



Hazel Hawkins Memorial Hospital Assessment

Final Report

San Benito County

September 29, 2023

Thank You.

A.2.a

County of San Benito Board of Supervisors,

Thank you very much for engaging ECG for the crucial task of conducting this Hazel Hawkins Memorial Hospital viability assessment. We are grateful to have the opportunity to collaborate with you to help ensure the best possible outcome for the community. Your dedication and support throughout this process was greatly appreciated.

Best,
ECG Management Consultants

Contents

1. ECG / Engagement Overview
2. HHMH Overview
3. Market Assessment / Forecast
4. Physician / Medical Staff Assessment
5. Financial Analysis
6. Strategic Direction for HHMH
7. County Recommendation
8. Next Steps

ECG / Engagement Overview

Firm Overview: ECG Management Consultants

ECG is a national consulting firm exclusively dedicated to providing healthcare consulting services.

STRATEGY

Improving competitive position through high-impact initiatives

FINANCE

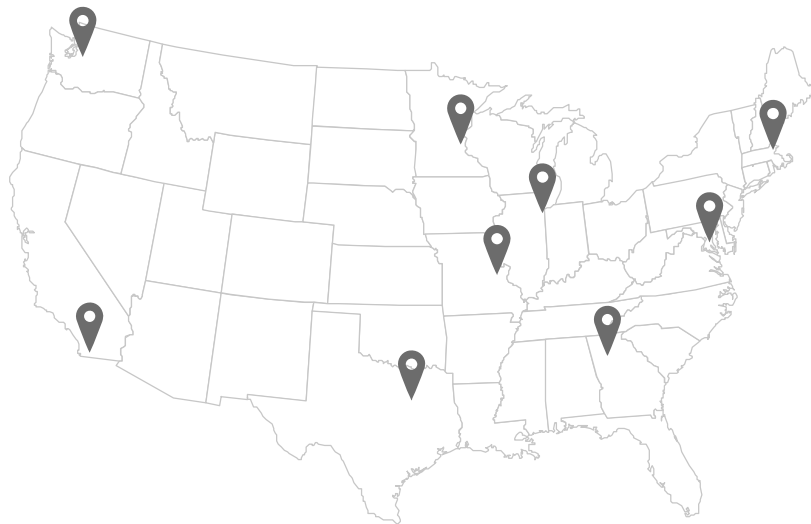
Applying analytic rigor and business insights to achieve strong financial performance

OPERATIONS

Ensuring processes and care delivery models are effective and efficient

TECHNOLOGY

Enabling technology to support an organization's strategic, operational, and financial goals



ECG Named Top Provider of Value-Based Care Consulting Services in a 2021 Best in KLAS Report



9 offices nationwide

17

of the 20 *U.S. News & World Report's* Best Hospitals Honor Roll awardees are recent ECG clients.

50 years in operation

6

of the 10 *U.S. News & World Report's* Best Children's Hospitals Honor Roll awardees are recent ECG clients.

235 consultants

80%

of our engagements result in requests for additional services.

Firm Overview: ECG Management Consultants *(continued)*



17 of 20

Hospitals on *U.S. News & World Report's* Best Hospitals Honor Roll



10 of 10

Top NIH-Funded Research Institutions



85 of 100

Becker's Hospital Review's 100 Great Hospitals

ECG provides healthcare consulting services to hospitals and health systems, physicians, children's hospitals, academic medical centers, ambulatory surgery centers, and payers.

Who We Work With



MEMORIAL HEALTH SYSTEM



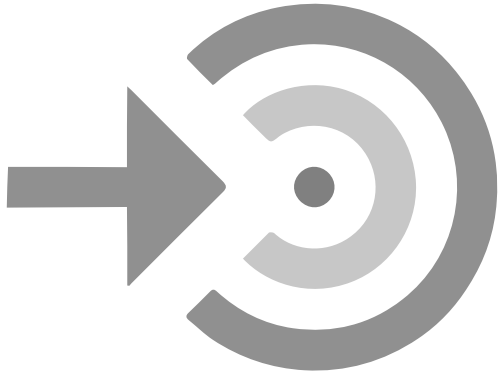
Salem Health[®] Hospitals & Clinics



THE UNIVERSITY OF KANSAS HEALTH SYSTEM



Engagement Objectives



- Examination of both strategic and financial implications of alternative options for HHMH.
- Summary financial analysis of HHMH's ongoing financial feasibility.
- Scenarios to consider implementing to attain the requisite level of financial performance.

Process Steps

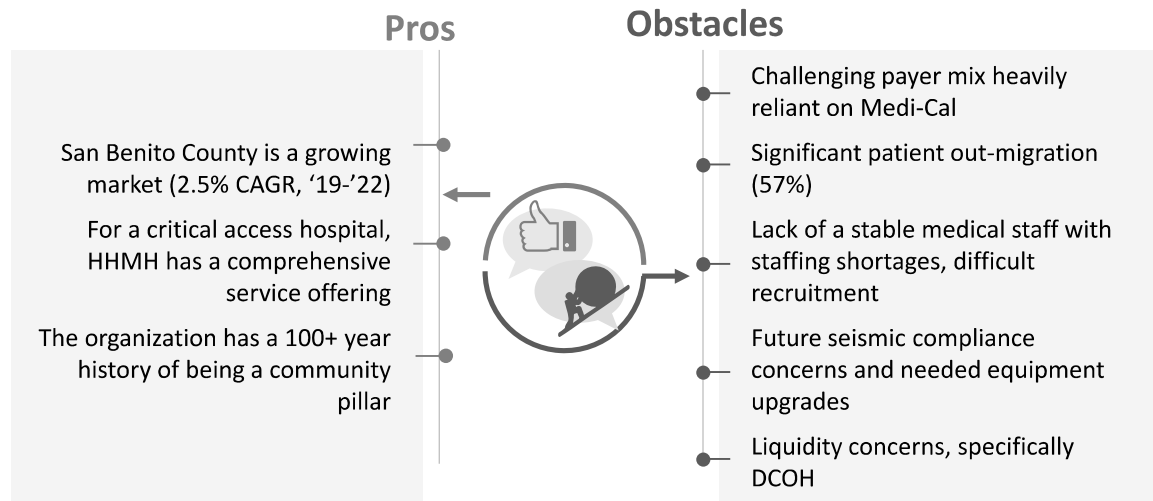
- 1 Completion of a market assessment to analyze population demographics, inpatient use rate, and out-migration/market share. Inclusive of market projections.
- 2 Financial analysis inclusive of a financial model/projection, Acute vs. SNF financial analysis, expense benchmarking, and key ratio analysis.
- 3 Medical staff research and analysis of provider need in the market.
- 4 Presentation of preliminary findings to County leadership, along with a site visit to Hazel Hawkins to ask additional questions and complete a facility tour.
- 5 Analysis of strategic options for San Benito County, inclusive of case study presentations relating to transactions for other California hospitals.

HMH Overview

Hazel Hawkins Memorial Hospital: Overview



| Metrics - 2022 | Acute | SNF |
|--------------------------------|---------------|--------------|
| Licensed Beds | 25 | 119 |
| Available Beds (% Occupancy) | 25 (57%) | 111 (74%) |
| Discharges | 2,321 | 186 |
| Patient Days | 5,216 | 30,044 |
| Average Length of Stay (Days) | 2.3 | 161.5 |
| Average Daily Census | 14.3 | 82.3 |
| Emergency Visits | 23,594 | - |
| Total Surgeries/GI Procedures | 1,919 | - |
| Births | 412 | - |
| Total Operating Revenue (2023) | \$112,170,168 | \$25,923,845 |
| Operating Income (2023) | (\$5,434,282) | \$4,116,152 |



Summary

- Hazel Hawkins Memorial Hospital is located in Hollister, CA and has served the community for 100+ years. The organization became a critical access hospital in March of 2020.
- The organization consists of five rural clinics, two specialty centers, a home health agency, four satellite lab/draw stations, and two SNFs.
- In May of 2023, the San Benito Health Care District board of directors voted to file for Chapter 9 bankruptcy.
- Hazel Hawkins has 40 providers on its active medical staff, none of which are employed.

