

Evaluation of the SVH Business Plan for New Facility, “The Broadway Plan”
Summary of Findings
HFSConsultants
November 28, 2006

HFSConsultants has reviewed the “Broadway Plan”, obtained additional supporting information from SVH management, and, when necessary, conducted our own analyses. Our objective was to evaluate the plan relative to the criteria that we have previously communicated to the Options Committee. In general, these criteria, and the processes we employed, are similar to those commonly used in financial feasibility studies, although we did not conduct the detailed level of analysis required by formal feasibility studies.

The criteria fall into the following major categories, most of which have several subcategories:

- Services to be provided meet the demands of the residents of the District
- District assets are protected
- Voter preferences are identified and addressed
- The projected bottom line is adequate
- Capital costs are reasonable
- Funding sources are feasible and adequate
- The site has been secured and can be used as required
- The facility meets regulatory and operational standards
- Public control and accountability is provided
- The plan is achievable with minimal developmental risks

In general, we find that the Broadway Plan is sound and does well as measured against the criteria. It establishes business objectives that make strategic sense in this market and it is based upon reasonable and conservative assumptions.

At the highest level, the success of the plan depends on the voters approval of the GO Bond and Parcel Tax. If these initiatives pass, we believe that the plan will be successful. If the measures pass, we believe that physician recruitment will again become successful, fund raising will also become easier, and attracting potential investors will also be possible. Due to the critical importance of these measures on the success of the plan, our analysis was based upon the assumption that the measures pass.

The following summarizes our major findings for each of the major criteria:

- Services
 - Variability of demand is a critical problem for small hospitals. The plan adequately deals with this problem.
 - Analysis indicates significant out-migration for ambulatory services. The plan correctly targets general surgery, orthopedics, and diagnostic imaging. We would add gastroenterology and selected other specialties such as ophthalmology and urology.

- The plan provides for much-needed SNF beds by using the “swing bed” concept.
- OB services seem to us to be constrained by the limited number of OB/Gyn physicians in the community. In particular, we have concerns regarding the burden of call coverage.
- The plan has a sound plan for recruiting new physicians, which may be entirely dependent on the passage of the necessary Bond measure.
- The plan successfully provides for a continuum of services located in one site.
- Protection of District assets
 - The forecasted bottom line is reasonable and conservative and should ensure an adequate level of working capital
 - Net cash balance increases steadily and exceeds \$10 million in 2012-13
 - There appear to be significant uncertainties regarding the costs of demolition related to the current site and facility. These need clarification.
- Voter preferences
 - The proposed site goes outside of the Urban Growth Boundary. We are unclear about the significance of this.
- Projected bottom line
 - Appears reasonable and adequate to preclude increases in parcel taxes and does well in the first year of operations of the new site.
 - Operating margin improves steadily and exceeds \$1.7 million in 2012-13
 - Overall bottom line (includes all sources of revenue) is positive in 2007-8 and grows steadily. Parcel tax (\$3 million estimated per year) sunsets in 2012-13
 - Demand, market and utilization assumptions are well-founded, consistent with other studies, and are conservative relative to the amount of demand that leaves the local area for service.
 - The size of the facility does not cause capacity constraints and resultant diversions of admissions
 - The major limitation on utilization is the number of local physicians. This is the crux of the economic problem.
 - The facility design affords reducing staffing levels and improving labor efficiency. However, realizing these benefits will require changing staffing policies and procedures.
- Capital costs are reasonable
 - The plan reduced both the overall project cost and bond size from those used as the basis for Measure C
 - Overall project costs have been reduced by about \$20 million
 - Bond size has been reduced by over \$50 million
 - The costs are based upon extensive program planning by several architectural and engineering firms and also appear reasonable based upon our own analysis.

- Two limitations of the project plan are the exclusion of distinct information on parking and on contingencies. These may be included, but are not separately identified components of project costs.
- Funding sources
 - The GO Bond approval is the most critical element of the plan. In fact, the ability to raise philanthropic support, to attract investors for an ambulatory services joint venture, and to support the building of an MOB all appear dependent on the success of the GO Bond issue. We strongly recommend obtaining as much information as possible about voter preferences.
 - Tax revenues are also critical and warrant the same degree of concern as noted above.
 - The plan is not entirely adequate in its proposal for a joint venture to house surgical and imaging services. Although a letter of intent has been obtained for the imaging component, and we believe that this has a strong likelihood of success, no such evidence of support exists for the surgical component.
- The site
 - We have obtained documentation substantiating that most of the site has been or will be secured
 - The site does extend beyond the UGB. We are unclear about the consequences of this, but refer to our earlier comment regarding assessing voter preferences.
- The facility
 - The facility design is excellent and affords economies and convenience.
- Public control
 - Accountability will be via the District Board and its processes.
- Minimal developmental risks
 - We are not able at this time to assess the likelihood of timely completion of the project
 - The plan does seem to address the issues identified in a recent poll of voters
 - Since the site is apart from the current site, we would expect minimal disruption of operations due to the construction.