

Cirrus Health
Options Committee Response
Sonoma Valley Health Care Coalition

TABLE OF CONTENTS

<u>Location</u>	<u>Contents</u>
Exhibit	Financial Projection Summary
Payor Assumptions	Actual and Forecasted Payor Mix Reimbursement Percentage Assumptions by Payor
Volume Assumptions	Inpatient and Outpatient Inflation Assumptions
Income Assumptions	Methodology used to project Net Revenue Other Revenue Inflation Assumptions Methodology used to project expenses Inflation factors applied to major expense categories Material Purchased services, professional fee arrange Staffing by unit and basis for average salary and wages Bad debt and Charity Assumptions Depreciation Assumptions
Real Estate Assumptions	Schedule of construction cost estimates Schedule of projected debt service coverage Assumptions regarding terms of debt financing

**SONOMA VALLEY HOSPITAL
PRO-FORMA SUMMARY**

SURGICAL VOLUME SUMMARY (YR 1 PER MONTH):

SPECIALTY	OUTPATIENT	INPATIENT	TOTAL
GASTROENTEROLOGY	83	15	98
PLASTICS	18	5	23
PODIATRY	10	10	20
GENERAL SURGERY	30	24	54
GYN	20	11	31
NEURO SPINE	6	5	11
OPHTHALMOLOGY	13	-	13
ORTHOPEDICS	60	22	82
OTOLARYNGOLOGY (ENT)	7	-	7
BARIATRIC	-	2	2
CARDIOLOGY	30	26	56
UROLOGY	16	8	24
	293	128	421

PROFORMA SUMMARY OF YEARS ONE THROUGH FIVE

	Pre-open & YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Surgical Volume	2,989	5,254	5,464	5,683	5,910
Medical Admits	611	1,053	1,074	1,095	1,117
ER Volume	8,329	8,329	8,329	8,329	8,329
TOTAL NET REVENUE	\$ 26,137,989	\$ 44,778,332	\$ 46,452,727	\$ 48,191,763	\$ 49,997,979
EXPENSES					
PERSONNEL COSTS	7,224,248	8,294,946	8,610,607	8,938,572	9,279,326
CONTRACT SERVICES	1,528,804	3,059,948	3,466,747	3,490,002	3,513,722
REPAIRS, MAINTENANCE, OTHER OFFICE EXPENSES	168,357	96,145	98,068	100,029	102,030
PROFESSIONAL FEES	112,000	22,440	22,889	23,347	23,814
COMMUNICATIONS AND IT	430,500	336,600	343,332	350,199	357,203
RENT AND UTILITIES	6,522,921	5,980,289	6,148,988	6,322,533	6,501,066
INSURANCE	488,850	498,627	508,600	518,772	529,147
MEDICAL SUPPLIES	4,996,720	8,223,591	8,388,063	8,555,824	8,726,940
ER EXPENSES	1,424,954	1,801,937	1,837,976	1,874,735	1,912,230
MARKETING	198,800	121,176	123,600	126,072	128,593
TRAVEL AND ENTERTAINMENT	96,800	34,884	35,582	36,293	37,019
DEPRECIATION	3,200,000	3,200,000	3,200,000	3,200,000	3,200,000
INTEREST EXPENSES	1,598,789	1,300,113	973,420	616,081	225,221
INTEREST EXPENSES (WORKING CAPITAL LOAN)	994,377	1,420,631	783,834	68,722	-
OPERATIONAL SUPERVISION	132,000	134,640	137,333	140,079	142,881
BAD DEBT 3% (total revenue)	2,091,039	3,582,267	3,716,218	3,855,341	3,999,838
MANAGEMENT FEE	1,613,279	2,000,000	2,000,000	2,000,000	2,000,000
OTHER (contingency, bank service fees)	61,600	62,424	63,672	64,946	66,245
TOTAL OPERATING EXPENSES	32,884,039	40,170,658	40,458,927	40,281,547	40,745,276
PROFIT / (LOSS)	\$ (6,746,050)	\$ 4,607,674	\$ 5,993,800	\$ 7,910,216	\$ 9,252,703
MARGIN	n/a	10%	13%	16%	19%

PAYOR ASSUMPTIONS

Actual and Forecasted Payor Mix

Forecasted Payor Mix:

Commercial	54.83%
Medicare	31.33%
Workers Comp	2.50%
Other	2.25%
Self Pay	9.08%

Actual Payor Mix cannot be Reported

Reimbursement Percentage Assumptions by Payor

Our reimbursement assumptions are a multiple of Medicare blended around 120%

VOLUME ASSUMPTIONS

Inpatient and Outpatient Inflation Assumptions

Surgical Volume growth is 4% annually

Medical Admit and ER Volume growth is 2% annually

INCOME ASSUMPTIONS

Methodology used to project Net Revenue

Projected cases per month at expected reimbursement rate for each specialty

Other Revenue Inflation Assumptions

Estimated 4% volume growth per year in surgical cases, 2% in medical admits

Methodology used to project expenses

Projected detailed expenses based on expected volumes

Inflation factors applied to major expense categories

Estimated 4% growth per year salaries; all other cases estimated 2% inflation per year

Material Purchased services/Professional Fee Arrangements

Management fee of 6%, capped at \$2m per year

Staffing by unit and basis for average salary and wages

Based on local market salaries and California staffing requirements

Bad debt and Charity Assumptions

Assumed 8% net revenue to cover both

Depreciation Assumptions

Depreciation of \$19.2m in equipment purchases over 60 months

REAL ESTATE ASSUMPTIONS

Schedule of construction cost estimates

Cost of \$450.00 per square foot

This cost is validated by our current construction estimates in San Jose and Loma Linda

An additional \$20.00 per square foot is included on top of the \$450 in contingency

Schedule of projected debt service coverage

1.25 DSCR

Assumptions regarding terms of debt financing

The Cirrus Group expects a 36-month term with two (2) one (1) year extensions

The Cirrus Group is currently receiving LIBOR + 150 quotes with 0.5% in an upfront financin

The current proforma models LIBOR + 262 with a 1.0% fee

ing fee