Sources: (1) Organization website (2) Publicly available financial/metric data (3) HCAI (4) Interviews with HHMH leadership (5) US Census Bureau population data

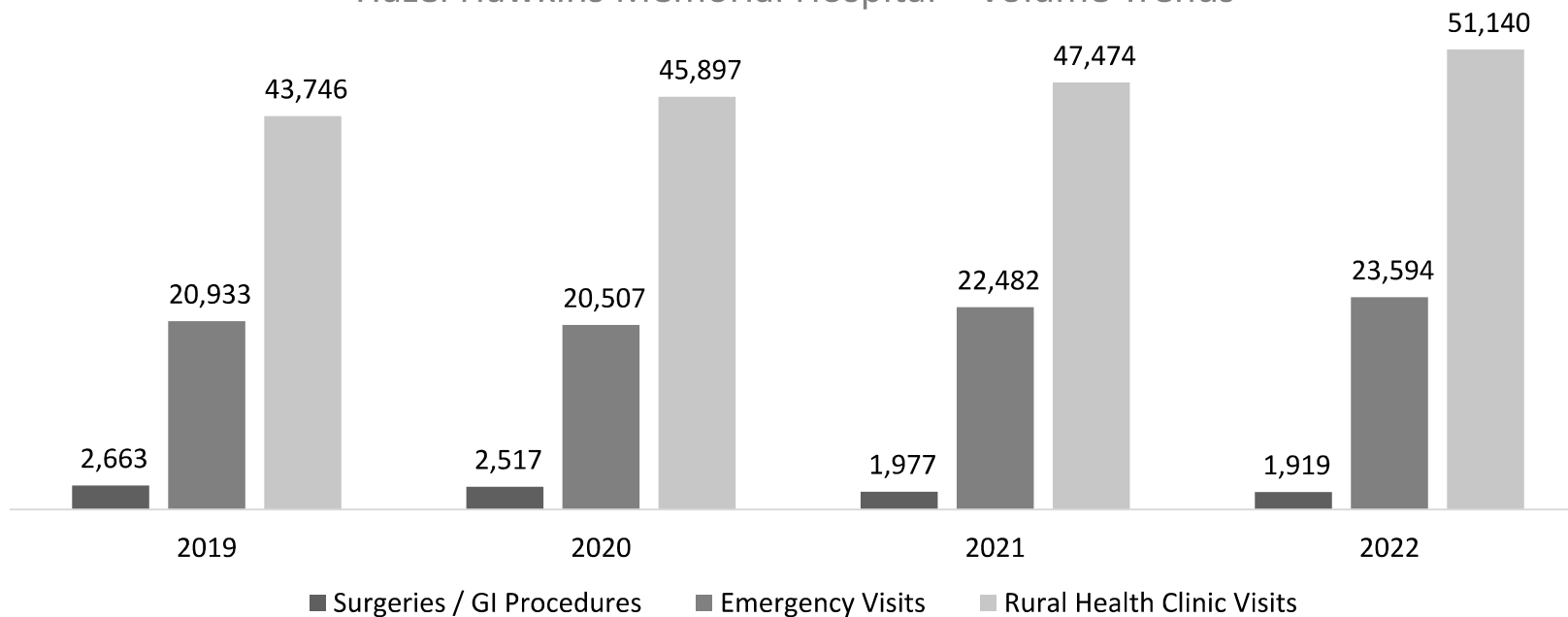
FINAL REPORT

DISCLAIMER: ECG requested additional data from HHMH that was not made available during the time of the study. Some data provided was covered under an NDA and is not included in this report. Conclusions are based on a review of publicly available data and ECG's experience in the healthcare field.

Hazel Hawkins Memorial Hospital: ED Visits, Surgeries, and Rural Health Clinic Visits

While emergency and rural health clinic visits have steadily increased in recent years, surgery volume has dropped over 25% since 2019.

Hazel Hawkins Memorial Hospital – Volume Trends



Source: (1) Publicly available financial data

FINAL REPORT

DISCLAIMER: ECG requested additional data from HHMH that was not made available during the time of the study. Some data provided was covered under an NDA and is not included in this report. Conclusions are based on a review of publicly available data and ECG's experience in the healthcare field.

Hazel Hawkins Memorial Hospital: Site Visit Conclusions

- 1 The physical facilities ECG toured during the site visit were impressive and of higher quality than ECG expected to see at a financially struggling small hospital. Improving and expanding healthcare buildings appear to not be an immediate need. Over the long-term, regulatory building code seismic compliance will need to be completed, but that is not an immediate concern.
- 2 The original hospital building is not seismic compliant, and management has looked at a full range of potential solutions to address the issue. More recent significant investment in the inpatient hospital facilities were made with the addition of the Women's Health Center. The first floor LDRPs and birth facilities are modern, clean, and very well-sized. ECG was told that investment was made for the entire Women's Health Center building to comply with current inpatient seismic codes and the second floor can be reconfigured to accommodate 30 inpatient beds and the third floor is a shell floor to accommodate another 30 inpatient beds – 60 new seismically compliant inpatient beds if so desired. This is a significant investment that taxpayers have already made into HHMH.
- 3 HHMH management outlined the need for more immediate infrastructure/equipment upgrades, specifically citing the outdated nature of their lab analyzer, CT and MRI machines, boiler, and air handler, etc. The hospital's EMR was another issue management stated needed to be addressed. These will require more immediate financial investments.
- 4 According to management, physicians think favorably of the hospital culture and enjoy practicing at Hazel Hawkins and ask that the culture not be disrupted or changed. No physicians are currently employed, but management has cited providers wanting to keep their 1099 status and not wanting employment. While a positive organizational culture is important, ECG believes that more important is building a medical staff that routinely uses the hospital, refer patients to the hospital, and practices at the hospital to serve the community needs and to support the financial sustainability of the hospital. Currently, approximately 57% of people leave the county for hospital services and half of all new births occur out of the county.

FINAL REPORT

DISCLAIMER: ECG requested additional data from HHMH that was not made available during the time of the study. Some data provided was covered under an NDA and is not included in this report. Conclusions are based on a review of publicly available data and ECG's experience in the healthcare field.

Market Assessment / Forecast

Market Assessment: Key Conclusions

Population is growing and utilizes healthcare services at a higher rate than state averages

- **San Benito County has grown at a rate that is nearly 3% higher than that of the state of California.**
- San Benito County's inpatient use rate (85 discharges per 1,000) in 2021 exceeds the 2021 California rate (79). Higher utilization could be linked to an array of factors that includes the population having less managed care, health care access issues, and over-admitting of patients.

Hazel Hawkins Hospital has a 43% inpatient market share. The majority of patients leave the county for care and care is fragmented across hospitals.

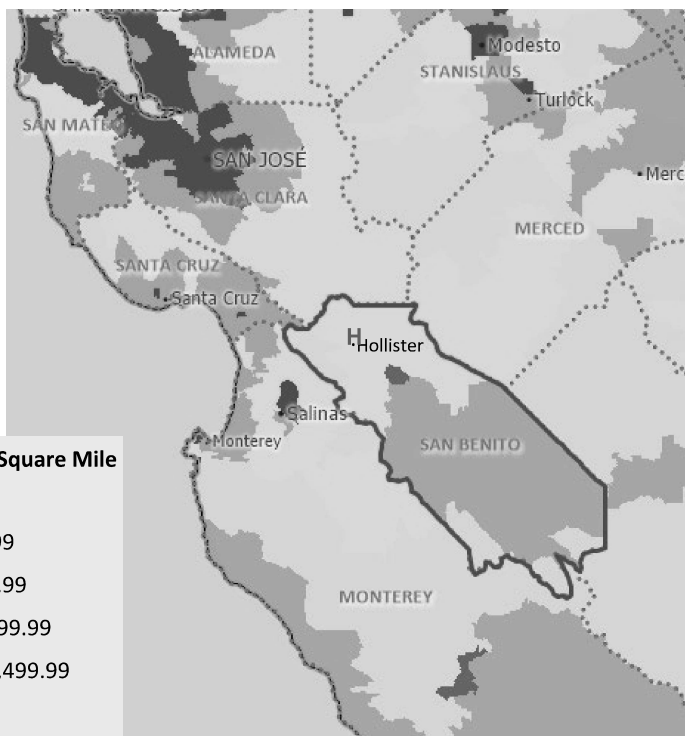
- **Only 43% of all San Benito County residents are admitted at Hazel Hawkins.** The remaining 57% of patients leave the County for inpatient healthcare.
- **The majority of San Benito County residents seek inpatient care across six hospitals across the region** - Good Samaritan-San Jose (9%) and Salinas Valley (6%) are leading choices.

