

The New SMCSR at the Wells Fargo campus will be a modern general acute care hospital owned and operated by SMCSR. In addition to meeting SB 1953 seismic safety requirements, the New SMCSR will incorporate a number of features that increase efficiency and flexibility of hospital operations. The existing Chanate campus has hospital operations spread out on the campus in numerous buildings making hospital operations inefficient. The New SMCSR will be located in one building enabling the new facility to implement patient-centered care concepts and take advantage of advances in technology and care delivery.

The New SMCSR will include 82 licensed beds, 10 labor and delivery rooms, 12 emergency room bays and a 24 station Universal Care Unit (“UCU”). The UCU is an improved care model in health care that will provide increased efficiencies, operational flexibility and increase the capacity of departments such as the emergency and surgery departments.

The New SMCSR will feature all private rooms, maximizing the comfort and privacy for each patient and allowing greater flexibility in admissions. Currently, gender matching and infection control issues prevent full utilization of double-occupancy rooms at the Chanate campus. Private rooms will eliminate these constraints and will substantially improve utilization of the new hospital. Technological and treatment advancements have and will continue to decrease the need for inpatient hospitalization admissions and decrease the length of stays. SMCSR has factored in these trends and efficiencies in planning the New SMCSR.

The New SMCSR will have diagnostic imaging services including computed tomography (CT), nuclear medicine, radiology/fluoroscopy, ultrasound and MRI. A mobile docking station will also be included for special imaging equipment and new technology such as positron emission tomography (PET), PET/CT and others.

A summary of the New SMCSR is as follows:

The New SMCSR includes the following 82 licensed beds:

- 40 Medical/Surgical beds
- 10 Intensive/Critical Care beds (ICU/CCU beds)
- 20 Perinatal beds
 - and additional 10 Labor Delivery Recovery beds (LDR beds)
- 12 Neonatal Intensive Care Unit beds (NICU) beds

In addition to the licensed beds listed above, the following services will also be provided:

- 12 Emergency Department (“ED”) bays with physicians on duty 24 hours per day, 365 days per year and on call specialists
- 24 Universal Care Unit stations

Supporting ancillary services including:

- 5 Operating rooms
- 1 Procedure room for endoscopy
- 2 C-section operating room
- 3 Cardiac Cath lab
- 1 MRI permanently installed

Information flow will be improved due to SMCSR's participation in several information technology initiatives including (1) LINKS, a Sutter Health System initiative for the Emergency Room, (2) PASSPORT system, a Sutter Health West Bay Region initiative to verify patient addresses and insurance and (3) EPIC, a comprehensive Electronic Medical Records system.

The mix of beds and services is designed to optimize efficiency and patient flow through ambulatory and inpatient beds with vital support services in adjacent areas. In addition, the LDR beds and UCU beds allow for future clinical flexibility. This new, state-of-the-art, easily accessible hospital is designed and will be managed to better optimize performance, affordability, efficiency, quality and service. Thus, the new hospital will reduce the overall cost of health care in Sonoma County. A pro forma financial statement is attached.

1. Bed Demand & Capacity

In addition to reviewing ED services in Sonoma County, C&S also provided a similar review of inpatient services. This review also utilized OSHPD data and accounted for current population figures, projected growth and aging of the population by cohort to adjust for the growing elderly population. The C&S review provided a projected bed need by bed type for 2014 as illustrated in Figure 8.

Figure 8: SMCSR Adjusted Inpatient Demand 2014 Less Invasive Cardiology

Licensed Beds	2014 Projected Bed Demand	SMCSR 82-bed Hospital	Bed Supply Excess (Shortage)
Med/Surg	50	40	-10
ICU/CCU	10	10	0
Perinatal	16	20	4
NICU	8	12	4
LDR adjustment	-4*		
Total	80	82	2

*In 2008 there were 1,293 labor days (women in LDRs at midnight) reported to OSHPD. Since we are not counting the 10 unlicensed LDRs in bed supply, we need to make an adjustment to the bed demand forecast to account for the fact that some of the reported ADC were in LDRs. $1,293/365 = 3.54$ ADC in LDRs. Capacity factor for perinatal is .8. $3.54/.8 = 4.4$ bed demand for women in LDRs based upon ADC.

