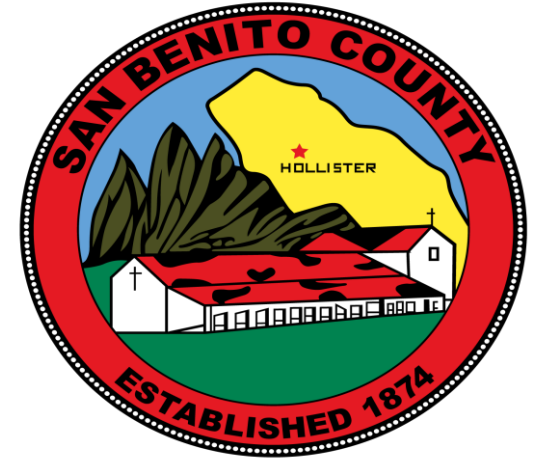


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PRELIMINARY PROPOSAL FOR DISCUSSION



# Hazel Hawkins Memorial Hospital Proposal

San Benito County

May 20, 2024

# Overview of the County's Investment and Introductions

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Appendix A: San Benito County Proposal Overview

# Today's Objective: Creating a Better Future for Our Community



## County's Vision for Healthcare at Hazel Hawkins



We are here to present our **proposal to create a successful and long-term sustainable hospital** in the vibrant growing communities of San Benito County.








We believe this proposal is the best for the community because:

- It maintains **local control** of the hospital;
- It **broadens local governance** and decision-making for the hospital, appointing experts to the board;
- It invests in bringing **more doctors** to our County, **improving access to care**

# Current State: Market Factors

This county’s proposal aims to meet the local needs of residents: *more timely care, more services, and a reduction in the need to travel out of the region for core healthcare services.*

	<p><b>Patients leave the region for care.</b></p>	<p>Of all county residents, 43% are admitted to Hazel Hawkins. The remaining 57% leave the county for inpatient care.</p>
	<p><b>A population the size of San Benito County can sustain more basic hospital services.</b></p>	<p>The demand for healthcare services continues to increase as the population grows (projected to be 1,000 births in the next five years), younger families move here, and the population ages.</p>
	<p><b>There is no contemporary strategy to recruit and sustain a viable medical community for the people of San Benito County.</b></p>	<p>By 2028, there will be a physician shortage of more than 65 physicians in the county.</p>
	<p><b>Wait times for doctor visits are significant.</b></p>	<p>Access to specialist and primary care visits in the region can take months.</p>
	<p><b>The population uses healthcare services at a higher rate than state averages.</b></p>	<p>Higher utilization could be linked to the population having less managed care, healthcare access issues, and the potential unnecessary use of hospital services.</p>



# The County's Proposal: Key Terms

## Development of JPA

A Joint Powers Authority (JPA) between San Benito County and San Benito Health Care District (and other agencies if interested) will be created to drive collaboration, financial support, and the hospital's strategic direction and maintain locally controlled healthcare.

## Creation of Operating Governance Board

A hospital operating board will be developed with two representatives each from the Healthcare District and the Count and an additional 5 members with different backgrounds and expertise to bring important skills and perspectives (e.g., physicians, financial experts).

## Investment of Capital

The County will make a \$5 million contribution to the hospital, and will provide a guarantee for a \$7-12 million working capital line of credit if needed to support growth and liquidity. As the business plan is executed and the medical group is built, ECG forecasts an additional \$111 million in cash will be generated in the next 10 years (\$14 million to \$125 million). That cash can be directed toward 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, and RHCs<sup>1</sup>

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.

