

Evaluation of Cirrus Proposal
HFSConsultants
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HFS has reviewed Cirrus' proposal to the Sonoma Valley Health Care Coalition (SVHCC) and the supporting documents provided by Cirrus. Our initial review led to numerous questions and requests for additional information, to which Cirrus has responded by sharing detailed calculations, providing copies of critical documents, and providing several detailed written responses. Our review covered all of these documents and responses.

Our review consisted of:

- Testing the calculations within Cirrus' financial projections,
- Evaluating the assumptions by comparing them with the Broadway Plan as well as with available data available for hospitals in this market area. The results of this comparison are shown in Exhibit 1 at the end of this report.
- Applying the criteria and scoring methodology used in our evaluation of the Broadway Plan

We have used the Broadway Plan as a frame of reference because the essence of Cirrus' proposal is to finance, build and operate a new hospital and "offer all services currently provided by the District Hospital and more". This leads to two fundamental questions:

- Does Cirrus' proposal provide sufficient information to assure us that the current services will be provided?
- Does Cirrus' proposal adequately support the provision of additional services?

Executive Summary of Findings

We believe that the Cirrus proposal has both significant strengths and weaknesses. Its primary strengths are that it does not depend on taxes for financing and for operational support, and it provides a credible plan for increasing services and revenues by

- Recruiting specialists
- Reducing out migration of patients and
- Increasing referrals into the Sonoma hospital

The plan for ambulatory services is detailed and supported by Cirrus' track record. The plan for financing the project is also very credible and supported by Cirrus' track record.

The weaknesses of the proposal are that it does not offer sufficient information regarding the provision of SNF services and the capacity to meet the acute inpatient service demands that are forecast. In particular, we are concerned about the following assumptions:

- The forecast of the number of medical cases
- Building size
- Required staffing levels
- Employee compensation rates

- Costs of providing certain ancillary and support services, some of which are proposed to be “out-sourced”.

We recommend that, as occurred with the Broadway Plan after our last report and the subsequent public presentation of the report, Cirrus amend its proposal to address these concerns. The strengths of the Cirrus proposal warrant the effort to do so.

Framework for detailed findings

We have organized our findings according to the general evaluation categories. Within these categories, we have applied a SWOT assessment (**S**trengths, **W**eaknesses, **O**pportunities, **T**hreats) and made recommendations to address any weaknesses or threats. In addition, we have included comparative data in several exhibits within this report.

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

Services meet demands

The Cirrus Proposal has significant strengths in terms of meeting, and exceeding, the local demand for surgical and ambulatory services, and in recruiting physicians --- particularly specialists. Cirrus proposal shows a significant increase in the non-SNF census.

On the other hand, we have concerns regarding several other critical service demands:

- The proposal to outsource the SNF without specifying the provider or location
- The impact of this outsourcing in possibly increasing the average length of stay for medical admissions and therefore reducing overall inpatient capacity
- The lower number of medical admissions assumed by Cirrus compared with the number in the Broadway Plan
- Staffing levels which appear to be too low in several departments, but particularly for medical/surgical inpatient nursing
- Compensation levels which do not appear to be consistent with local market
- The lower than expected square footage of the preliminary hospital plans

Although the proposal states that Cirrus will be “offering all services currently provided by the district hospital”, certain patient care services have been designated to be outsourced: SNF, Home Health, and Cardiopulmonary.