The combined bed supply for Med/Surg and Perinatal services is 70 beds composed of 60 licensed beds and 10 LDRs. Perinatal beds will serve as swing beds for Med/Surg as needed at times of peak demand. In addition to these 70 beds, there will be 24 UCU stations. The UCU will be used for ED overflow outpatients, observation patients (Medicare designation for patients who stay less than 24 hours), pre-operative patients and post-operative patients. The perinatal bed demand includes between 4 and 5 patients per day who will be occupying the LDR beds, which are not licensed beds. Hence, an adjustment to projected bed demand must be made to account for these patients.

The C&S inpatient demand of 80 beds in 2014 was completed in December 2009 based on actual 2008 SMCSR utilization. In addition, C&S has reviewed Sonoma County hospital inpatient demand and found that over the past 10 years hospitals in Sonoma County have, on average, seen about a 0.7% per year decline in cases, with the total number of patient days virtually flat. However, the most recent, preliminary data from all Sonoma facilities excluding Kaiser¹ indicate that cases have declined by 4.5% and patient days are down by 7.1% in the 12 months prior to June 2008, which represents a decrease in ADC of 30 beds countywide for the non-Kaiser hospitals.

¹ See OSHPD Quarterly Hospital Profile reports for 7/01/06-6/30/08 (<http://www.oshpd.ca.gov/ihpc/AggFourReport.asp?ReportYearQtr=20082&HospitalType=CO&BedSizeCategory=&TeachRurl=0&TypeControlNum=0&CountyNumber=49&Select=1>).

