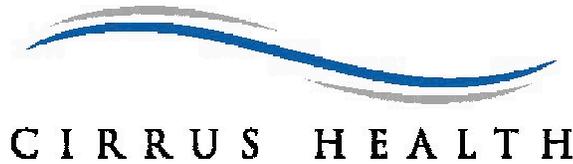


**CIRRUS HEALTH  
SONOMA VALLEY HOSPITAL PROPOSAL**

**December 8, 2006**

**SUPPLEMENT TO ORIGINAL PROPOSAL**

**Prepared by**



**Cirrus Health  
Supplement to Sonoma Valley Hospital Proposal**

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## **Summary**

Cirrus Health intends for the enclosed information to be read in conjunction with the original proposal submitted to HFS Consultants. The financial assumptions included in this supplement supersede the proforma provided as Exhibit G in our previous proposal. It is our intention to fully answer all questions and concerns posed by HFS with the information contained herein. Further, Cirrus Health members, most notably John Thomas, will be present at HFS' presentation of the Cirrus proposal on December 18<sup>th</sup>. Cirrus will be prepared to offer comments and answer questions pertaining to the merits, issues, and concerns of our proposal.

Absent from the proposal is any form of legal "guarantee;" Cirrus is willing to provide a working Memorandum of Understanding for discussion purposes to the Hospital Board, and formally requests a meeting with the Board representatives to discuss future negotiations and other issues for consideration by the Hospital Board.

## Response to Request for Information

<u>Questions from HFS</u> <u>Submitted via Megan on 12/1/06</u>	<u>Response</u>
Is it possible to provide the hospital's inpatient census by unit (i.e. M/S, OB, Skilled care)?	Medical Admit Census is 2.9 per day Surgical Inpatient Census is 17.5 per day OB Census is 2.1 per day
Have OB services been incorporated? Are we to assume they are part of your hospital admits?	OB services were not in the first proformas; please see Revised Financials and admits. OB services will be provided within the hospital.
Are you incorporating patients with SNF level of care?	Not in the hospital. Cirrus will contract this service and ensure its availability either on the medical campus or in the community to those patients who need it. (See Staffing Plan and discussion below).
The Payor mix provided in Schedule G did not show MediCal as a payor. Has the model been revised to include MediCal patients? How can we see this? Net revenue appears to be the same.	MediCal is grouped within Medicare and not shown separately, as it is such a small amount. MediCal insures 4.8% of the 10-mile Sonoma market, therefore Cirrus will count any revenue received as "extra" above the revenues depicted in the financials
What is the basis of the I/P revenue rates?	The Inpatient revenue rate basis is 125% of Medicare. The Outpatient revenue rate basis is 115% of Medicare.
Do you have any information regarding the Hospital layout? What is the basis of the 70,000 square feet?	Please see attached Hospital square footage allocation document.
The housekeeping cost per square foot you are showing is only \$1.82. This seems low, please explain.	Our housekeeping costs are not on a square footage basis, but are on a contract basis. The amount in the proformas is our estimate of the housekeeping contract on a monthly basis. This estimate is based on historical contracts at Cirrus and management estimates.
How are the costs of therapies included in your model (i.e. PT, ST, OT)?	These are not included in the proformas. These services are assumed to be a pass-through with no incremental change to the bottom line. The services themselves will be housed in the medical office building and medical spa space, not the hospital, therefore not reflected in the current proformas.
What is the basis of the \$10/case charge for out-sourcing laboratory services?	This is based on Cirrus management estimates and historical costs incurred
We see 1.5 FTE's in the OR department but where are the remainder of the Radiology costs? I don't see contract services.	Imaging P&L is not included as it is assumed to be a pass-through with either no change to the bottom line or a small amount of incremental profit. It is usually not included in the first draft proformas; it is likely radiology services will be provided by partnering physicians as a separate entity, in which they will cover all operations and costs.

## **Summary of Revised FTE Assumptions**

The attached Staffing Plan demonstrates Cirrus' understanding and logistical expectations in providing and staffing for all the current Hospital Services. Cirrus will provide all current hospital services; a majority of services will be provided in the hospital, others in the medical office building, and still others will be provided by outsourced contractors.