Regarding outsourcing SNF services, Cirrus indicates that these services will be provided by an “outside entity” at a location to be determined. They indicate that it is possible that the location may be on the Medical Campus. In addition, Cirrus indicates that it will operate some of the acute beds as “swing beds”, which allow the hospital to provide and bill for SNF levels of care. Our concerns regarding the SNF proposal:

- The source and location are indefinite at this time. We strongly recommend providing greater definition.
- The number of “swing beds” is unclear. We recommend obtaining explicit numbers and locations.
- Separating the SNF and having some swing beds will most likely increase the average length of stay for the medical cases. In our previous analysis, we estimated the impact could be between 1 and 1.5 days. This reduces the beds available and increases the probability of reaching capacity. It should be noted at this point, that Cirrus is showing a total average daily census (ADC), without SNF patients, of about 31. The increased medical average length of stay would increase this ADC to about 35. This in turn would increase the probability that the hospital would reach capacity and need to divert ER admissions. We recommend testing this further.
- A delay in finding a SNF bed would also have a financial impact to the extent that the patients’ are covered by Medicare or capitated health plans. In these cases, no additional payments would be received for the additional days and as such, the additional expenses would be uncompensated.

We have concerns regarding the adequacy of the staffing levels proposed for medical/surgical inpatients. Exhibit 2 compares the census in the Broadway Plan with that in the Cirrus proposal. Cirrus is showing an average daily census of 30.48, and this does not include SNF patients. On the other hand, the Broadway plan shows a non-SNF census of 19.57. If we adjust the Cirrus census upward to account for a possible increase due to delays in placing patients in a SNF, the Cirrus average daily census could be as high as 35. As you will see below and in Exhibit 3, Cirrus proposes to staff that census with the same number of FTEs that the Broadway Plan uses to staff a much lower census.

Exhibit 2: Average daily census and staffing for non-SNF inpatient services

	Broadway Plan	Cirrus Proposal
Average Daily Census excluding SNF	19.57	30.48
ICU+Med/Surg+OB FTEs	48.2	48.2

Sources: Cirrus “Supplement to Original Proposal”; calculations of census from Broadway and Cirrus financial projections

The key question is whether Cirrus staffing levels are adequate to provide the volumes of services in the acute inpatient departments noted in Exhibit 2. This requires additional clarification.

In addition, as shown in Exhibit 3, the composition of Cirrus census indicates that the number used for the medical and OB census is actually lower than in the Broadway Plan.

Exhibit 3: Comparison of census statistics

	Broadway Med + OB	Broadway surgical	Broadway total	Cirrus Med + OB	Cirrus surgical	Cirrus total
Admissions	1604	336	1940	1298	1822	3120
ALOS	3.61	4.05	3.68	3.64	3.51	3.57
ADC	15.85	3.72	19.57	12.95	17.52	30.48

Sources: calculations from Broadway and Cirrus financial projections

Our concern here is that Cirrus is not basing its projections on the same “service program” as SVH in terms of the medical cases. On the other hand, the increase in surgical cases is very significant.

Exhibit 4 compares current SVH staffing levels by department with those proposed by Cirrus. Cirrus proposed reductions of about 30--- which may come about from improved facility design, new equipment, and improved information systems. The remaining differences are from outsourcing or moving the FTEs to the MOB, Medical Spa, or Outpatient Surgery Center.

Exhibit 4: Staffing changes

Change	FTEs	Notes
None: FTEs remaining in hospital	163.5	
Moved to MOB	12.4	Ambulatory care & some radiology
Moved to Outpatient Surgery	12.3	Endoscopy & surgery
Moved to Medical Spa	20.6	Therapists
Subtotal, remaining in organization	208.8	
Outsourced to separate entity	89.9	SNF (22), Home Health (19.8), Nutrition (15.1), Pharmacy (10.2), Environmental (14.1)
Net Reduction	28.7	1 add to administration
Current SVH	327.4	

Source: Cirrus Supplement to Original Proposal

There are also some typical hospital departments whose staffing is not specifically addressed in the proposal --- making it difficult to determine whether provisions have been made to accommodate those needs. Examples include: Laundry, Respiratory Therapy, Social Services, and Pulmonary Function.

