

Please find issues listed in bold followed by responses in regular text.

November 24, 2006

Bob Edwards Steve Pease  
Co-Chairmen Sonoma Valley Health Care  
Coalition 19501 Brookline Sonoma  
CA, 95476

Reference: Cirrus Health Proposal for the New Sonoma Valley Hospital: Transmittal of Physician's Letters of Interest (LOI), LOI from Health Care Property Investors and Responses to Comments Subsequent to Submission of Proposal

Dear Bob and Steve:

Cirrus Health is pleased to offer a new full service hospital to the Sonoma Valley community. The new hospital and adjoining Medical Office Building will offer all medical services currently provided by the existing hospital, be open to all regardless of ability to pay and provide fully staffed 24/7 Basic Emergency Room services. The new hospital will be non-publicly funded and require no public taxes for construction or operation. We are confident in our proposal and remain enthusiastic about the project.

Subsequent to the submission of our proposal, Cirrus Health has received comments and requests for clarification from members of the Coalition and the community. This letter clarifies aspects of our proposal and responds specifically to certain questions.

**Clarification of the Total Amount of Personnel Costs in the Cirrus Hospital Business Plan**

There have been questions concerning Cirrus' total personnel cost projections in our business plan. The following applies:

Personnel costs in the Cirrus pro-forma are located on multiple lines of the *Financial Projections and Assumptions Table* for Year 3 in Exhibit G:

Personnel Costs	\$8,610,607
Management and Contract Services	
Contract Services	\$ 3,466,747
Operational Supervision	\$ 137,333
Management	\$ 2,000,000
Communications IT	\$ 160,000

Total Combined Projected Cirrus People Costs \$14,374,687

#### Disparity in Personnel Costs Between the Cirrus Health and SVH Proposals

Based on year 2013 pro-formas, there is roughly a \$26,195,275 personnel cost disparity between the Cirrus Health and the SVH proposals. Cirrus has researched this issue and provides the following input:

This disparity in personnel costs appears to be the result of Sonoma Valley Hospital's imbalance between its ratios of FTEs to occupied beds, its high average cost per FTE and high administrative costs relative to other State and local hospitals. For example, Marin General's ratio of FTEs per occupied bed is approximately 4.9 and Petaluma's ratio of FTEs per occupied bed is approximately 5.1. National and State averages for FTEs per occupied bed range from approximately 4.6 to 7.9 FTEs for Stanford (a major teaching hospital). While this ratio varies hospital to hospital, 5.0 to 5.5 could be considered the standard. Review of the current Sonoma Valley Hospital FY 2007 Budget Activity Measures Table indicates the following average census projections:

#### **Occupied Beds FY 2007**

Acute 17.3 SNF 20.0

**Total 37.3**

#### **Total FTE's**

Acute 303.0 SNF 25.1

**Total 328.2**

Assuming 20 SNF occupied beds would utilize approximately 3.5 FTEs (SNF beds utilize a lower FTE rate) per bed or 70 FTE's, 258 FTEs remain for acute care occupied beds.  $258/17$  occupied beds = a ratio of 15.17 FTEs per occupied bed. Using SVH's published FTE allocation for acute beds,  $303/17.3$  = a ratio of 17.5 FTEs per occupied bed. Based on either calculation, these rates exceed local and industry standards by approximately three times. There may be an organizational basis for this, but it appears it takes three times as many staff at SVH to support the treatment of one acute care patient than in neighboring hospitals.

Sonoma Valley Hospital has a low average bed occupancy rate, a high staff count (328) and high overall costs per FTE. Sonoma Valley Hospital's ratio of FTEs per occupied bed maybe *three times higher* than surrounding hospitals. These are extremely high personnel costs for a small hospital. This high fixed cost suppresses Sonoma Valley Hospital's ability to generate a profit with out long-term parcel tax support.

#### **Hospital Size and Number of Rooms**

Cirrus stated during its public presentation to the Coalition that the size and number of rooms of the Cirrus hospital would be more clearly defined when Cirrus better understood the medical needs of the community. Our proposal stated, *"The hospital gross building area and room capacity will ultimately be based upon the existing services being provided by the current hospital. The size of each of these buildings will be directly determined through a formal programming process coordinated with the District Board and by anticipated volumes"*. Consistent with this, we have increased the size of our hospital above our initial estimate of 50,000 SF to 70,000 SF in response to our due diligence review of the community's health care needs. To date no formal hospital programming process has taken place with either the Coalition or Hospital District Board. The Cirrus proposal is based on the following preliminary program:

### **Preliminary Hospital Program**

- New +/- 70,000 sf Community Hospital
- New +/- 50,000 sf Medical Office Building
- Co-located with New Sonoma Medical Spa
- 56 Patient Beds
- 24/7 Basic Emergency Room – 9 Bays
- 4-6 Bed ICU
- 5 Operating Rooms for inpatient and outpatient surgical services
- 2 Procedure Rooms
- 1 Cath lab
- OB Services
- Required Support Space

### **Provision of Design/Build Lease Back Emergency Room Space and Support Staff in the Cirrus Hospital to the Sonoma Valley Health Care District**

Cirrus has been queried if it would be willing to allow the District to “insert” a District operated Emergency Room within the new Cirrus Hospital. This District ER service would be a separate 501 (c) (3) non-profit basic emergency room supported by the taxing authority of the Hospital Board. In this scenario, Cirrus would lease ER space and provide required staff and medical infrastructure support to the District on a pro rata basis. The District ER would maintain separate accounting protocols. This approach would allow the community a means to control and support ER services on a long-term basis. Cirrus is willing to consider this option, but our proposal is not contingent upon this structure.

### **Staggered Construction Starts for MOB, Medical Spa and Hospital**

Cirrus was questioned why the MOB and Medical Spa would be constructed before the hospital. The construction of the MOB and Medical Spa will begin prior to the hospital because the OSHPD review period delays the start of construction of the hospital by approximately 18 months. By building the MOB as soon as possible, physicians can build their practices at the new location and support the existing hospital while the new hospital is being built, this would not only benefit the community, but also provide additional support to the existing hospital.

### **Transmittal of LOI's**

Please find attached 12 copies of physician letters of interest (LOI). These LOIs are a sample of some of the local and regional physicians and medical specialists expressing interest in the Cirrus Health Sonoma Valley Hospital. We have more LOIs in hand or in the process of receiving, but the physicians have asked for confidentiality at this time.

Also included is a copy of a letter of interest from Health Care Property Investors, Inc. (HCPI), a \$10 billion plus organization that provides capital to Cirrus for building and operating medical facilities.

### **Communication with the Coalition, Hospital Board and HFS**

We have received feedback that Cirrus has not been communicative with the Coalition, HFS or the District Board. This is disturbing. We desire the opposite. To date I have met personally with a variety of individuals from the Coalition and the community and have extended invitations to others to contact me. Cirrus is in communication with HFS. As of this writing neither the Coalition nor the

District Board has formally submitted requests for information to us other than a request for an early preliminary MOU, which was a discussion document presented to the Coalition. We remain prepared to sign that MOU, but based on feedback from the Coalition have not pursued further discussions on the MOU, while the Coalition works through the current review process.

We welcome the opportunity to meet. We believe more communication, not less is important at this critical juncture. We would like to develop a working relationship with the Coalition and/or the Hospital Board that could be used as a basis of future negotiations. Should you have any questions regarding our proposal please contact me or Michael B. Ross, AIA.

Thank

you.

Sincerely

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Handwritten signature of John Thomas in black ink.

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