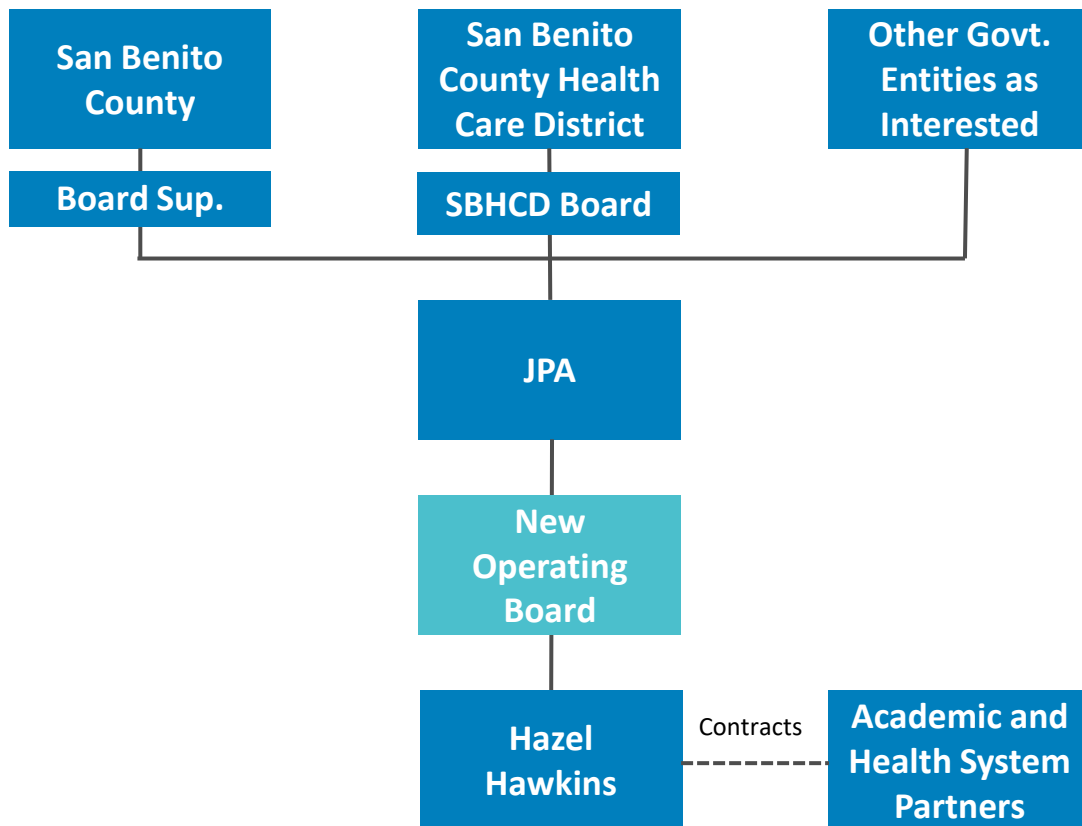
<sup>1</sup> RHCs = rural health clinics.



# The County's Proposal: JPA Development

The county proposes a JPA to govern the hospital, invest in the hospital, and financially support growth, with board seats offered to JPA members and appointed community members who have specific, needed expertise.

## JPA Governance Structure



## Proposal Overview

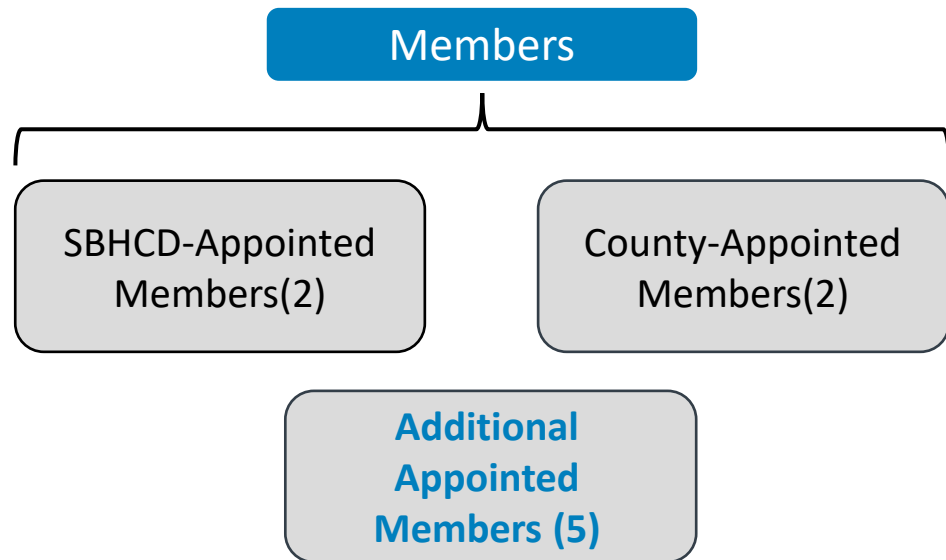
- The **JPA to be created by San Benito County Health Care District, San Benito County, and possibly others as interested** will support a new vision to invest in, grow, and manage the hospital.
- San Benito County Health Care District will continue to own all assets relating to the hospital, SNF, and RHCs, as well as 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.



# Creation of Operating Governance Board

The county proposes the creating an operating governance board made up of local community members to help guide the hospital strategy's and operations.

## Potential Operating Governance Board Composition



## Key Characteristics and Implications

- The operating governance board will be **composed of members appointed by the Healthcare District and County (4)**, as well as 5 additional members.
- The JPA partners will jointly select the additional members, potentially **including healthcare providers and experts** to help drive the hospital's strategic mission.
- New board members will be **appointed based on their backgrounds and expertise**.
- To ensure the success of the hospital going forward, this **operating governance board made up of community members is imperative** to improve the reputation of the organization and provide broader input.





