

## Private Investment

We expect to finance 50% of the OSHPD III building (which is almost exclusively devoted to imaging and surgery) and 50% of the imaging equipment through physician joint ventures. The total private investment is set at \$12,000,000 for the purposes of our projections. We have held discussions with both California Advanced Imaging (the 60-70 member group that provides our radiologists) and Marin IPA. Both have expressed interest and California Advanced Imaging has provided a non-binding letter of intent.

We don't know the precise nature of the relationship we will have with the investing physicians, and won't for at least several years. However, we are confident that their involvement will lead to both an increased market share and cost savings. For purposes of the financial projection we have included only a one-time 15% increase to outpatient imaging and surgery volumes. We have not included any cost savings nor any improvement in inpatient market share; we believe this is conservative. This assumption is based on discussion with management for California Advanced Imaging, who told us that utilization has increased by as much as 25% when physicians have become actively involved in their ventures. (They are involved in roughly ten hospital-physician joint ventures.)

For simplicity, we assumed that we will pay the investors a 15% return, or \$1.8 million per year. (This is included in the projections as interest expense, but appropriately not considered as a reimbursable cost for Medicare and Medi-Cal.) The actual terms will undoubtedly include profit participation. *This is a conservative assumption, because the profits generated by our revenue improvement assumptions are modest. In fact, the effect in fiscal 2013 is a \$1,350,000 improvement in operations, before paying the investors and a \$450,000 decline in operating margin after taking the return into account.* In effect, we are only assuming that the joint venture approach provides the District with a relatively low cost source of capital, rather than a source of additional cash.