County-wide need for basic core services has been increasing and are needed at Hazel Hawkins – Obstetric Delivery, Emergency, Surgery, and Medicine

- Based on the growing population, younger families, and elderly residents, demand for health care services continues to increase.
- Currently, **less than half of the over 800 babies in the County are born at Hazel Hawkins.** With the growing number of families entering the County, we estimate in a few years births will increase to 1,000 per year.
- HHMH has busy emergency services (23,594 visits in 2022), but low admissions, suggesting that patients are seeking high amounts of primary care in the ER.

Demographics: Overview

From 2019-2022, San Benito County has grown at a rate more than 2.5% higher than that of Monterey County and the State of California, a trend ECG expects to continue.



- Compared to the state of California, San Benito County has a younger population and an annual median household income of over \$10,000 higher than the state and Monterey County.
- Lower than average elderly population impacts the need for healthcare services.
- San Benito County, as a largely rural region, has a relatively low population density, with no zip codes in the county having a population density of more than 500 people per square mile.

| Demographic Statistic | San Benito County | Monterey County | CA State |
|-----------------------------------|-------------------|-----------------|------------|
| Population (2019) | 63,147 | 424,022 | 39,725,146 |
| Population (2022) | 65,703 | 430,845 | 40,499,250 |
| Population CAGR (2019-2022) | 2.47% | (0.04%) | (0.35%) |
| Median Age (2021) | 35.4 | 35.4 | 37.6 |
| 65+ Population (2022. % of Total) | 13.5% | 15.2% | 15.8% |
| Median Household Income | \$95,606 | \$82,013 | \$84,097 |

Sources: (1) Maptitude (2) US Census Bureau

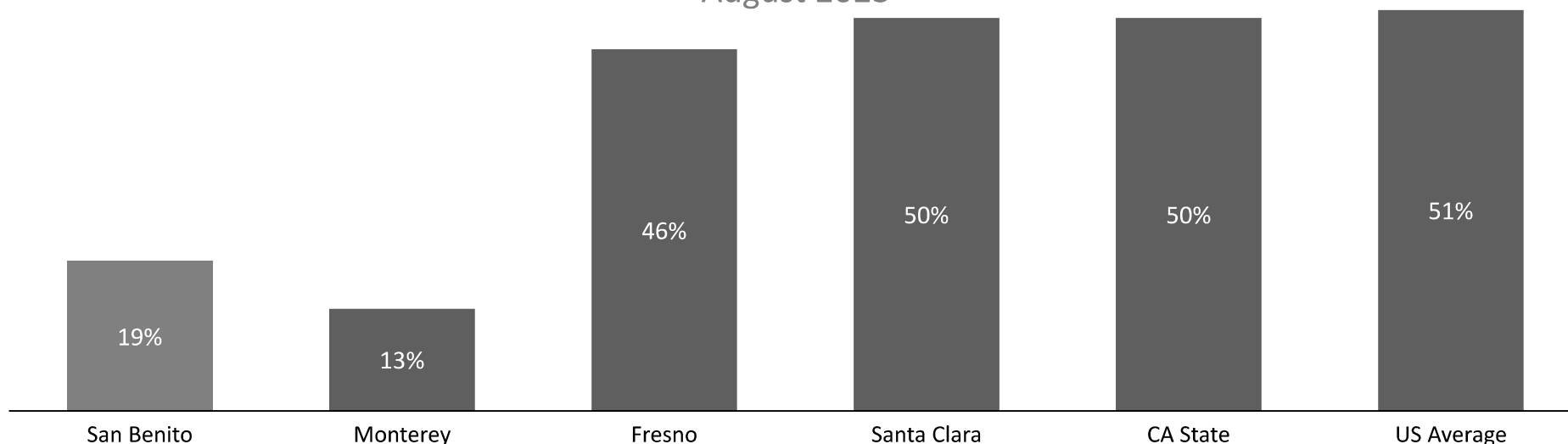
FINAL REPORT

DISCLAIMER: ECG requested additional data from HHMH that was not made available during the time of the study. Some data provided was covered under an NDA and is not included in this report. Conclusions are based on a review of publicly available data and ECG's experience in the healthcare field.

Payer: Medicare Advantage Enrollment

Only 19% of eligible Medicare recipients in San Benito are enrolled in a Medicare Advantage (MA) plan. These MA plans pay hospitals significantly lower rates than traditional Medicare. MA plans negate the positive financial benefit of being a critical access hospital, such as Hazel Hawkins.

Medicare Advantage Penetration Rate by Market, August 2023



Across the U.S today, it is not uncommon that least 50% of eligible Medicare recipients choose a Medicare Advantage plan which typically pay significantly lower reimbursement that traditional Medicare.

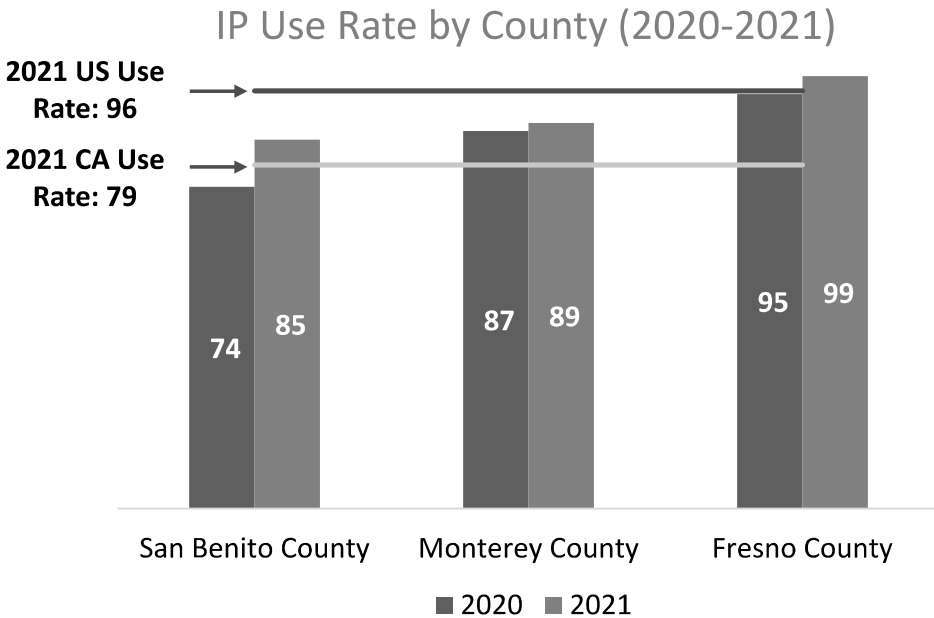
Source: (1) CMS.gov Monthly MA Enrollment

FINAL REPORT

DISCLAIMER: ECG requested additional data from HHMH that was not made available during the time of the study. Some data provided was covered under an NDA and is not included in this report. Conclusions are based on a review of publicly available data and ECG's experience in the healthcare field.

Market: Inpatient Use Rate per 1,000 Persons

Following a post-pandemic recovery in the use rate in 2021, San Benito County’s inpatient use rate is more aligned with Monterey County and Fresno County. However, the utilization of healthcare services in this region is higher than state averages, where in many areas the population is more highly managed.