# The County's Proposal: Objectives



**Expand local governance** to offer better strategic leadership on organizational and clinical effectiveness, as well as improved responsiveness to the needs of the community.



**Build a quality local medical group** that can be a means for Hazel Hawkins to employ physicians.



Enable locally controlled healthcare that allows **San Benito County citizens to make the decisions about the services** they need—and receive—in the county.



**Provide capital (dollars)** that can be used to **fund growth initiatives**.



# Current State: Physician Shortages and Succession Risks

The shortage of physicians in the region will worsen without a contemporary provider recruitment strategy. Without recruiting physicians, Hazel Hawkins will be unable to grow and provide core healthcare services to the community.

Specialty	Current Shortage <sup>1</sup>	Growth Need <sup>2</sup>	Physician Succession Risk <sup>3</sup>
<b>Core Specialties</b>			
Adult Primary Care <sup>4</sup>	8.8	2.1	2.4
Pediatrics	4.2	0.6	1.7
Obstetrics and Gynecology	4.4	0.6	-
Psychiatry	4.2	0.5	0.4
<b>Core Specialties Total</b>	<b>21.6</b>	<b>3.8</b>	<b>4.5</b>
<b>Medical Specialties</b>			
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 (GI)	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 <sup>1</sup>	Growth Need <sup>2</sup>	Physician Succession Risk <sup>3</sup>
<b>Medical Specialties (continued)</b>			
Nephrology	1.1	0.1	0.2
Neurology	1.9	0.2	-
Physical Medicine and Rehab	1.8	0.2	-
Pulmonology/Critical Care	2.3	0.2	-
Rheumatology	1.1	0.1	-
<b>Medical Specialties Total</b>	<b>20.6</b>	<b>2.3</b>	<b>1.7</b>
<b>Surgical Specialties</b>			
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
<b>Surgical Specialties Total</b>	<b>10.7</b>	<b>1.4</b>	<b>0.1</b>
<b>Grand Total</b>	<b>52.5</b>	<b>7.4</b>	<b>6.3</b>

Note: Figures may not be exact due to rounding.

<sup>1</sup> Represents the average current specialty demand based on 2023 San Benito County demographics minus the current supply of physician FTEs.

<sup>2</sup> Represents the projected incremental demand due to demographic changes from 2023 to 2028.

<sup>3</sup> FTEs of physicians age 60 or greater are considered potential succession risks.

<sup>4</sup> Adult primary care includes family medicine and internal medicine.

By 2028, there will be a shortage of more than 65 physicians.



# The County's Proposal: Increasing Physician Footprint and Access

In the United States, almost 75% of all practicing physicians are employed by health systems and healthcare organizations—Hazel Hawkins can be the employment vehicle that brings more doctors to the community.

## Medical Group Development: Key Assumptions

### 28.5 providers over seven years:

- **9.0 primary care (MDs, NPs, PAs)**
  - 3.0 already in community
  - 6.0 net new
- **9.5 surgical (e.g., general surgery, obstetric surgery, orthopedic surgery)**
  - 3.0 already in community
  - 6.5 net new
- **10.0 medical (e.g., oncology, cardiology, GI)**
  - 2.0 already in community
  - 8.0 net new

The total annual support costs per provider and the staffing ratio of physicians to APPs are assumed in all financial analyses.

## 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 San Benito County residents.**
- The JPA business plan proposes to **build a medical group with 25 to 30 dedicated providers from a range of specialties over five to six years.**
- Though recruiting and retaining providers will be difficult, a growing market and comparatively affordable living **makes both the city of Hollister and San Benito County an attractive location for young professionals interested in a small community-based practice.**
- A reimagined medical staff at Hazel Hawkins is crucial to ensuring high-quality care to members of the community, growing inpatient and ambulatory services, and, for local residents, **improving the hospital's reputation.**

# The County's Proposal: Reinvesting in the Hospital

A significant capital investment will be possible through an influx of cash due to JPA funding, the employee retention tax credit, and cash generated from improved operations.

## 2024/2025 Hazel Hawkins Capital Additions

Capital Items	Amount
Employee Retention Tax Credit	\$7M
JPA Contribution	\$5M
<i>Public Debt Issued to JPA</i>	<i>\$7-10M as needed</i>
<b>Total Additional Capital in 2024/2025</b>	<b>\$12M to \$19M+*</b>

\*Additional cash generated from improved operations (see the improved cash position) will be used to fund growth and capital expenditures. ECG assumes that approximately \$80 million in additional generated cash will be invested over 10 years.



