



PRELIMINARY PROPOSAL FOR DISCUSSION



Hazel Hawkins Memorial Hospital Assessment

San Benito County
February 2024

Today's Objectives

- 1 Discuss our understanding of the situation and the County of San Benito's proposal to work with the Hospital (One of four proposals submitted to the hospital)
- 2 Present information about the hospital's current financials and share our forecast of future performance under the County's plan
- 3 Discuss our understanding of next steps for locally controlled healthcare for County residents
- 4 Answer any questions you have about the County's proposal



Overview of County's Investment

1. Founderwerk, Inc. (Cecilia Montalvo)
2. Healthcare management consultants, ECG
3. Bankruptcy firm, Pillsbury Law LLP.



Situation - Market Assessment



Market Assessment: Key Conclusions

Population uses healthcare services at a higher rate than state averages

- San Benito County residents use inpatient services more than the rest of California (85 versus 79 discharges per 1,000). Higher use rates could be linked to a number of factors that include the population having less “managed care,” health care access issues, and potential unnecessary use of hospital services.

57% of residents leave the county for care and go to a number of other area hospitals

- **Only 43% of all San Benito County residents are admitted at Hazel Hawkins.** The remaining 57% of patients leave the County for inpatient healthcare.
- **The majority of San Benito County residents seek inpatient care across six hospitals across the region** - Good Samaritan-San Jose (9%) and Salinas Valley (6%) are leading choices.

Our need for “basic” hospital services is growing and these services are needed at the hospital – Obstetrics, Emergency, Surgery, and Medicine

- Based on the growing population, younger families, and elderly residents, demand for health care services continues to increase.
- Currently, **less than half of the over 800 babies in the County are born at Hazel Hawkins.** With the growing number of families entering the County, we estimate in a few years births will increase to 1,000 per year.
- The hospital has a busy emergency room (23,594 visits in 2022), but a low percent of ER patients are admitted, suggesting that patients are seeking high amounts of primary care in the ER.



Physician Shortages & Succession Risks

There is a shortage of almost 65+ physician in the San Benito County based on the current physician supply plus projected 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	-

Specialty	Current Shortage ¹	Growth Need ²	Physician Succession Risk ³
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

By 2028, there will be a provider shortage of 65+ providers

San Benito County



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.

Situation - Challenges faced by the Hospital



Challenges and Opportunities for the Hospital

Mix of Insurance



The mix of insurance sources that cover the hospital's patients presents challenges - with a high percentage of Medi-Cal patients compared to other regions. Residents with employer-based insurance would be more likely to stay and Hazel Hawkins if the situation improved

Lack of a fully-aligned Physician Group



- The hospital does not employ physicians. There is a lack of physicians who live and work full time in the area.
- There is an opportunity to build an aligned physician group - an activity that most hospitals in the U.S. have been deeply involved in over the past two decades.

Long wait times for Physician Appointments



- Appointment wait times for crucial services are too long. Wait times for services include:
 - Obstetrics/Gynecology: 39 days
 - Hematology-Oncology: 90 days
 - Psychiatry: 120 days
 - Cardiology: 52 days
 - Urology: 52 days
 - Adult Primary Care: 26 days

Hospital Year-over-Year Volume has Declined



- Care is not kept local and integrated, causing patients to leave the county for care. No tertiary partner today.
- Hospital financial difficulties and issues with medical billing cause some residents to be dissatisfied.



County of San Benito Proposal Overview



Hazel Hawkins – Health System Vision

Hospital & Skilled Nursing

Restore confidence and financial stability in the hospital

Medical Group & Rural Clinics

Invest in the development of a locally employed physician group aligned with Hazel Hawkins



Summary of Proposal to The District

Development of JPA

Create a Joint Powers Authority between the County and the health care District (and other agencies if interested) to drive collaboration, financial support, strategic direction of the hospital, and maintain locally controlled healthcare.

Creation of Operating Governance Board

Develop a hospital “operating board” including representative from the JPAS members (County, District, others), but adding new members with different expertise to bring important skills and perspectives (e.g., physicians, financial experts).

Investment of Capital

The JPA will initially have access to an additional \$12-15M in capital (\$5M contribution from the county and remaining \$7-\$10M in debt financing) to the hospital to support growth and immediate liquidity concerns. As strategies are executed and the medical group is built, ECG forecasts an additional \$85M in cash will be generated in the next ten years (\$19M to \$104M). That cash can be redirected to other investments.

Creation of Physician Group

Sustainability of the hospital is dependent on growth, which requires the development of an integrated, dedicated medical group. This medical group will relieve access issues with providers who serve patients full-time in San Benito County.

Health System Partnership

It is proposed that the JPA seek partnerships with regional academic centers or health systems to support specialty care and technological capabilities that the hospital would not otherwise have on its own.