The Cirrus Health proposal has revised FTE staffing to 163.5 total FTEs. The current Sonoma Valley Hospital has 327.4 FTEs as of FY 2006. The variance results from a combination of services that Cirrus Health does not intend to operate through the new hospital or will be provided through contract arrangements, as explained further below. The Cirrus Proposal reduces the total number of staff necessary to operate a new hospital and provide all services by 29.7 FTEs. The primary reasons for these reductions are the efficiencies created with the construction of a new facility and new laboratory, and the improvements made through information technology. It is Cirrus' belief that a new facility with up-to-date technology and information systems will substantially reduce the FTE burden presently experienced by Sonoma Valley Hospital. State-of-the-art Laboratory equipment will enable the Laboratory to expand its service offerings and to reduce its staff by 5 FTEs. Adopting updated technologies such as electronic medical records and billing software will reduce the Information Systems department by 5 FTEs, the Medical Record department by 2.6 FTEs and the Accounting department by an additional 7.9 FTEs. A completely new facility will require less engineering service which we believe will reduce the FTEs by 5. We believe total FTEs can be reduced by 29.7 FTEs without impacting the quality level or frequency of services provided.

Some hospital services under the Cirrus Proposal will be provided by outside contractors whose primary business is providing their respective medical service. It is likely Cirrus' hospital will relocate to an on-campus site or outsource the following services:

**Skilled Nursing:** It is anticipated that Skilled Nursing Services will be provided by an outside entity which will either build a facility on the Medical Campus or provide the services elsewhere in the Community. It is intended that the Cirrus Hospital will provide 56 acute beds, some or all of which will be licensed as Swing Beds to accommodate existing Skilled Nursing volumes. 22.3 FTEs will be outsourced to Skilled Nursing

**Homecare, Environmental and Nutritional Services, Cardiopulmonary, and Pharmacy:** The Contractor currently providing Homecare services county-wide is the Visiting Nurses Association (VNA), a national non-profit organization. These services absorb 67.6 FTEs, and outsourcing allows for greater efficiencies.

**Ambulatory Care and Imaging:** Ambulatory care and some of the radiology services such as ultrasound, nuclear medicine and MRI will be provided in the Medical Office Building and will thus reduce the FTE burden of the hospital by an additional 12.4 FTEs.

**Therapies:** The Wellness Center Spa will provide Cardiac Rehabilitation and Physical Therapy as well as Occupational Services, Speech Therapy, and Integrative medicine. This will reduce the hospital FTE burden by an additional 20.6.

**Outpatient Surgery:** The outpatient surgery center will reduce the FTE burden by 12.3 FTEs.

All personnel costs associated with the Cirrus Hospital proposal are outlined in the attached proforma. The proforma does not include outside service providers or the provision of services in other facilities on the Medical Campus.

**Self-Assessment of HFS Evaluation Criteria**

<u>HFS' Evaluation Criteria</u>	<u>Response</u>
Services Provided Meet Demand	Cirrus will not only match the existing services offered by Sonoma Valley Hospital, it will bring in new service lines that Sonoma residents must currently seek elsewhere. Cirrus is effectively meeting the demand where it exists, and going above and beyond what is currently available.
Protects District Assets	Cirrus' proposal will allow the district the opportunity to participate in governance of the Hospital without requiring any of the districts' assets. This proposal alone requires nothing of the district, therefore inherently protects the district.
Voter Preferences Addressed	<p>The Cirrus proposal provides a complete solution for avoiding a GO bond and parcel tax, which voters have already denied passage of. The Cirrus proposal reverses the current tax flow relationship experienced by the community. Using the Cirrus approach, the Sonoma Valley Hospital will change from <i>requiring</i> public tax support to a property tax <i>paying</i> institution.</p> <p>The Cirrus hospital will pay property taxes which will flow directly to the County and City governments of Sonoma. The regional economic benefits expected by the Sonoma Medical Spa have not been quantified but are expected to contribute a considerable amount to the local economy. These two factors are expected to change the Sonoma Valley Hospital from requiring taxpayers to pay millions of dollars in taxes on yearly basis, to local governments receiving millions of dollars of taxes and economic benefits on an annual basis.</p>
Bottom Line Performance	<p>The supplemental Cirrus pro forma indicates the Cirrus hospital is sustainable, including the costs of operation of the Basic ER and covering of bad debts. Additional revenues projected from the Medical Spa and additional medical services are reported but purposely minimized to not overly influence the bottom line.</p> <p>Cirrus will run Sonoma Valley Hospital efficiently, provide a higher level of quality and satisfaction, offer new medical services, and bring a new level of financial performance to the hospital. On various fronts – economics, patient care, length of stay - the bottom line is projected to be improved significantly.</p>

