

Proposal Page Reference	Paragraph or Sub-title Reference	<p style="text-align: center;">Review Comments For the Sonoma Valley Hospital Business Plan for New Facility October 2006</p>
General Comment		<p>The following review comments are based on the 11 page written and graphic proposal for a new hospital titled: <i>Sonoma Valley Hospital Business Plan for New Facility October 2006</i> (proposal) prepared by the current Sonoma Valley Hospital administration and provided by the Sonoma Valley Health Care Coalition.</p> <p>The review comments are presented from the perspective of a competing proposer and should not be interpreted as being non-supportive of the mission of the Sonoma Valley Hospital or the dedicated physicians and staff who work there.</p>
General Comment		<p>The proposal does not provide a specific list of medical services being offered to the community in return for the publicly funded parcel tax and general obligation bond financing being requested.</p>
1	1	<p>The proposal does not present a detailed critical path timeline schedule indicating how the entitlement process will be organized or the July 15, 2012 deadline met.</p>
1	5	<p>The proposal lacks a site plan for the Broadway Site identifying the location, size, and number of parcels, ownership, and boundaries of the properties being proposed.</p>
1	5	<p>Copies of binding options securing the real estate for future hospital purchase and use are not provided.</p>
1	5	<p>A site plan is not provided indicating the general suitability of the site to accommodate the proposed hospital program including but not limited to the proposed location and size of the hospital buildings, parking lots, storm water retention and future hospital expansion areas.</p>
1	5	<p>The proposal does not indicate how much of the proposed site is outside of the City of Sonoma UGB and if a UGB amendment will be required.</p>
2	Sizing and Staffing	<p>The continued operation of the Emergency Room (ER) is not described or guaranteed in this document. The recent interruption of ER services and dire financial condition of Doctors District Hospital in West Contra Costa County illustrate the vulnerability of small district hospitals to be able to guarantee the provision of ER services to their communities.</p>
3	Facility and Construction and Related Costs	<p>The estimated project costs appears low. Reviews by two independent professional cost estimators indicate the proposal's <i>Construction and Related Costs</i> requires additional study (refer to Exhibit 2 comments below). Assuming the revenues from donations and private investment are realized, \$154,800,000 is a more likely total cost for the proposed hospital. Cost components requiring additional review include but are not limited to: construction unit costs, site costs, design costs, commissioning and start up costs, construction management and project administration costs, builders risk insurance, permits fees and inspections and the provision of adequate budget amounts for construction change order, design and bidding contingencies.</p> <p>Based on this review, the General Obligation Bond portion of the proposal's sources of revenue should be increased to approximately \$121,000,000.</p>
4	Summary Table	<p><i>Guaranteed</i> sources of revenue to build the new hospital are not identified in the proposal. <i>Failure of any or all of the Summary Table's sources of revenue could impact the existence of a new hospital in Sonoma Valley.</i> All of the revenue sources in this table are based on desired but not guaranteed outcomes, including but not limited to: that 67% of the voters will approve a +/- \$100 million general obligation bond, unidentified philanthropists will provide an additional \$15 million, \$5 million will be netted from the sale of the existing property following haz-mat abatement and that unidentified private investors will provide \$12 million in additional monies etc.</p>

4	Summary Table	There is considerable uncertainty in the capital structure of this proposal. Securing the sources for the revenue requires the successful completion of a complex sequence of events including three voter initiatives: one 2/3 vote for the parcel tax, one 2/3 vote for the GO bond and one UGB vote. This is a three-part exposure to the electorate. A failure in any vote could cause the proposal to collapse. In addition to securing GO Bonds, other sources of philanthropy and private investment need to be secured exactly in the required timeframe or the project could stall. Any shortfall, either in the three votes or the capital structure could doom or delay the delivery of the new hospital.
4	Private Investment	The proposal does not include a private investor business plan and proof of private investor interest. Other than California Advanced Imaging, no proof or letters of interest from investing private physicians is provided. The proposal makes the assumption, based on a single non binding letter of interest, that there are physicians willing to provide \$12 million in private investment for a 15% return on their monies - from a hospital that arguably has not turned a profit in the past 15 years.
4	Physician Recruitment	The physician recruitment plan does not factor in the number of retiring doctors. Actual doctor recruitment targets may need to be increased. Recruitment of 15 – 20 new physicians may only replace the number of retiring doctors. Should this be the case, the operating budget will remain static or decrease thereby eroding the profitability of the hospital and potentially reducing profits and return on investment to private investors.
5	Philanthropy	<p>Guarantees of philanthropic donations are missing. The proposal reduces Bond debt by substituting \$15,000,000 worth of donations for bond proceeds. The sources of philanthropy are not identified, nor is the potential financial impact on other local non-profits considered when \$15,000,000 worth of donations is competitively removed from the pool of resources in Sonoma Valley.</p> <p>Considering the hospital has never raised more than \$1-2 million in a year, \$15,000,000 is a very large amount of giving for Sonoma Valley. The proposal does not include letters of intent from major donors to back this part of the plan.</p> <p>The proper allocation of donated money deserves scrutiny. Is allocating donated money for capital improvements the highest and best use of these funds? Donated monies can be used for a wide variety of needs including the provision of health care services, operating costs and doctor recruitment, whereas publicly financed bond dollars are narrowly restricted to capital improvements. Reserving public donations to underwrite future operational and medical service costs rather than assigning those monies to bricks and mortar type expenses may a better use of these monies.</p>
6	Financial Projections	The proposal is largely silent on how to improve Sonoma Valley Hospital's market share. The financial projections are general and based on continued public taxation not market outreach or innovation. The business plan requires the public to pay up to \$3 million a year in additional parcel taxes on top of \$120 million in general bond obligations. A verifiable business plan is not provided identifying how the hospital will finally turn a profit in FY 2013. The proposal does not include a credible strategy on how to increase market share (nor the reasoning on why this strategy is not being implemented now).
6	Financial Projections	Verify that all of the \$1,750,000 associated with failed Measure C is reimbursable to the hospital from future bond proceeds. Is this reimbursement allowable by the regulations of bond financing?