In earlier communications from Cirrus regarding the comparatively low labor expenses in their financial projections, it was stated that Cirrus’ numbers appeared to be much lower because SVH was extremely inefficient. In fact:

- The analysis did not account for the fact that 50% of the workload of SVH is for outpatient services. The hospital industry recognizes this kind of workload by using a statistic called an “Equivalent Patient Day (EPD)” or an “Adjusted Occupied Bed”. We analyzed OSHPD data for 2005 and compared SVH with similar hospitals (as indicated by size, provision of SNF services, high percentages of outpatient services, and location). SVH showed an FTE per adjusted occupied bed of 4.1, which is relatively low. Petaluma reported 4.92.
- The implication of this analysis is that SVH is not staffing at extremely inefficient levels and that any significant variances between Cirrus numbers and those in the Broadway Plan warrant scrutiny.

In addition, the salary levels appear low and would make recruiting and retaining staff very difficult if not impossible. Exhibit 5 summarizes salary data that HFS obtained from an online service. The numbers are full-time salaries without benefits. It is our understanding of the local market that attracting new nurses is requiring offers in the high end of the range.

Exhibit 5: Nursing salary statistics

Job	Low	Mid	High	Cirrus
Charge nurse	60,500	71,000	92,750	58,000
RN	64,480	79,456	96,720	57,893
RN-OR	64,480	79,456	96,720	66,560
OB	59,280	76,294	94,557	57,000
ICU	64,563	74,630	83,200	80,262
LVN	40,394	42,744	45,552	46,000

Source: Payscale.com

Our final concern regarding ability to meet service demands is that the most recent hospital square footage, although increased from an earlier 50,000 square feet to 70,000 square feet, still appears low for certain departments. As shown in Exhibit 6, which compares the Broadway Plan with that of Cirrus, the following departments have significant differences:

Exhibit 6: Percentage differences in building square footage

Department	Cirrus square footage compared with Broadway
Acute and swing beds	17 % lower
Nursery	100% lower (none shown)
ER	12.4% lower
Lab	65% lower
Pharmacy	55% lower
Therapy	100% lower (Even though the service will be provided by Spa-employed therapists, space will be required in the inpatient building.)

Sources: Cirrus Supplement to Original Proposal and Broadway Business Plan

Cirrus has indicated that it intends to undertake detailed space programming. That process should be done to address our concerns.

Protection of District Assets

Although this is a very strong aspect of Cirrus' proposal, the District needs to address several concerns:

- 1) It must "stay in business" during the transition period. Doing so would be problematic, and could erode the district's net worth, if SVH suffered sharp declines in operating and non-operating revenues (e.g., the parcel tax). A reduction in operating revenues could occur due to an exodus of staff and/or physicians, and the parcel tax could be eliminated if the voters believed that it was entirely unnecessary during the transition period. It should be noted that Cirrus has suggested an interest in discussing plans for the transition period.
- 2) The District provides a vehicle for on-going accountability of Cirrus. Hence, we strongly recommend that the District "stay in business" indefinitely.
- 3) The District will continue to own the existing site and facility. This may become its sole asset and business activity.

Voter preferences

This is another strong aspect of Cirrus proposal. Except for the UGB change that is required, the proposal does not appear to require voter approval.

The Bottom Line is Adequate

Because Cirrus would bear the financial consequences of operations and therefore insulate the taxpayers, our primary concern regarding their financial forecasts was that their assumptions were reasonable and that they would be able to continue to provide services.

As indicated in our discussion of the capacity to provide services, we have concerns that the staffing levels and compensation rates are too low and therefore that the labor cost estimates are also too low. We recommend that Cirrus re-examine these assumptions.

In addition, there are several assumptions regarding outsourced services that result in significant reductions in expenses that we believe also require re-examination or verification. Pharmacy costs are shown to decrease from SVH \$1.6 million to \$857,657. Nutrition service costs are shown to decrease from SVH \$900,000 to \$469,220. Environmental services show a reduction from SVH \$670,000 to about \$60,000. Exhibit 7 compares Cirrus numbers with the Broadway numbers as well as the results of an analysis done by HFS' specialist in materials management and hospital contract services.

