FINANCIAL MODEL OVERVIEW

Date:	April 29, 2024
From:	ECG Management Consultants on behalf of the County of San Benito
Subject:	Financial Model Overview

ECG Management Consultants has collaborated with the County of San Benito (“County”) to develop a long-term financial forecast for the San Benito Health Care District ("District") to assess the long-term financial outlook of the JPA proposal. This included the development of discrete financial forecasts for the acute care hospital, skilled nursing facilities, rural clinics, and the future-state medical group as contemplated in the County's proposal. We developed our financial forecast based on publicly available information and discussions with the District's management team and advisers. Our strategic forecast is predicated on the ability of the District to develop an integrated medical group consisting of primary care providers, medical specialists, and surgical specialists in order to expand the District’s clinical programs and recapture patient volume that has historically left the region . The results of the financial forecast are based on the following significant assumptions:

- **Hospital Occupancy Rate:** Based on growth of the medical group and other strategies, it is assumed that there is an increase in inpatient occupancy from ~60% to ~80% by year 10 of the forecast. Given there will be an increase in services offered, it is also assumed that the Average Length of Stay (ALOS) and Case Mix Index (CMI) of cases will increase over time. However, the increased census does not trigger a need to forego the hospital’s status as a Critical Access Hospital.
- **Benefits Expense:** As a result of the recent bankruptcy ruling, we assume the JPA will incur incremental benefit expenses as a result of emerging from bankruptcy. The financial model incorporates expense assumptions provided by Mark Robinson, the District’s CFO. This includes approximately $3.1 million of annual funding to the now-frozen employee pension program. No assumption has been made about potential retroactive payments that may be due.
- **Electronic Medical Record (EMR) Investment:** $10M has been allocated to EMR investment, with $7.5M coming in year 2 and $2.5M in year 3.
- **Medical Group:** The plan forecasts a total of $62.3 million for the development of and the investment in a medical group with 17 physician FTEs and 11.5 APPs over a 10-year period. This includes recruitment costs and the annual subsidy of clinical operations that would continue beyond the forecast period.
- **Operating Performance**: Although the District has achieved an 11.1% EBIDA YTD as of March 2024, because the model adds the costs of the unilateral benefits changes and the investment in the medical group, baseline operating EBIDA drops to 1.0% in years 1 and 1.5% in year 2 and then rises steadily over the remaining forecast period, reaching an operating EBIDA margin in excess of 11% in year 10.
- **Total Capital Investment:** The plan assumes that the organization invests a total of $98.6 million over the 10-year period. This includes $26.3 million for routine capital, the EMR investment and funds for medical group investment.
- **Sources of Capital**: The County will contribute $5 million immediately upon forming the JPA. The vast majority of capital is derived from future cash flow from operations. Although the County will also guarantee a $7 million credit facility that will be available to draw upon to fund the development of the medical group, the cash flow statement demonstrates that the JPA need not be reliant on having a working capital line of credit since the lowest level of cash in the forecast period without this loan is 47.4 days cash on hand. This is comparable to the cash the District has on its balance sheet as of March 31, 2024.