Growth in Hospital, SNF, & RHCs

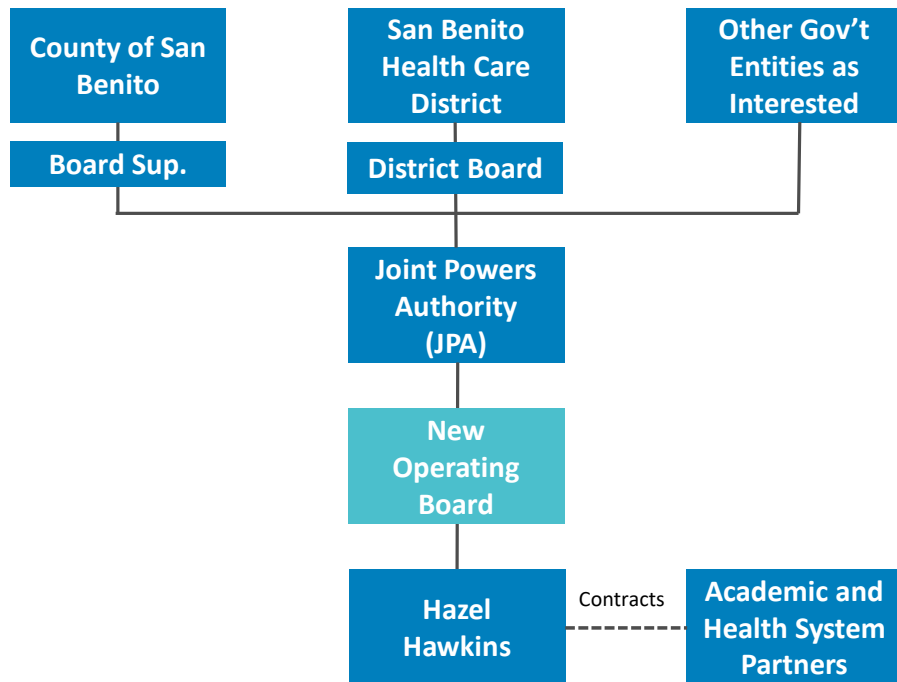
Financial sustainability will only be possible through growth. ECG forecasts increases in inpatient and ambulatory volume at the hospital, largely driven by the development of the new medical group and improved confidence by residents. Growth will be expanded by selected clinical partnerships with tertiary providers.



Development of JPA

The County proposes a Joint Powers Authority (JPA) to govern the hospital, with Board seats offered to JPA member and appointed community members with specific, needed expertise.

JPA Governance Structure



Proposal Overview

- The Joint Powers Authority **to be created by 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 the hospital.
- 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 JPA will seek partnerships with regional academic centers and health systems to support specialty care and technology.
- The JPA will delegate specific operational and governance authorities to the new local community board selected by the JPA.



Investment of Capital

Significant capital investment is made possible through an influx of cash due to JPA funding, employee retention tax credit, distressed hospital loan, and cash generated from improved operations.

2024/2025 Hazel Hawkins 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 2024/2025	\$29-32M+*

*Additional cash generated from improved operations (see improved cash position) to be used to fund growth and capital expenditures. ECG assumes approximately \$85M in additional generated cash is invested over 10 years.



Investment Included in Pro Forma Analysis

Item	Years 1-10 Amount
Medical Group	\$62.3MM
EMR	\$10M
Routine Capital Expenditures	\$23.8M
Deferred Capital Expenditures	\$2.5M
Pension Funding	\$20M
Total Amount – Years 1-10	~\$119M

▶ After the above investments, ECG forecasts an additional \$85M in operating cash from Nov 2023 TTM to Year 10 (\$19M to \$104M) that can be redirected to other investments.



Creation of Physician Group

The development of an integrated medical group is critical to support the local population and combat physician shortages

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 (e.g., General Surgery, OB, Ortho)**
 - 3 in community
 - 6.5 net new
 - **10 Medical (e.g., oncology, cardiology, GI)**
 - 2 in community
 - 8 net new

Key Insights

- To create a sustainable future for the hospital, **it is crucial that the organization has a medical group that has a full-time commitment to the County of San Benito residents.**
- The JPA business plan proposes to build **medical group with 25-30 dedicated providers from a range of specialties over 5-6 years.**
- 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 small community-based practice.**
- A reimagined medical staff at the hospital 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.**

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



Financial Analyses



Financial Analysis Overview

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

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.

Status Quo Scenario

- 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
 - No FQHC conversion of rural clinics.
 - No JPA development/funding
 - \$3M downward pro forma adjustment to labor expense
 - Inclusion of the following items:
 - Employee retention tax credit
 - Distressed hospital loan
- » **Outlook:** In the absence of outside assistance or substantial changes, ECG forecasts the hospitals financial position to continue deteriorating as expenses outpace revenue.



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 quickly 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



Our understanding of next steps



Next Steps

The hospital is waiting for a determination by a judge about whether it can stay in bankruptcy. At the same time, it is evaluating the four proposals it has received.

The four proposals include the County's JPA proposal, two offers to lease/purchase the hospital, and a proposal from a group of physicians with a management company

The Healthcare District board will make a decision regarding the proposal it believes is best. The bankruptcy judge would also need to approve

If a lease or sale option is selected, a majority vote of the public would be required

The JPA proposal does not require a vote as it does not include a transfer of assets



Your Questions



Contact us

Rosemerry Dere, Public Information Officer
SBCPIO@COSB.us
831-801-0179

Thank you for your input and participation regarding this matter.



Hospital Documents