Key Conclusions

- The inpatient use rate in San Benito County increased ~15% from 2020 to 2021
- San Benito County’s inpatient use rate in 2021 exceeds the 2021 California rate of 79, nearing the US 2021 use rate of 96 with unmanaged populations.
- Population in other markets in California have higher rates of managed care, where patient care is more closely monitored.
- Also, high use rates such as these in CA may indicate over-admitting of patients, particularly with San Benito’s younger than average population

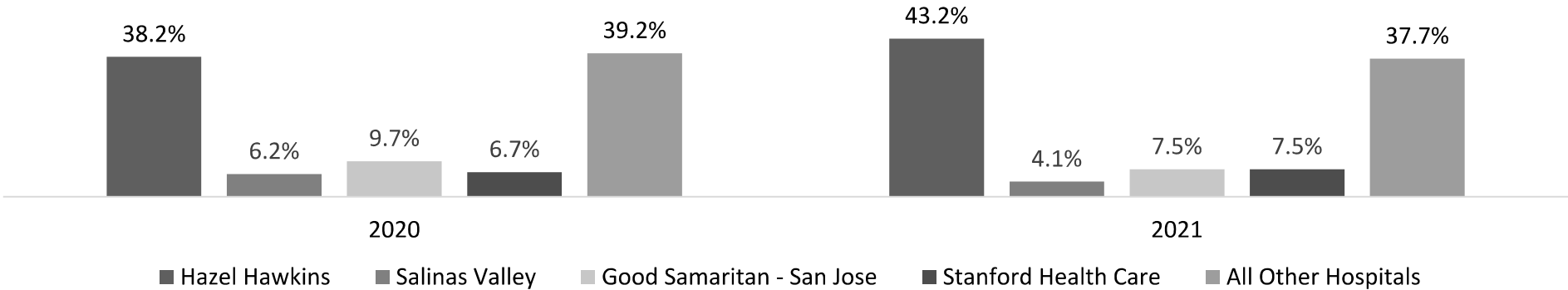
Sources: (1) State of California HCAI data (2) US Census Bureau population data (3) Kaiser Family Foundation

Market: San Benito County Inpatient Market Share and Volume Trends

Today, HHMH's inpatient market share is 43.2%. The majority (57%) of San Benito County residents that require inpatient care leave the county for hospitalization. HHMH's current market share has been increasing but has not yet reached the 47% it was in 2016.

HHMH 2016 Market Share: 47%

Inpatient Market Share, San Benito Residents (2020-2021)



| Patient Discharges Year | Hazel Hawkins | Salinas Valley | Good Samaritan | Stanford | All Other | Total |
|---------------------------|---------------|----------------|----------------|----------|-----------|--------------|
| 2020 Inpatient Discharges | 1,823 | 298 | 461 | 321 | 1,871 | 4,773 |
| 2021 Inpatient Discharges | 2,446 | 232 | 422 | 422 | 2,134 | 5,656 |

Source: (1) State of California HCAI data

FINAL REPORT

DISCLAIMER: ECG requested additional data from HHMH that was not made available during the time of the study. Some data provided was covered under an NDA and is not included in this report. Conclusions are based on a review of publicly available data and ECG's experience in the healthcare field.

Market: Inpatient Out-Migration Patterns

Over 39% of San Benito residents seek inpatient care in Santa Clara County, with around 15% of inpatient cases going to Stanford or Good Samaritan.

Inpatient Out-Migration (2021): Hospitals with over 3% Market Share of San Benito Resident Cases

| | Inpatient Cases | Percentage of Total |
|--|-----------------|---------------------|
| Santa Clara County | | |
| Stanford Health Care | 422 | 7.5% |
| Good Samaritan Hospital – San Jose | 422 | 7.5% |
| Kaiser Foundation Hospital – San Jose | 350 | 6.2% |
| St. Louise Regional Hospital | 323 | 5.7% |
| All Other Hospitals | <u>699</u> | <u>12.4%</u> |
| Subtotal, Santa Clara County | 2,216 | 39.2% |
| Monterey County | | |
| Salinas Valley Memorial Hospital | 232 | 4.1% |
| Community Hospital of the Monterey Peninsula | 169 | 3.0% |
| All Other Hospitals | <u>126</u> | <u>2.2%</u> |
| Subtotal, Monterey County | 661 | 9.3% |
| All Other Counties | | |
| All Other Hospitals | <u>467</u> | <u>8.3%</u> |
| Total Out-Migration | 3,210 | 56.8% |

Source: (1) State of California HCAI data

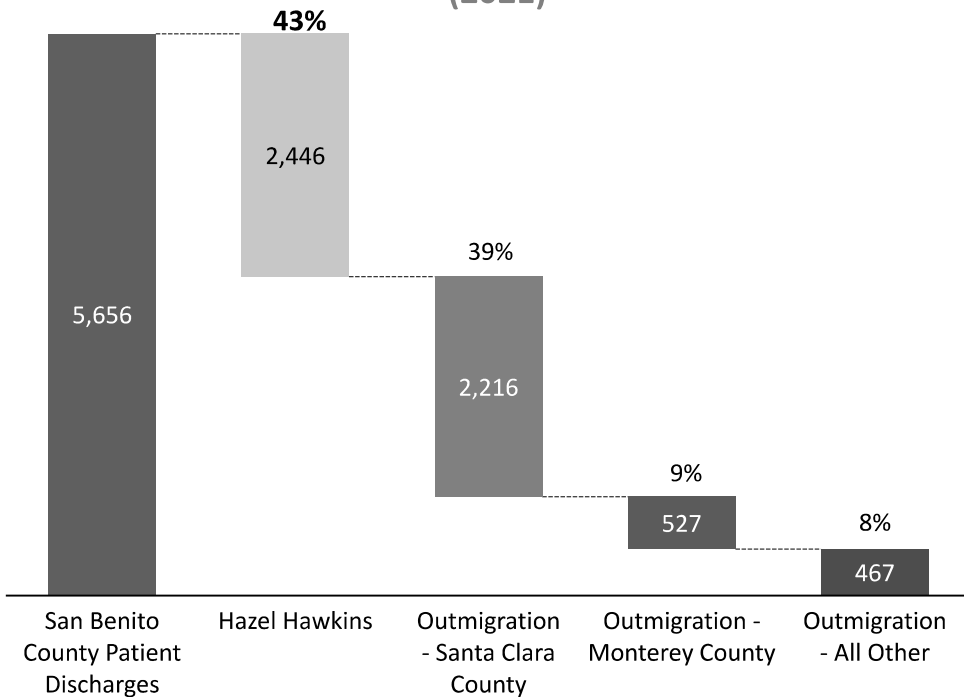
FINAL REPORT

DISCLAIMER: ECG requested additional data from HHMH that was not made available during the time of the study. Some data provided was covered under an NDA and is not included in this report. Conclusions are based on a review of publicly available data and ECG’s experience in the healthcare field.

Market: Inpatient Out-Migration Patterns

Of the total 5,656 inpatient discharges from San Benito County, almost 40% are leaving San Benito County and going to Santa Clara County. The remaining patients go to Monterey County and other surrounding regions.

Inpatient Discharges of Patients Living in San Benito County (2021)



Top 5 Out-migration Inpatient Discharge Destinations (2021)

| Facility | Out-migration Discharges (2021) | San Benito Discharge Market Share |
|---------------------------------------|---------------------------------|-----------------------------------|
| Stanford Health Care | 422 | 7% |
| Good Samaritan Hospital – San Jose | 422 | 7% |
| Kaiser Foundation Hospital – San Jose | 350 | 6% |
| St. Louise Regional Hospital | 323 | 6% |
| Salinas Valley Memorial Hospital | 232 | 4% |
| All Other | 1,461 | 26% |

Source: (1) State of California HCAI data

FINAL REPORT

DISCLAIMER: ECG requested additional data from HHMH that was not made available during the time of the study. Some data provided was covered under an NDA and is not included in this report. Conclusions are based on a review of publicly available data and ECG's experience in the healthcare field.

Inpatient Use Rate per 1,000 Persons Forecast - 2027

If the population of San Benito County continues to increase at levels consistent with recent years, the need for inpatient care is expected to increase even if inpatient use rate declines -- by 500 to 1,200 more discharges.