June 2010 Projection SantaRosa	Projection Years												
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Statement of Revenues and Expenses													
Inpatient service revenues	\$250,440	\$268,973	\$306,128	\$321,870	\$340,113	\$359,407	\$379,795	\$407,718	\$434,526	\$463,096	\$493,544	\$525,995	\$560,579
Outpatient service revenues	<u>140,604</u>	<u>156,165</u>	<u>168,192</u>	<u>177,392</u>	<u>190,647</u>	<u>204,888</u>	<u>220,189</u>	<u>239,181</u>	<u>254,908</u>	<u>272,858</u>	<u>292,066</u>	<u>312,621</u>	<u>334,616</u>
Gross patient service revenues	391,044	425,138	474,320	499,262	530,760	564,295	599,984	646,899	689,434	735,954	785,610	838,616	895,195
Deductions from revenues	240,521	274,449	316,023	335,446	359,950	386,062	414,329	451,192	485,221	522,369	562,103	604,598	650,042
Charity care write-offs	<u>5,821</u>	<u>10,669</u>	<u>6,400</u>	<u>6,736</u>	<u>7,161</u>	<u>7,613</u>	<u>8,100</u>	<u>8,733</u>	<u>9,307</u>	<u>9,935</u>	<u>10,606</u>	<u>11,321</u>	<u>12,085</u>
Net patient service revenues	144,702	140,020	151,897	157,080	163,649	170,620	177,555	186,974	194,906	203,650	212,901	222,697	233,068
Capitation revenues	212	56	0	0	0	0	0	0	0	0	0	0	0
Other operating revenues	<u>1,280</u>	<u>1,191</u>	<u>1,193</u>	<u>1,229</u>	<u>1,286</u>	<u>1,304</u>	<u>1,343</u>	<u>1,383</u>	<u>1,425</u>	<u>1,467</u>	<u>1,511</u>	<u>1,557</u>	<u>1,603</u>
Net operating revenues	146,194	141,267	153,090	158,309	164,915	171,924	178,898	188,357	196,331	205,117	214,412	224,254	234,671
Operating expenses													
Salaries and wages	55,500	53,210	54,572	55,899	56,550	57,156	59,828	61,312	64,277	67,720	71,222	74,913	78,800
Employee benefits	22,741	23,396	25,072	25,938	26,503	27,055	28,603	29,606	31,347	33,357	35,433	37,641	39,991
Prof fees & purchased services	32,994	27,935	27,454	28,679	29,614	30,580	31,579	32,729	33,840	35,006	36,214	37,466	38,763
Medical group compensation	0	0	0	0	0	0	0	0	0	0	0	0	0
Supplies	25,937	24,051	23,737	24,621	25,357	26,117	26,902	28,082	29,053	30,104	31,194	32,323	33,494
Capitated purchased services	(26)	(152)	0	0	0	0	0	0	0	0	0	0	0
Depreciation and amortization	5,600	4,117	4,123	3,812	3,299	2,691	2,603	9,136	18,888	18,918	18,983	19,017	19,055
Provision for bad debts	5,737	2,613	4,759	5,009	5,325	5,662	6,000	6,469	6,894	7,360	7,856	8,366	8,952
Rentals and leases	528	412	456	470	484	498	513	529	544	561	578	595	613
Interest	1,818	1,064	1,157	1,745	1,716	2,908	4,118	5,645	8,044	7,659	7,279	6,890	6,514
IT chargebacks	3,835	2,781	2,649	2,728	2,810	2,895	2,981	3,071	4,522	6,142	6,327	6,516	6,712
System allocation	2,711	2,234	2,403	2,476	2,649	2,626	2,706	2,786	2,869	2,955	3,044	3,135	3,229
Other expenses	<u>10,342</u>	<u>4,802</u>	<u>8,188</u>	<u>7,694</u>	<u>5,572</u>	<u>5,782</u>	<u>7,500</u>	<u>8,705</u>	<u>7,278</u>	<u>5,503</u>	<u>5,392</u>	<u>5,695</u>	<u>5,985</u>
Total operating expenses	167,717	146,463	154,570	159,070	159,779	163,970	173,333	188,070	207,556	215,285	223,521	232,577	242,107
Operating income	(21,523)	(5,196)	(1,480)	(761)	5,136	7,954	5,565	287	(11,225)	(10,168)	(9,109)	(8,323)	(7,436)
Investment income	249	218	253	99	197	199	208	219	230	241	250	261	272
Unusual items	0	0	0	0	0	0	0	0	0	0	0	0	0
Income	(\$21,274)	(\$4,978)	(\$1,227)	(\$662)	\$5,333	\$8,153	\$5,773	\$506	(\$10,995)	(\$9,927)	(\$8,859)	(\$8,062)	(\$7,164)
Operating Margin	-14.7%	-3.7%	-1.0%	-0.5%	3.1%	4.6%	3.1%	0.2%	-5.7%	-5.0%	-4.2%	-3.7%	-3.2%
EBITDA	(14,105)	(15)	3,800	4,796	10,151	13,553	12,286	15,068	15,706	16,409	17,153	17,584	18,132
EBITDA Margin	-9.6%	0.0%	2.5%	3.0%	6.2%	7.9%	6.9%	8.0%	8.0%	8.0%	8.0%	7.8%	7.7%

