More than 80% of our clients ask us to lead additional projects—a statistic that we believe underscores the high quality and value of our work.

The evolution of the US healthcare market toward value-based care is creating unprecedented change—in clinical services, payment reforms, organizational structures and leadership, technology enablers and disruptors, and patient expectations. Further, the pace of this change continues to accelerate. ECG's seasoned consultants help organizations navigate the country's ever-changing healthcare delivery system and have the experience and insight to address the most difficult challenges.

Tackling today's complex and interconnected healthcare problems requires knowledge and expertise across multiple disciplines, and that is what we deliver to our clients every day. ECG believes it is crucial to understand how the various strategic, clinical, operational, financial, and technological components of the successful 21st-century healthcare organization interact. Therefore, we take a strategic approach and bring an integrated perspective to every project, recognizing how each component is informed by an understanding of its consequences for the other areas.

ECG has a long history of assisting healthcare providers and organizations to better understand their environments and craft the transformational strategies and tactics needed to achieve their strategic, business, and mission objectives. We know there is no "one size fits all" approach and pride ourselves on our ability to tailor recommendations based on local market dynamics, strategic strengths, financial realities, and leadership objectives. Successful planning requires deep industry knowledge and expertise, rigorous data and analytics, strategic foresight, political and organizational savvy, and most important of all, practical solutions that can be implemented.

ECG was named top overall healthcare management consulting firm in a *2021 Best in KLAS* report.

ECG has worked with: 17 of the 20 members of *U.S. News & World Report*'s Best Hospitals Honor Roll

85 of 100 Great Hospitals in America as ranked by