San Benito County – IP Use Rate Projection Scenario Analysis¹

| | 2021 | 2022 (Forec.) | 2023 (Forec.) | 2024 (Forec.) | 2025 (Forec.) | 2026 (Forec.) | 2027 (Forec.) |
|--|-------|---------------|---------------|---------------|---------------|---------------|---------------|
| Scenario One – (1%) IP Use Rate Growth | 84.8 | 84.0 | 83.1 | 82.3 | 81.5 | 80.7 | 79.9 |
| Scenario One – Projected IP Discharges | 5,656 | 5,675 | 5,758 | 5,841 | 5,926 | 6,012 | 6,099 |
| Scenario Two – 0% IP Use Rate Growth | 84.8 | 84.8 | 84.8 | 84.8 | 84.8 | 84.8 | 84.8 |
| Scenario Two – Projected IP Discharges | 5,656 | 5,733 | 5,874 | 6,020 | 6,169 | 6,322 | 6,478 |
| Scenario Three – 1% IP Use Rate Growth | 84.8 | 85.7 | 86.5 | 87.4 | 88.3 | 89.2 | 90.0 |
| Scenario Three – Projected IP Discharges | 5,656 | 5,790 | 5,993 | 6,202 | 6,420 | 6,644 | 6,877 |

Expected increased volume of inpatient discharges creates additional opportunity for Hazel Hawkins. To capitalize on this opportunity, the organization must have a stable provider base and ample beds to serve the patient population.

¹ Assumes annual population growth of 2.5% annually, consistent with the average annual growth rate from 2020-2022.

Sources: (1) HCAI data (2) US Census Bureau

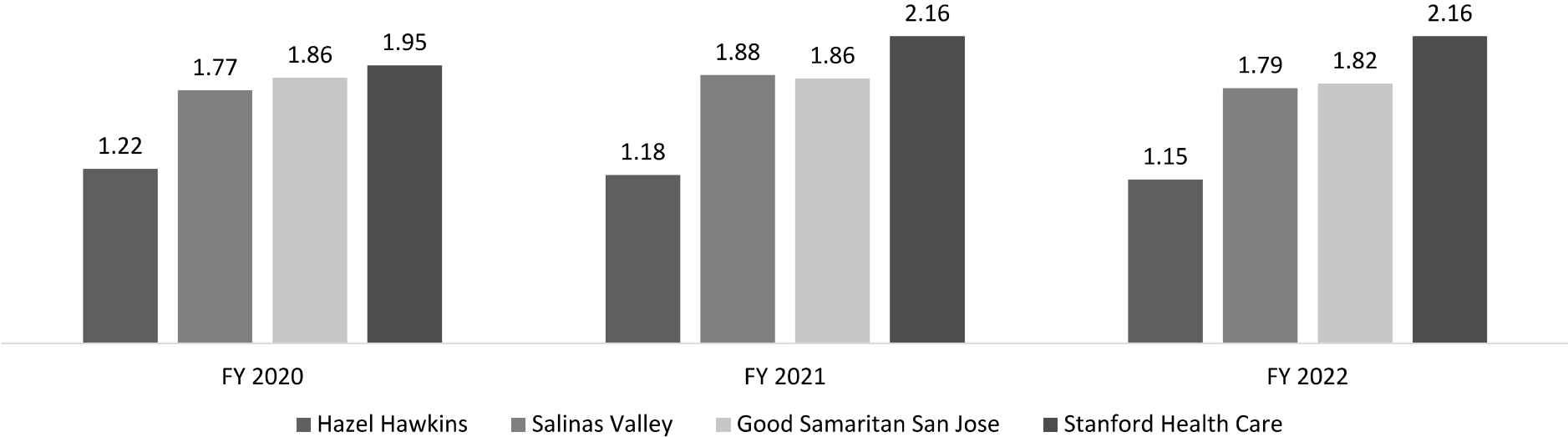
FINAL REPORT

DISCLAIMER: ECG requested additional data from HHMH that was not made available during the time of the study. Some data provided was covered under an NDA and is not included in this report. Conclusions are based on a review of publicly available data and ECG's experience in the healthcare field.

Market: Clinical Complexity

From FY2020 – FY2022, Hazel Hawkins’ case mix index, an indicator of acuity, was significantly lower than that of its competitors as both higher acuity and lower acuity cases are leaving the county. It is not unreasonable that HHMH has a lower case mix given its size.

Inpatient CMI Comparison: HHMH versus Competitors



Source: (1) American Hospital Directory – based on Medicare IPPS claims data

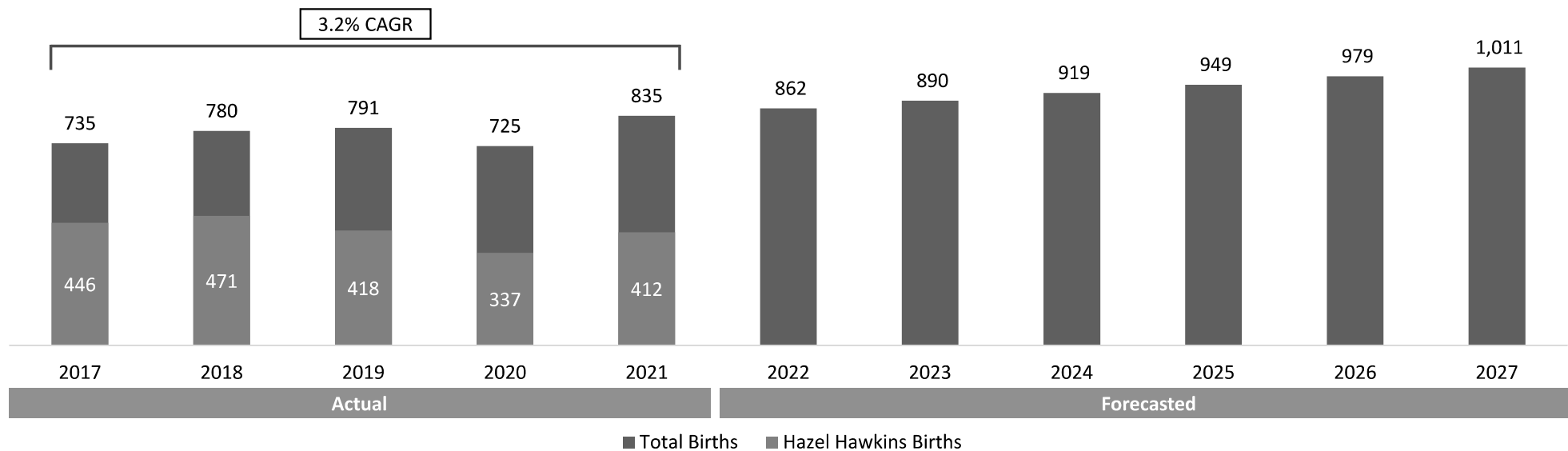
FINAL REPORT

DISCLAIMER: ECG requested additional data from HHMH that was not made available during the time of the study. Some data provided was covered under an NDA and is not included in this report. Conclusions are based on a review of publicly available data and ECG’s experience in the healthcare field.

Market: San Benito County Births

From 2017 to 2021, births in San Benito County grew at a compound annual growth rate (CAGR) of 3.2%. Using this rate to forecast births, ECG estimates over 1,000 birth will occur by 2027. In 2021, Hazel Hawkins delivered 412 births, 49% of the San Benito County total. Births tend to be a routine service for a community hospital, HHMH market share of births is low compared to the clinical capability available and the facilities available at the hospital.

San Benito County – Projected Births



Sources: (1) California Health and Human Services (2) HCAI

FINAL REPORT

DISCLAIMER: ECG requested additional data from HHMH that was not made available during the time of the study. Some data provided was covered under an NDA and is not included in this report. Conclusions are based on a review of publicly available data and ECG's experience in the healthcare field.

Physician / Medical Staff Assessment

Medical Staff Assessment: Key Conclusions

Market Provider Shortage

- Based on an analysis of providers in the market and data available based on population projections, ECG believes a **provider shortage exists today, and is forecasted to be significant in the future for both specialists and primary care providers. The forecasted market need in 2027** excluding hospital-based providers **is estimated at 60-73 by ECG. This creates an estimated shortage of 22-35 providers, consisting of:**
 - **Primary Care: 6-11 Providers**
 - **Surgical Specialties: 7-10 Providers**
 - **Medical Specialties: 7-10 Providers**
 - **Obstetrics/Gynecology: 2-4 Providers**
- **The need for a stable physician base and an increased number of providers will be amplified by retirements in the coming years.**

Hazel Hawkins' Past and Current Physician Strategy Is Not Realistic

- The current physician strategy at Hazel Hawkins is to not employ physicians and use a "1099 model" to staff physicians in the rural clinics and attempt to recruit new providers to the community into independent practice. This is resulting in many providers working part-time in Hollister and the other time in communities north of San Benito County. In ECG's view, this does not take into account the realities of rural / small town medical practice in 2023.
- District hospitals in California have alternative models (e.g., 1206B Clinics) to employ physicians and allied providers to build solid, committed, self-perpetuating medical communities in smaller communities and more rural areas.
- On-going financial subsidies will be required, but without a change in physician strategy, it is unlikely HHMH's situation will improve.