June 2010 Projection SantaRosa	Projection Years												
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Balance Sheet - Assets													
Current Assets													
Cash	\$60	\$501	\$238	\$5,763	\$5,797	\$5,969	\$6,318	\$6,615	\$6,972	\$7,250	\$7,544	\$7,870	\$8,212
Current Portion of Assets Limited As To Use	0	0	0	0	0	0	0	0	0	0	0	0	0
Accounts Receivable Net of Reserves	23,629	19,908	21,325	22,040	22,946	23,908	24,864	26,161	27,249	28,449	29,717	31,060	32,481
Third Party Settlements	0	0	0	0	0	0	0	0	0	0	0	0	0
Supply Inventories, at cost	4,038	3,596	3,551	3,683	3,793	3,907	4,024	4,201	4,346	4,503	4,666	4,835	5,010
Prepaid Expenses and Other	3,670	2,498	2,613	2,685	2,702	2,761	2,904	3,016	3,141	3,279	3,425	3,585	3,754
Total Current Assets	31,397	26,503	27,727	34,171	35,238	36,545	38,110	39,993	41,708	43,481	45,352	47,350	49,457
Assets Limited as to Use													
Trusted Assets	0	0	0	0	0	0	0	0	0	0	0	0	0
Board Designated Investments	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Assets Limited as to Use	0	0	0	0	0	0	0	0	0	0	0	0	0
Property, Plant and Equipment													
Cost	74,925	68,759	69,802	70,880	72,024	73,080	74,180	359,338	369,607	370,868	372,186	373,564	375,006
Accumulated Depreciation	39,746	40,540	44,663	48,475	51,774	54,465	57,068	66,203	83,305	102,223	121,205	140,222	159,278
Construction in Progress	3,706	15,098	14,870	31,390	78,590	125,790	185,070	0	0	0	0	0	0
Net PP&E	38,885	43,317	40,009	53,795	98,840	144,405	202,182	293,135	286,302	268,645	250,981	233,342	215,728
Other Assets													
Investment in Subsidiaries	0	0	0	0	0	0	0	0	0	0	0	0	0
Unamortized Financing Fees	0	0	0	0	0	0	0	0	0	0	0	0	0
Start-up Costs	208	0	0	0	0	0	0	0	0	0	0	0	0
Other Long-Term Assets	3,173	2,041	2,041	2,041	2,041	2,041	2,041	2,041	2,041	2,041	2,041	2,041	2,041
Total Other Assets	3,381	2,041	2,041	2,041	2,041	2,041	2,041	2,041	2,041	2,041	2,041	2,041	2,041
Total Assets	\$73,663	\$71,861	\$69,777	\$90,007	\$136,119	\$182,991	\$242,333	\$335,169	\$330,051	\$314,167	\$298,374	\$282,733	\$267,226
Balance Sheet - Liabilities and Net Assets													
Current Liabilities													
Notes Payable - Line of Credit	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Current Maturities of Debt	0	0	0	0	0	0	0	0	0	0	389	410	432
A/P and Accrued Expenses	11,747	8,683	9,192	9,486	9,560	9,854	10,431	10,932	11,527	11,997	12,497	13,048	13,628
Third Party Settlements	0	2,802	2,675	2,706	2,746	2,786	2,825	2,892	2,935	2,986	3,038	3,092	3,146
Capitated IBNR	107	0	0	0	0	0	0	0	0	0	0	0	0
Other Accrued Liabilities	(328)	151	151	151	151	151	151	151	151	151	151	151	151
Total Current Liabilities	11,526	11,636	12,018	12,345	12,457	12,791	13,407	13,975	14,613	15,134	16,075	16,701	17,357
Other Liabilities													
Other LT Liabilities -1	683	651	683	683	683	683	683	683	683	683	683	683	683
Other LT Liabilities -2	1,285	1,256	1,285	1,285	1,285	1,285	1,285	1,285	1,285	1,285	1,285	1,285	1,285
Total Other Liabilities	1,968	1,907	1,968	1,968	1,968	1,968	1,968	1,968	1,968	1,968	1,968	1,968	1,968
Long-Term Debt	13,297	13,297	13,297	13,297	13,297	13,297	13,297	13,297	13,297	13,297	12,908	12,496	12,066
Net Assets													
Unrestricted	45,943	43,920	41,393	61,296	107,296	153,834	212,560	304,828	299,072	282,667	266,322	250,465	234,734
Restricted	929	1,101	1,101	1,101	1,101	1,101	1,101	1,101	1,101	1,101	1,101	1,101	1,101
Total Net Assets	46,872	45,021	42,494	62,397	108,397	154,935	213,661	305,929	300,173	283,768	267,423	251,566	235,835
Total Liabilities & Net Assets	\$73,663	\$71,861	\$69,777	\$90,007	\$136,119	\$182,991	\$242,333	\$335,169	\$330,051	\$314,167	\$298,374	\$282,733	\$267,226