	<p>Exhibit 2.</p>	<p>Exhibit 2's estimated Project Costs are low.</p> <p>A preliminary revised cost estimate follows:</p> <p>Cost Estimate for New Facility at Broadway Site</p> <table border="1"> <thead> <tr> <th>Building</th> <th>"I Space"</th> <th>"OSHDP III"</th> <th>"Tilt-up"</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Square Feet</td> <td>70,826</td> <td>26,088</td> <td>18,225</td> <td>115,139</td> </tr> <tr> <td>Unit Cost Per Square Foot</td> <td>575</td> <td>500</td> <td>235</td> <td></td> </tr> <tr> <td>Base Construction Cost</td> <td>40,724,950</td> <td>13,044,000</td> <td>4,282,875</td> <td>58,051,825</td> </tr> <tr> <td>Add Design Contingency 6%</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Add Construction Change Order Contingency 7%</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Subtotal Add Contingencies</td> <td>5,294,243</td> <td>1,695,720</td> <td>556,773</td> <td>7,546,736</td> </tr> <tr> <td>Subtotal Construction Cost</td> <td></td> <td></td> <td></td> <td>65,598,561</td> </tr> <tr> <td>Escalation: Year 1 (8%)</td> <td></td> <td></td> <td></td> <td>5,247,884</td> </tr> <tr> <td>Escalation: Years 2 – 4 (6%)</td> <td></td> <td></td> <td></td> <td>13,532,802</td> </tr> <tr> <td>Construction Plus Escalation</td> <td></td> <td></td> <td></td> <td>84,379,247</td> </tr> <tr> <td>Design Costs 10%</td> <td></td> <td></td> <td></td> <td>8,437,924</td> </tr> <tr> <td>OSHDP Fee</td> <td></td> <td></td> <td></td> <td>1,294,672</td> </tr> <tr> <td>EIR Costs</td> <td></td> <td></td> <td></td> <td>530,000</td> </tr> <tr> <td>Site and Offsite Costs</td> <td></td> <td></td> <td></td> <td>5,600,000</td> </tr> <tr> <td>Consulting & Legal, Administration</td> <td></td> <td></td> <td></td> <td>3,375,164</td> </tr> <tr> <td>Move in</td> <td></td> <td></td> <td></td> <td>370,000</td> </tr> <tr> <td>Building Commissioning and start up (2.5%)</td> <td></td> <td></td> <td></td> <td>2,109,481</td> </tr> <tr> <td>Equipment including Escalation</td> <td></td> <td></td> <td></td> <td>24,257,267</td> </tr> <tr> <td>Land Acquisition and rounding</td> <td></td> <td></td> <td></td> <td>14,018,690</td> </tr> <tr> <td>Permits and Fees (2.5%)</td> <td></td> <td></td> <td></td> <td>1,687,584</td> </tr> <tr> <td>Subtotal Costs</td> <td></td> <td></td> <td></td> <td>146,060,029</td> </tr> <tr> <td>Project and Bid Contingency (6%)</td> <td></td> <td></td> <td></td> <td>8,763,602</td> </tr> <tr> <td>Total Estimated Project Cost</td> <td></td> <td></td> <td></td> <td>154,823,631</td> </tr> </tbody> </table> <p>Note: The above costs <i>do not</i> include debt service costs over life of the bond.</p>	Building	"I Space"	"OSHDP III"	"Tilt-up"	Total	Square Feet	70,826	26,088	18,225	115,139	Unit Cost Per Square Foot	575	500	235		Base Construction Cost	40,724,950	13,044,000	4,282,875	58,051,825	Add Design Contingency 6%					Add Construction Change Order Contingency 7%					Subtotal Add Contingencies	5,294,243	1,695,720	556,773	7,546,736	Subtotal Construction Cost				65,598,561	Escalation: Year 1 (8%)				5,247,884	Escalation: Years 2 – 4 (6%)				13,532,802	Construction Plus Escalation				84,379,247	Design Costs 10%				8,437,924	OSHDP Fee				1,294,672	EIR Costs				530,000	Site and Offsite Costs				5,600,000	Consulting & Legal, Administration				3,375,164	Move in				370,000	Building Commissioning and start up (2.5%)				2,109,481	Equipment including Escalation				24,257,267	Land Acquisition and rounding				14,018,690	Permits and Fees (2.5%)				1,687,584	Subtotal Costs				146,060,029	Project and Bid Contingency (6%)				8,763,602	Total Estimated Project Cost				154,823,631
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	<p>Exhibit 3.</p>	<p>Exhibit 3 identifies \$1.2 - 2.0 million in bad debts per year. This number is much higher than the \$500,000 bad debt number presented to the Coalition by CFO Jim McSweeney. Please verify this number.</p>																																																																																																																								
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	<p>General</p>	<p>The proposal does not identify a system of financial controls and administrative safeguards that would ensure the effective oversight of the expenditure of \$154 million in public funds. Per the recent survey the public lacks confidence in the administrative capabilities of the current hospital organizational structure. Is there sufficient public confidence in the administrative status quo to entrust \$154 million worth of bond funds? Failure to identify an adequate project management and fiduciary control plan for these funds may reduce voter acceptance of the bonds.</p>																																																																																																																								