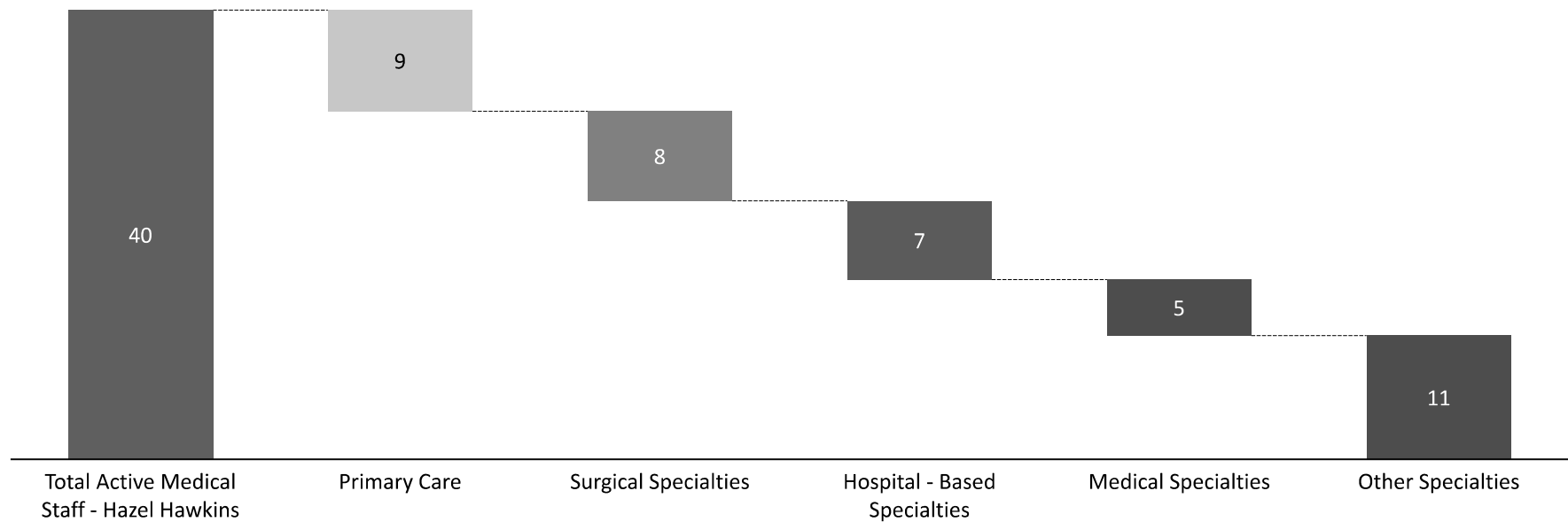
FINAL REPORT

DISCLAIMER: ECG requested additional data from HHMH that was not made available during the time of the study. Some data provided was covered under an NDA and is not included in this report. Conclusions are based on a review of publicly available data and ECG's experience in the healthcare field.

Medical Staff Assessment: Providers at Hazel Hawkins

Hazel Hawkins' medical staff consists of 40 providers, led by 9 primary care providers. Primary Care and Surgical specialties make up 43% of the active medical staff. This is an incredibly small number of physicians having hospital privileges for a region of 65,000 people.

Hazel Hawkins Providers by Specialty Grouping



Source: (1) HCAI

FINAL REPORT

DISCLAIMER: ECG requested additional data from HHMH that was not made available during the time of the study. Some data provided was covered under an NDA and is not included in this report. Conclusions are based on a review of publicly available data and ECG's experience in the healthcare field.

Medical Staff Assessment: Market Provider Need¹

Based on population growth projections and a preexisting provider shortage, ECG estimates a shortage of 22-35 providers by 2027.

Provider Supply Attributes



By 2027, ECG expects San Benito County to have a need for 60-73 providers, 22-35 providers less than the projected supply in 2027.



Projected medical and surgical specialist shortages in 2027 across all major specialty groupings are significant across the market.



Access issues proliferate as many of these providers are employed by Kaiser Permanente

Provider Shortages – Stark Service Area

| Specialty Grouping | 2027 Estimated Need | Estimated 2027 Provider Shortage |
|---------------------------------------|---------------------|----------------------------------|
| Primary Care | 25-30 | 6-11 |
| Surgical Specialties | 15-18 | 7-10 |
| Medical Specialties | 15-18 | 7-10 |
| OB/GYN | 5-7 | 2-4 |
| Total (Excl. Hospital - Based) | 60-73 | 22-35 |

Key medical and surgical specialties with high provider need include: Obstetrics/Gynecology, Orthopedic Surgery, Cardiology, and Hematology/Oncology.

¹ Hospital-based providers are excluded from the analysis. Provider need is adjusted downward 15% to account for Kaiser’s presence in the market
Sources: (1) Claritas (2) AAMC, AMA, Hicks & Glenn, Solucient, Goodman, Longshore & Simmons, Mulhausen Group Practice, Kaiser, and 1990 GMENAC

FINAL REPORT

DISCLAIMER: ECG requested additional data from HHMH that was not made available during the time of the study. Some data provided was covered under an NDA and is not included in this report. Conclusions are based on a review of publicly available data and ECG’s experience in the healthcare field.

Medical Staff Assessment: Employment Through 1206(b)

District hospitals, which are exempt from California Health and Safety Code Section 1206, are legally permitted to employ physicians. By employing physicians, provider organizations are able to improve care coordination and better recruit, retain, and financially support physicians and other allied health providers.

1206(b) Employment

“Any clinic directly conducted, maintained, or operated by the United States or by any of its departments, officers, or agencies, and any primary care clinic specified in subdivision (a) of Section 1204 that is directly conducted, maintained, **or operated by this state or by any of its political subdivisions or districts, or by any city.**”

Implications for Hazel Hawkins

- Hazel Hawkins can help fill this provider access gap by creating an employed model to bring more providers to San Benito County.
- By employing physicians, providers are offered a more stable employment option and enhanced benefit offerings.
- Hazel Hawkins benefits by having more consistent staffing models, expanded access, keeping care more local and integrated care.

Source: (1) California State Law

FINAL REPORT

DISCLAIMER: ECG requested additional data from HHMH that was not made available during the time of the study. Some data provided was covered under an NDA and is not included in this report. Conclusions are based on a review of publicly available data and ECG's experience in the healthcare field.

Financial Analysis

Financial Analysis: Key Conclusions

Improved Financial Standing, Tax Subsidy Needed

SBHCD has experienced **financial improvement since 2017, with operating income improving by nearly \$2M from 2017 to 2023**, and net income improving by over \$3M in the same period. Despite the improvement, **operating income remains negative, with tax revenue needed to create positive net income.**

Liquidity Continues To Be An Issue

The hospital's diminishing cash position has hindered its ability to get ahead of infrastructure updates, maintenance, and equipment upgrades as well as contribute to the hospital's pension obligation.

Future Expense Saving Opportunity is Minimal

Expense benchmarking analysis shows that **minimal opportunity exists for significant expense reductions**, as HHMH is lean compared to other critical access hospitals, especially those in the Western region, on a per unit of service basis as it relates to supplies and net wages. Some potential for expense savings exists within professional fees and employee benefits, **but overall, their small-scale means reducing expenses only works if entire clinical programs are discontinued.**

Financial Sustainability is Wholly Dependent on Growth of Services

Without significant changes, ECG expects HHMH's income from operations to remain negative in the coming years. A path to financial stability will require a combination of continued outside funding, increased clinical volume, higher revenue growth per adjusted patient day. If expense growth outpaces volume/revenue growth in the future, HHMH will quickly see negative EBIDAs again.