Exhibit 7: Comparison of departmental costs

Department	Cirrus	Broadway	HFS	Cirrus - HFS
Dietary (Nutrition)	469,220	900,000	386,875	(82,345)
Pharmacy	857,657	\$1,600,000	\$1,233,175	375,518
Housekeeping (Environmental)	61,200	670,000	700,000	638,800

Source: financial forecasts from Cirrus and SVH and analysis by HFS

These assumptions should be re-examined and potential vendors identified

Project Costs

Similar to our comments regarding the bottom line, a major strength of the Cirrus' proposal is that Cirrus bears the financing costs and the taxpayers do not. Consequently, our concerns in reviewing the project costs were primarily related to the capacity issue. In short, are the proposed buildings of sufficient size to meet the service demands?

In earlier communications, Cirrus challenged the SVH Broadway project cost estimates, and in order to make certain that both proposals were using comparable underlying assumptions, we analyzed and compared both estimates. The results are shown in Exhibit 8 below. In summary, applying Cirrus' numbers to the Broadway square footage would produce a range of project costs that are either lower by about \$2.5 million or higher by \$7 million.

Exhibit 8: Comparison of project costs

	Broadway	Cirrus, using \$20 contingency	Cirrus, using 7% change order & 6% project & bid contingencies
Broadway Sq Ft	115,139	115,139	115,139
Cost per square foot, including contingencies	\$504 (average)	\$470	\$450
Construction costs	\$58 million	\$54 million	\$51.8 million
Total project costs	\$130.6 million	\$127.9 million	\$137.7 million

Source: Cirrus Supplement to Original Proposal and SVH Broadway Business Plan

Sources of Funds for the Project

Although we have a few minor concerns, it is clear that Cirrus can and will finance the project. Consequently, the dependence on taxpayer or donor support is minimized.

The Site

Until the space programming is completed, we are uncertain regarding the capacity of the site to hold the necessary facilities and parking. In particular, we understand that the County may require significantly more parking spaces than the available drawings show. In addition, we have concerns regarding the location of the SNF. Finally, the site requires a UGB change.

Facility Design

A brief summary of our concerns regarding the facility design are:

- Where is the SNF or might it be located?
- Cirrus needs to complete the space program planning to truly evaluate this.
- It is not clear how SPA-employed therapists will serve inpatients.

Public accountability

SVHD needs to avoid the kind of problems that have occurred in Marin and several other districts. We recommend:

- Build upon this planning process to specify measurable performance criteria
- Put in place a regular reporting process
- Consider employing an independent external entity to conduct and report the performance.

- Work with competent legal counsel and Cirrus to define, to the extent possible, remedies if performance does not meet the desired standards.

Developmental Risks

Cirrus clearly has a financial incentive and the project management experience to minimize these risks. Our primary significant concern was discussed previously regarding the District “staying in business during the transition.”

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Exhibit 1: Comparison of Cirrus and Broadway Options

Metric	Broadway (2012-2013)	Cirrus (Year 2)	Difference
Medical admissions	1300	1,053	- 247
Medical average daily census	14.4	11.48	- 2.9
Surgical cases	336	1822	+ 1,486
Surgical average daily census	3.72	17.5	+ 13.8
OB admissions	304	245	- 59
OB average daily census	1.5	1.5	0
Total acute admissions (Incl. OB)	1,940	3,120	1,180
Acute Days	6,612	11,125	3,974
OB Days	532	539	7
SNF Days	8,620		(8,620)
Total average acute daily census	18.1	30.5	10.9
Net inpatient acute revenue	21,124,107	34,092,216	12,968,109
Net SNF revenue	4,901,415		(4,901,415)
Net Outpatient revenue (Excl HH)	32,988,524	15,503,954	(17,484,570)
Average net inpatient revenue per day	2,956.90	3,064.47	89.57
FTEs	330.08	163.5	166.6
Average cost per FTE	120,657	90,000	(30,657)
Cost of labor	39,826,403	14,714,999	(25,111,404)