June 2010 Projection SantaRosa	Projection Years												
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Cash Flow Statement													
Sources of Cash:													
Operating Income	(\$5,196)	(\$1,480)	(\$761)	\$5,136	\$7,954	\$5,565	\$287	(\$11,225)	(\$10,168)	(\$9,109)	(\$8,323)	(\$7,436)	
Unusual Items	0	0	0	0	0	0	0	0	0	0	0	0	0
Items Not Affecting Working Capital:													
Depreciation	4,017	4,123	3,812	3,299	2,691	2,603	9,136	18,888	18,918	18,983	19,017	19,055	
Amortization	100	0	0	0	0	0	0	0	0	0	0	0	0
Other	4,306	(1,239)	20,565	40,666	38,385	52,953	91,762	5,240	(6,478)	(7,487)	(7,795)	(8,567)	
Long Term Debt Proceeds	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Sources of Cash	3,227	1,404	23,616	49,101	49,030	61,121	101,185	12,903	2,272	2,387	2,899	3,052	
Uses of Cash:													
Change in Working Capital, Excluding Current Portion of Debt	(5,445)	1,105	592	921	801	600	1,018	720	974	1,025	1,067	1,131	
Additions to Property, Plant & Equipment, net	\$8,449	\$815	\$17,598	\$48,344	\$48,256	\$60,380	\$100,089	\$12,056	\$1,261	\$1,318	\$1,378	\$1,441	
Long Term Debt Principal Repayments	0	0	0	0	0	0	0	0	0	0	389	410	
Total Uses of Cash	3,004	1,920	18,190	49,265	49,057	60,980	101,107	12,776	2,235	2,343	2,834	2,982	
Cash Provided (Used) Prior to Investment Income	223	(516)	5,426	(164)	(27)	141	78	127	37	44	65	70	
Cash Provided from Investment Income	218	263	99	197	199	208	219	230	241	250	261	272	
Cash Provided (Used)	441	(263)	5,525	33	172	349	297	357	278	294	326	342	
Cash Balance, beginning of period	60	501	238	5,763	5,797	5,969	6,318	6,615	6,972	7,250	7,544	7,870	
Cash Balance, end of period	\$501	\$238	\$5,763	\$5,796	\$5,969	\$6,318	\$6,615	\$6,972	\$7,250	\$7,544	\$7,870	\$8,212	
Summary of Cash and Investments													
Operating Cash	\$60	\$501	\$238	\$5,763	\$5,797	\$5,969	\$6,318	\$6,615	\$6,972	\$7,250	\$7,544	\$7,870	\$8,212
Board Designated Assets	0	0	0	0	0	0	0	0	0	0	0	0	0
Trusteed Assets	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	\$60	\$501	\$238	\$5,763	\$5,797	\$5,969	\$6,318	\$6,615	\$6,972	\$7,250	\$7,544	\$7,870	\$8,212
		(0)	0	0	1	(0)	0	0	0	0	0	(0)	(0)

June 2010 Projection SantaRosa	Projection Years											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019

Statistics and Ratios

Operating Statistics

Inpatient Discharges	5,714	5,416	5,711	5,711	5,740	5,769	5,798	5,919	6,008	6,098	6,190	6,283	6,377
Inpatient Days	25,358	22,429	23,760	23,739	23,837	23,937	24,037	24,521	24,888	25,262	25,641	26,025	26,416
Average Length of Stay	4.44	4.14	4.16	4.16	4.15	4.15	4.15	4.14	4.14	4.14	4.14	4.14	4.14
Outpatient Visits	66,427	56,879	58,587	58,587	59,700	60,834	61,990	63,850	64,808	65,780	66,767	67,768	68,785
Adjusted Days	39,595	35,451	36,814	36,823	37,199	37,582	37,972	38,905	39,489	40,146	40,814	41,493	42,184
Number of Beds	135	115	115	115	115	115	115	82	82	82	82	82	82
Occupancy %	51.46%	53.43%	56.61%	56.56%	56.79%	57.03%	57.26%	81.93%	83.16%	84.40%	85.67%	86.95%	88.26%

Physician Visits	0	0	0	0	0	0	0	0	0	0	0	0	0
Mid-Level Visits	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Visits	0	0	0	0	0	0	0	0	0	0	0	0	0

FTE Analysis

Total FTE's	753	655	632	625	611	597	604	598	606	616	626	637	647
FTE'S / IP Occupied Bed	10.84	10.66	9.71	9.62	9.36	9.10	9.17	8.90	8.88	8.91	8.92	8.93	8.94
FTE'S / Adj. Occupied Bed	6.94	6.74	6.27	6.20	6.00	5.80	5.80	5.61	5.60	5.60	5.60	5.60	5.60
Compensation Ratio	53.52%	54.23%	52.02%	51.89%	50.36%	48.98%	49.43%	48.27%	48.71%	49.28%	49.74%	50.19%	50.62%