Financial Analysis: 2023 Acute vs. SNF Financials

Despite the acute facility being 83% of total operating revenue, the two skilled nursing facilities (SNF) are significantly more profitable. SNF net income is \$4.4M while the acute hospital net income is (\$2.3M). Neither the acute hospital, nor the SNF are operating at full capacity.

| Line Item | 2023 Acute Hospital | 2023 Skilled Nursing Facility | Combined | Acute Hospital % Total | Skilled Nursing % of Total |
|------------------------------------|----------------------|-------------------------------|----------------------|------------------------|----------------------------|
| Net Patient Service Revenue | \$112,170,168 | \$25,923,845 | \$138,094,013 | 81% | 19% |
| Other Operating Revenue | 15,924,011 | - | 15,924,011 | 100% | 0% |
| Total Operating Revenue | 128,094,179 | 25,923,845 | 154,018,024 | 83% | 17% |
| Total Operating Expenses | 133,528,461 | 21,807,693 | 155,336,154 | 86% | 14% |
| Operating Income | (\$5,434,282) | \$4,116,152 | (\$1,318,130) | n/m | n/m |
| <i>Operating Margin</i> | <i>(4.2%)</i> | <i>15.9%</i> | <i>-</i> | <i>-</i> | <i>-</i> |
| Non-Operating Revenue ¹ | \$3,103,362 | \$256,752 | \$3,360,114 | 92% | 8% |
| Net Income | (\$2,330,920) | \$4,372,904 | \$2,041,984 | (114%) | 214% |
| Operating EBIDA | (\$1,710,509) | \$4,589,412 | \$2,878,903 | (59%) | 159% |
| EBIDA | \$1,392,853 | \$4,846,164 | \$6,239,017 | 22% | 78% |

¹ Non-operating revenue consists of district tax revenue (majority), investment income, interest expense, grants & contributions, and other.

Source: (1) HHMH internally prepared financials as of June 30, 2023.

FINAL REPORT

DISCLAIMER: ECG requested additional data from HHMH that was not made available during the time of the study. Some data provided was covered under an NDA and is not included in this report. Conclusions are based on a review of publicly available data and ECG's experience in the healthcare field.

Financial Viability: Historical Financial Position - Combined

The financial standing of HHMH has improved in nearly every category since 2017. The hospital's operating income has been negative, in recent years, with non-operating revenue (largely district taxes) providing the positive net income.

| Line Item | 2017 | 2021 | 2022 | 2023 | '21-'23 CAGR | 2017 vs. 2023 Var. |
|------------------------------------|----------------------|----------------------|--------------------|----------------------|----------------|--------------------|
| Net Patient Service Revenue | \$105,931,706 | \$129,750,912 | \$138,327,019 | \$138,094,013 | 3.2% | \$31,162,307 |
| Other Operating Revenue | 5,061,563 | 8,546,588 | 8,267,252 | 15,924,011 | 36.5% | 10,862,448 |
| Total Operating Revenue | 110,993,269 | 138,297,500 | 146,594,271 | 154,018,024 | 5.5% | 43,024,755 |
| Total Operating Expenses | 113,918,856 | 141,869,134 | 147,323,392 | 155,040,475 | 4.5% | 41,121,619 |
| Operating Income | (\$2,925,587) | (\$3,571,634) | (\$729,121) | (\$1,022,451) | (46.5%) | \$1,903,136 |
| <i>Operating Margin</i> | <i>(2.6%)</i> | <i>(2.6%)</i> | <i>(0.5%)</i> | <i>(0.7%)</i> | <i>(49.3%)</i> | <i>2.0%</i> |
| Non-Operating Revenue ¹ | \$1,830,430 | \$3,871,688 | \$3,364,643 | \$3,060,512 | (11.1%) | \$1,230,082 |
| Net Income | (\$1,095,157) | \$300,054 | \$2,653,522 | \$2,038,061 | 160.6% | \$3,133,218 |
| Operating EBIDA | \$2,105,031 | \$432,899 | \$3,019,975 | \$2,874,982 | 157.7% | \$769,951 |
| EBIDA | \$5,987,045 | \$5,964,103 | \$7,913,140 | \$6,235,095 | 2.2% | \$248,050 |

¹ Non-operating revenue consists of district tax revenue (majority), investment income, interest expense, grants & contributions, and other.

Sources: (1) SBHCD Audited Financials (2) HHMH internally prepared financials as of June 30, 2023.

FINAL REPORT

DISCLAIMER: ECG requested additional data from HHMH that was not made available during the time of the study. Some data provided was covered under an NDA and is not included in this report. Conclusions are based on a review of publicly available data and ECG's experience in the healthcare field.

Financial Viability: Expense Benchmarking

HMMH's expenses per adjusted patient day in employee benefits and professional fees exceed the medians of other critical access hospitals and 0-25 bed hospitals in the Western region. However, HMMH's salaries and wages, net labor expense, supplies, and purchased services are below median benchmarks.

| Expense Per APD | 2023 Actual | Median – All CAHs | Variance to Median | Median – 0-25 Bed West | Variance to Median |
|------------------------------|-------------|-------------------|--------------------|------------------------|--------------------|
| Salaries & Wages | \$451 | \$689 | (\$238) | \$1,312 | (\$861) |
| Employee Benefits | \$273 | \$137 | \$136 | \$233 | \$41 |
| Labor Expense | \$724 | \$803 | (\$102) | \$1,574 | (\$849) |
| Professional Fees | \$161 | \$73 | \$88 | \$149 | \$11 |
| Supplies | \$112 | \$175 | (\$62) | \$283 | (\$170) |
| Purchased services & repairs | \$115 | \$120 | (\$4) | \$145 | (\$30) |
| All Other | n/m | n/m | n/m | n/m | n/m |

Key Conclusions

- HMMH's salaries and wages expense is favorable to the median of all critical access hospitals on a per unit basis. When looking at 0-25 bed hospitals in the West region, this favorable variance is significantly amplified.
- The hospital's employee benefits expense is unfavorable to both medians, largely due to their benefits plan. Though HMMH is unfavorable to median in both employee benefits and professional fees, minimal opportunity exists for improvement.

Sources: (1) HMMH internally prepared financials as of June 30, 2023 (2) 2023 Medians – Critical access hospitals and 0-25 bed West region hospitals.

FINAL REPORT

DISCLAIMER: ECG requested additional data from HMMH that was not made available during the time of the study. Some data provided was covered under an NDA and is not included in this report. Conclusions are based on a review of publicly available data and ECG's experience in the healthcare field.

Financial Viability: Financial Forecasting Methodology

ECG created a dynamic, flexible financial forecasting model to look out at future financial performance of both the skilled nursing and acute facilities under various growth and steady-state scenarios. Our overall purpose is to advise the County on the level of difficulty to bring HHMH to a financially sustainable level.

- **Model Flexibility**

- Within the model, ECG separated out the acute facility and skilled nursing facilities to separately forecast their financial performance. The model created contains customizability to adjust discharges, average length of stay, CMI adjustment factor, and revenue growth per adjusted patient day. In addition, expenses can be forecasted at varying levels of inflation in addition to a per unit basis.

- **Scenario Analysis – ECG analyzed the following scenarios:**

- **SNF Capacity Case:** The skilled nursing facilities were forecasted assuming the facilities reached capacity by year two.
- **Acute Base Case:** An acute base case was developed for the acute facility, assuming no major differences in performance in years one through five from current performance, outside of continued expense inflation in labor and supplies.
- **Acute Moderate Growth Care:** ECG also analyzed acute financials assuming moderate discharge growth of 5% annually in years one through five.
- **Capital Spending –** ECG assumed no new capital expenditures or investment in a physician strategy.