Capital/Project Costs Reasonable	<p>Perhaps the most reasonable of all the proposals, Cirrus' proposal would require no public capital, and would permit Cirrus to use their private funding to construct the hospital in an efficient and timely manner.</p> <p>Private construction procurement methods are less costly than publicly bid projects that require payment of prevailing wages and selection of the low bidder. Private procurement approaches allow for the pre-qualification of the general contractor and key sub-contractors, the development of negotiated design and construction contracts during the design phase, pre-ordering of long lead items, and the pre-scheduling and reservation of key sub contractors. These types of strategies will enable Cirrus to achieve timely and cost effective construction of the hospital. These efficiencies are not possible in the public sector and are largely responsible for the difference in project costs between public and private projects.</p>
Secure Funding Sources	Cirrus funding sources are already secure and committed, as evidenced by the Letter of Interest from Health Care Property Investors, Inc., submitted to HFS.
Facility meets Standards	Cirrus is experienced in meeting the statewide OSHPD standards. The new Cirrus hospital and medical campus will exceed public standards and expectations, and will be a modern, beautiful, safe, and efficient facility.
Public Accountability Provided	Cirrus fully intends to provide a solution in hospital governance that would allow for the district and community to participate and ensure the public can participate in holding Cirrus accountable. Cirrus is open to discussing various ways to be held accountable, and has offered solutions to this concern on more than one occasion to the Coalition.
Development Risks Minimized	The Development will be managed by a team of experienced California hospital developers. Cirrus' private funding will be at risk, therefore we are highly motivated to ensure all measures are taken to minimize risk.
Services can accommodate variability of demand	The proposed site will allow for expansion, up to 100% of the initial proposed space. The hospital will be designed to handle existing volumes and their expected growth rates, and will be internally laid out to accommodate new functional spaces, should those be required in the future.
Supports Physician Recruitment	Physician recruitment is one of the Cirrus' proposal's greatest strength. As evidenced by the Letters of Interest provided to HFS, and supported by the addendum attached, physicians are greatly interested in participating in the new Sonoma Valley Hospital. Many physicians sense there is an opportunity to better serve their existing patients in their community, as well as expand their own practices and improve care in this modern facility.

Captures “out-migration” of procedures by Valley residents	Cirrus will help prevent and reverse some of the out-migration witnessed in recent years by bringing the physicians and procedures being sought elsewhere back to the community itself. The quality of physicians will be increased and “menu” of services offered expanded. More patients will not have to leave the Valley to seek the specialized care necessary.
Provide Continuum of Services at One Site	Cirrus’ proposal will provide the entire range of health care, from patient to physician on one integrated site. Physicians will be able to hold regular office hours in the MOB, perform surgeries in the attached hospital, conduct rounds, and receive all support services on-site. The patient will be able to visit their primary care physician, specialist, receive surgical treatment if necessary, follow-up with various therapies, and conduct any imaging scans, lab work, or pharmacy fills without leaving the medical campus.

## **Addendum to Letters of Interest**

In addition to the signed Letters of Interest identifying physicians who have expressed support and an interest in the Cirrus Proposal, there are a number of Physicians and Physician Groups who have more recently expressed an interest in the project. They are as follows:

1. Five Sonoma Physicians have signed Letters of Interest and Support for the Cirrus Proposal but have asked to remain anonymous because of concerns of offending the Hospital Administration.
2. Cirrus is in negotiation with a large Cardiology Practice which has expressed interest in the Cirrus Proposal. It is expected that the physicians will finalize their level of interest and make a decision within the next six weeks.
3. Cirrus is in negotiation with a Renal/Liver Transplant organization interested in pursuing the development of a Transplant Program in Sonoma. Their interest is based on two major factors:
  - a) They want to participate in the Davis Organ Procurement region in addition to the San Francisco Organ Procurement region, primarily because the difference in waiting time (4-6 years in San Francisco vs. 1 year in Davis) allows them to expand their program substantially;
  - b) Both Kaiser and Santa Rosa Memorial have recently dropped their Transplant Programs, leaving a vacuum in the North Bay.
4. Dr. Jeff Golden, whose Letter of Interest you have, is the head of the Lung Transplant Program at UCSF and very active in the international practice at UCSF. Dr. Golden's interest in the Sonoma Hospital is to create a relationship in Sonoma with the International Practice and Concierge service of UCSF.

The above initiatives are the results of just 4 weeks of activity on our part. This should provide ample evidence that Cirrus can make the Sonoma Valley Hospital Campus a medical destination which is not only sustainable and profitable, but a community asset capable of bringing higher quality medical care than ever before to all Sonoma residents.

## **Legal Opinion on Swing Beds**

Submitted via email, 11/29/06

Kristen,

You asked whether applicable law restricts a for-profit hospital from using so-called "swing beds" (or, put another way, whether the use of swing beds is limited to non-profit hospitals only). The answer is no. To use swing beds, i.e. to use beds that are licensed for general acute care as skilled nursing beds, a hospital must obtain designation as a primary health service hospital ("PHSH"). This designation is limited to rural hospitals. There are many rules governing the eligibility and other standards related to PHSH designation but none of these rules precludes a for-profit facility from being designed as a PHSH.

Hope this helps.

Linda

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