Profitability Ratios

Operating Margin	(14.72%)	(3.68%)	(0.97%)	(0.48%)	3.11%	4.63%	3.11%	0.15%	(5.72%)	(4.96%)	(4.25%)	(3.71%)	(3.17%)
Profit Margin	(14.53%)	(3.52%)	(0.80%)	(0.42%)	3.23%	4.74%	3.22%	0.27%	(5.59%)	(4.83%)	(4.13%)	(3.59%)	(3.05%)
Excess Cash Margin (Profit+Dep)	(10.70%)	(0.61%)	1.89%	1.99%	5.23%	6.30%	4.68%	5.11%	4.02%	4.38%	4.72%	4.88%	5.06%
Deductible Ratio	63.00%	67.06%	67.98%	68.54%	69.17%	69.76%	70.41%	71.10%	71.73%	72.33%	72.90%	73.44%	73.96%

Capital Structure Ratios

Debt to Capitalization	22.45%	23.24%	24.31%	17.83%	11.03%	7.96%	5.89%	4.18%	4.26%	4.49%	4.62%	4.75%	4.89%
Debt to Plant	34.20%	30.70%	33.23%	24.72%	13.45%	9.21%	6.58%	4.54%	4.64%	4.95%	5.14%	5.36%	5.59%
Debt to Equity	28.37%	29.53%	31.29%	21.31%	12.27%	8.58%	6.22%	4.35%	4.43%	4.69%	4.83%	4.97%	5.12%
Capital Expense	4.42%	3.54%	3.42%	3.49%	3.14%	3.41%	3.88%	7.86%	12.98%	12.34%	11.75%	11.14%	10.56%

Liquidity Ratios

Current Ratio	2.72	2.28	2.31	2.77	2.83	2.86	2.84	2.86	2.85	2.87	2.82	2.84	2.85
Adjusted Current Ratio	2.72	2.28	2.31	2.77	2.83	2.86	2.84	2.86	2.85	2.87	2.82	2.84	2.85
Quick Ratio	2.06	1.75	1.79	2.25	2.31	2.34	2.33	2.35	2.34	2.36	2.32	2.33	2.34
Days Cash on Hand	0.1	1.3	0.6	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.5	13.4
Days in A/R - SH	62.1	52.9	52.9	52.9	52.9	52.9	52.9	52.9	52.9	52.9	52.9	52.9	52.9
Average Payment Period	26.4	22.3	22.3	22.3	22.3	22.3	22.3	22.3	22.3	22.3	22.3	22.3	22.3

Activity Ratios

Average Age of Plant	7.10	9.85	10.83	12.72	15.69	20.24	21.92	7.25	4.41	5.40	6.39	7.37	8.36
Fixed Asset Turnover	3.76	3.26	3.83	2.94	1.67	1.19	0.88	0.64	0.69	0.76	0.85	0.96	1.09
Total Asset Turnover	1.98	1.97	2.19	1.76	1.21	0.94	0.74	0.56	0.59	0.65	0.72	0.79	0.88
Markup	2.34	2.91	3.08	3.15	3.33	3.45	3.47	3.45	3.33	3.43	3.52	3.61	3.70

Debt Service Coverage Ratios

Debt Service Coverage	(7.76)	(0.01)	3.28	2.75	5.92	4.66	2.98	2.67	1.95	2.14	2.24	2.41	2.61
Debt Service / Revenues	1.41%	0.91%	0.92%	1.16%	1.16%	1.81%	2.42%	3.11%	4.21%	3.85%	3.69%	3.37%	3.07%
Cash Flow	(0.59)	(0.03)	0.11	0.11	0.31	0.39	0.29	0.33	0.26	0.30	0.33	0.35	0.38
Cushion	0.03	0.47	0.21	3.30	3.38	2.05	1.53	1.17	0.87	0.95	0.98	1.08	1.18