Financial Viability: Forecasting Assumptions

SNF - Capacity Case Assumptions

- **Discharges**
 - 5% increase Y1 & Y2 to reach facility capacity, 0% increase Y3-5
- **Revenue**
 - 1% annual growth in revenue per adjusted patient day
- **Expenses**
 - Salaries and supplies growth on a per unit basis, with an added 2% inflation rate for salaries and 4% for supplies. Benefits projected at 67% of revenue, consistent with 2023 results
 - 2% inflation rate for building and equipment rent and other operating expenses
 - 4% inflation rate for registry and purchased services expense
- **Average Length of Stay (ALOS)**
 - Assuming 128.0 SNF ALOS

Acute - Base Case Assumptions

- **Discharges**
 - 1% increase in years 1-5. Estimated total year 5 discharges (acute and SNF) of 2,523
- **Revenue**
 - 2% annual growth in revenue per adjusted patient day
- **Expenses**
 - Salaries and supplies growth on a per unit basis, with an added 2% inflation rate for salaries and 4% for supplies. Benefits projected at 59% of revenue, consistent with 2023 results
 - 2% inflation rate for building and equipment rent and other operating expenses
 - 4% inflation rate for registry and purchased services expense
- **Average Length of Stay (ALOS)**
 - Assuming 3.0 Acute ALOS

Acute - Moderate Growth Case Assumptions

- **Discharges**
 - 5% increase in years 1-5. Estimated year 5 discharges (acute and SNF) of 3,003
- **Revenue**
 - 2% annual growth in revenue per adjusted patient day
- **Expenses**
 - Salaries and supplies growth on a per unit basis, with an added 2% inflation rate for salaries and 4% for supplies. Benefits projected at 59% of revenue, consistent with 2023 results
 - 2% inflation rate for building and equipment rent and other operating expenses
 - 4% inflation rate for registry and purchased services expense
- **Average Length of Stay (ALOS)**
 - Assuming 3.0 Acute ALOS

Financial Viability: Skilled Nursing Facilities Capacity Projection

HMMH's skilled nursing facility is highly profitable, and nearing capacity. Being able to bring the facilities to capacity will add profitability, with rising expenses leveling out net income once capacity is reached beyond year two.

| Line Item | 2023 Actual | Year 5 |
|------------------------------------|--------------------|--------------------|
| Net Patient Service Revenue | \$25,923,845 | \$30,038,813 |
| Other Operating Revenue | - | |
| Total Operating Revenue | 25,923,845 | 30,038,813 |
| Total Operating Expenses | 21,807,694 | 26,494,801 |
| Operating Income | \$4,116,151 | \$3,544,012 |
| <i>Operating Margin</i> | <i>15.9%</i> | <i>11.8%</i> |
| Non-Operating Revenue ¹ | \$256,752 | \$350,000 |
| Net Income | \$4,372,903 | \$3,894,012 |
| Operating EBIDA | \$4,589,411 | \$4,017,272 |
| EBIDA – SNF | \$4,846,163 | \$4,367,272 |

Key Conclusions

- ECG has assumed the Skilled Nursing Facilities reach capacity in two years, with staffing and supplies expenses increasing in conjunction with the increase in volume.
- Once the facilities reach capacity in year three and no further growth is attainable, margin will continue to erode with rising expenses unless there are payer mix changes or payer increases in the future.
- Skilled nursing remains a profitable, necessary service at Hazel Hawkins, substantially assisting with its financial sustainability.

¹ Non-operating revenue consists of district tax revenue (majority), and other.

Sources: (1) HMMH internally prepared financials as of June 30, 2023.

FINAL REPORT

DISCLAIMER: ECG requested additional data from HMMH that was not made available during the time of the study. Some data provided was covered under an NDA and is not included in this report. Conclusions are based on a review of publicly available data and ECG's experience in the healthcare field.

Financial Viability: Acute Facility Financial Projection

Through volume growth, Hazel Hawkins has the opportunity to obtain financial stability. Without growth, expense inflation is likely to continue driving down financial results.

| Line Item | 2023 Actual | 2025 Projected Acute Base Case | 2025 Projected Acute Growth Case |
|------------------------------------|----------------------|-----------------------------------|--|
| Net Patient Service Revenue | \$112,170,168 | \$130,155,098 | \$158,052,297 |
| Other Operating Revenue | 15,924,011 | 15,924,011 | 15,924,011 |
| Total Operating Revenue | 128,094,179 | 146,079,109 | 173,976,308 |
| Total Operating Expenses | 133,228,860 | 157,337,895 | 179,086,186 |
| Operating Income | (\$5,134,681) | (\$11,258,785) | (\$5,109,878) |
| <i>Operating Margin</i> | <i>(4.0%)</i> | <i>(7.7%)</i> | <i>(2.9%)</i> |
| Non-Operating Revenue ¹ | \$2,803,762 | \$4,050,000 | \$4,050,000 |
| Net Income | (\$2,330,919) | (\$7,208,785) | (\$1,059,878) |
| Operating EBIDA | (\$1,710,509) | (\$7,834,613) | (\$1,685,706) |
| EBIDA – Acute | \$1,392,854 | (\$3,484,613) | \$2,664,294 |
| EBIDA – Acute + SNF | \$6,239,017 | \$882,659 | \$7,031,566 |

¹ Non-operating revenue consists of district tax revenue (majority), and other.

Source: (1) HHMH internally prepared financials as of June 30, 2023.

FINAL REPORT

DISCLAIMER: ECG requested additional data from HHMH that was not made available during the time of the study. Some data provided was covered under an NDA and is not included in this report. Conclusions are based on a review of publicly available data and ECG's experience in the healthcare field.

Key Conclusions

- Without growth, the financial standing of the acute facility is not sustainable, leading to an EBIDA that ECG forecasts to go negative in the coming years.
- However, moderate growth can be a path to financial stability. ECG estimates that an increase of 500-600 inpatient acute discharges, approximately 1.5 additional discharges per day, would significantly improve the financials of the acute facility. Based on 2021 inpatient discharges in the market, this increase in discharges would equate to an increase in market share from approximately 43% to approximately 53% for the SNF and acute facility.
- Note that these projected increases are before the organization has invested in any physician growth.

Strategic Direction for HHMH

Strategic Direction for HHMH: Key Conclusions

- 1 A community hospital in this growing market, with taxpayer support and relatively good facilities, can be successful and does not need to be in bankruptcy or be sold to a for-profit provider. A future path must be about growth of services, which inherently is about growth of the medical staff.

- 2 As district hospitals are permitted to employ physicians under California Health and Safety Code 1206(b), HHMH can build a solid and more integrated medical community. An employed model has the following community benefits:
 - Ability to recruit providers to San Benito County by offering a more stable employment option at HHMH with improved benefits.
 - More consistent staffing models at Hazel Hawkins and an increased level of care coordination/integration that keeps care more local. Hazel Hawkins can focus on recruiting providers in high need specialties.
 - Enhanced access and quality of care
 - This option will require investment and on-going funding to support stable and competitive salaries for the medical community.

- 3 Over the next 3 to 5 years, support HHMH with working capital to begin the development of a stable, committed, medical group to resolve critical infrastructure issues as they arise. Seismic and long-term facility capital issues can be planned for, but building the medical group and stabilizing key clinical services needs to be the top priority.

- 4 Work with other tertiary health systems to seek clinical partnerships particularly in Cancer, Cardiac, Neurology, and Obstetrics that support appropriate care delivered and the integrated transfer of patients that need higher levels of acute care.

- 5 As more taxpayer funds are needed to restore HHMH, a broader community-based governance option and new administrative leadership is required.

County Recommendation

County Recommendation: Strategic Options

- 1 **Joint Powers Authority (JPA):** Opportunity exists for the county to support a JPA with broader governance (independent community board) between the County of San Benito, local agencies, and San Benito Healthcare District. If more taxpayer funds are required, then broader joint powers are reasonable.

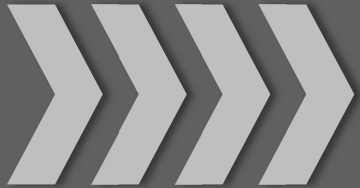
- 2 **Management Services Agreement (MSA) and New Hospital Governing Board:** The new JPA has the opportunity to support a management agreement to bring in an experienced and successful management team to run Hazel Hawkins. It needs to be a team, not just an individual. We also recommend that the new JPA establish a new hospital governing board of 9 to 11 local citizens to oversee this new phase of HHMH, additionally this new board can include some physicians and we recommend some regional healthcare experts.

- 3 **Provide Funding to HHMH:** San Benito County and local agencies have the option to provide an on-going credit line at a low interest rate. HHMH will need these funds to invest in a physician growth strategy and to respond to immediate emergency infrastructure needs. Major facility upgrades and seismic compliance can be planned for but will need to be delayed.

County Next Steps

A.2.a

NEXT STEPS



- Solicit public input on the future of Hazel Hawkins Memorial Hospital
- Create a business plan
- Estimate strategic working capital need over the next five years