## Investment Included in Pro Forma Analysis

Item	Amount: Years 1 to 10
Medical Group	\$62.3M
EHR	\$10.0M
Routine Capital Expenditures	\$23.8M
Deferred Capital Expenditures	\$2.5M
<b>Total Amount: Years 1 to 10</b>	<b>~\$98M</b>

▶ After the above investments, ECG forecasts an additional \$111 million in operating cash from February 2024 to year 10 (\$14 million to \$125 million) that can be redirected to other investments.



# The County's Proposal: Financial Analyses Overview

ECG has developed preliminary financial sensitivity analyses of the two scenarios below.

## Growth Scenario

- Increase hospital inpatient occupancy from 60% to 80% by year 10.
- SNF to reach capacity (90%) by year two.
- Develop a medical group (that includes sign-on incentives), leading to increases in volume/revenue.
- Convert two RHCs to FQHC status.
- Include the following additional items:
  - JPA funding
  - Employee retention tax credit
  - Pension payment benefits adjustment
  - EHR funding

**Outlook:** In the growth scenario, ECG forecasts the operating EBIDA margin to increase to 12.8% by year 10. This is largely driven by a higher inpatient and ambulatory services volume at the hospital, with increasing liquidity.

## Status Quo Scenario

- Assume that no material changes are made to the hospital and its operations:
  - 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 RHCs
  - No JPA development/funding
  - No EHR funding
- Include the following:
  - Employee retention tax credit
  - Pension payment benefits adjustment

**Outlook:** Without outside assistance or substantial changes, ECG forecasts that the hospital's financial position will deteriorate over time as expenses outpace revenue.

# The County's Proposal: Financial Summary

In the status quo scenario, the hospital will not be sustainable long term without an investment in growth. In the growth scenario, the JPA plans to reinvest profits into new services, leading to more care staying local and increasing the number of patients treated at the hospital.

	Historical		Forecast									
	2023	Feb. 2024 TTM	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
<b>Status Quo</b>												
Operating Income	\$(1,018,530)	\$7,755,714	\$116,161	\$(555,026)	\$(1,575,876)	\$(2,666,740)	\$(3,825,472)	\$(5,054,030)	\$(6,349,482)	\$(7,344,006)	\$(8,454,891)	\$(9,734,546)
EBIDA	\$6,239,017	\$15,103,150	\$7,656,521	\$14,131,815	\$6,162,573	\$5,140,037	\$4,061,966	\$2,926,036	\$1,729,831	\$470,842	\$(853,536)	\$(2,246,009)
EBIDA Margin	4.1%	9.9%	4.9%	8.8%	3.8%	3.1%	2.4%	1.7%	1.0%	0.3%	(0.5%)	(1.2%)
Operating Cash	\$14,441,825	\$14,198,154	\$23,427,447	\$30,221,949	\$30,037,574	\$28,723,258	\$26,210,017	\$22,452,394	\$19,312,885	\$14,856,478	\$9,012,843	\$1,714,209
Operating DCOH	34.8	36.7	56.2	70.2	67.9	63.3	56.3	47.0	39.4	29.5	17.4	3.2
<b>Growth</b>												
Operating Income	\$(1,018,530)	\$7,755,714	\$(2,435,636)	\$(2,534,636)	\$(2,534,280)	\$(915,857)	\$1,412,373	\$4,624,252	\$8,710,493	\$12,868,006	\$16,275,647	\$20,489,254
EBIDA	\$6,239,017	\$15,103,150	\$10,104,723	\$12,898,561	\$7,822,592	\$10,219,150	\$13,511,690	\$17,690,559	\$21,947,319	\$25,090,494	\$28,340,609	\$31,770,659
EBIDA Margin	4.1%	9.9%	6.4%	7.8%	4.5%	5.6%	7.0%	8.6%	10.1%	11.1%	11.9%	12.8%
Operating Cash	\$14,441,825	\$14,198,154	\$26,120,926	\$23,874,688	\$22,217,416	\$25,259,413	\$31,337,035	\$41,348,786	\$57,392,193	\$76,683,317	\$99,116,118	\$124,859,993
Operating DCOH	34.8	36.7	60.8	53.2	47.4	51.7	61.8	78.8	105.6	136.2	169.7	206.1



## Conclusion: Vision for the Future

Founded in 1907, Hazel Hawkins has been funded by taxpayer and community dollars for 117 years. The County's proposal will ensure that the hospital is directed and led by local citizens who put resident needs first.

**Local Governance:** Members of our community determine how the healthcare needs of our community are met, served, and developed. Expanded board brings needed expertise.

**Local Mission:** We will build the highest quality healthcare delivery system that will **focus on the needs of our community**

**Security of Core Services/Expansion of Services:** Residents will have security knowing that basic healthcare services will be available locally and that **the healthcare system will thrive** as new doctors enter, and new services are provided, in the community.

# Your Questions

