THE CAMDEN GROUP

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Healthcare Options

Coast Life Support District
Gualala, California
February 24, 2014

COAST LIFE SUPPORT DISTRICT

Presentation Overview

I.	Engagement Objectives
II.	Overview of Industry Trends
III.	Process of Identifying Needs and Key Findings
IV.	Three Models A. Urgent Care B. Community Medical Center C. Ambulatory Care Center
V.	Path to the Future and Partnerships

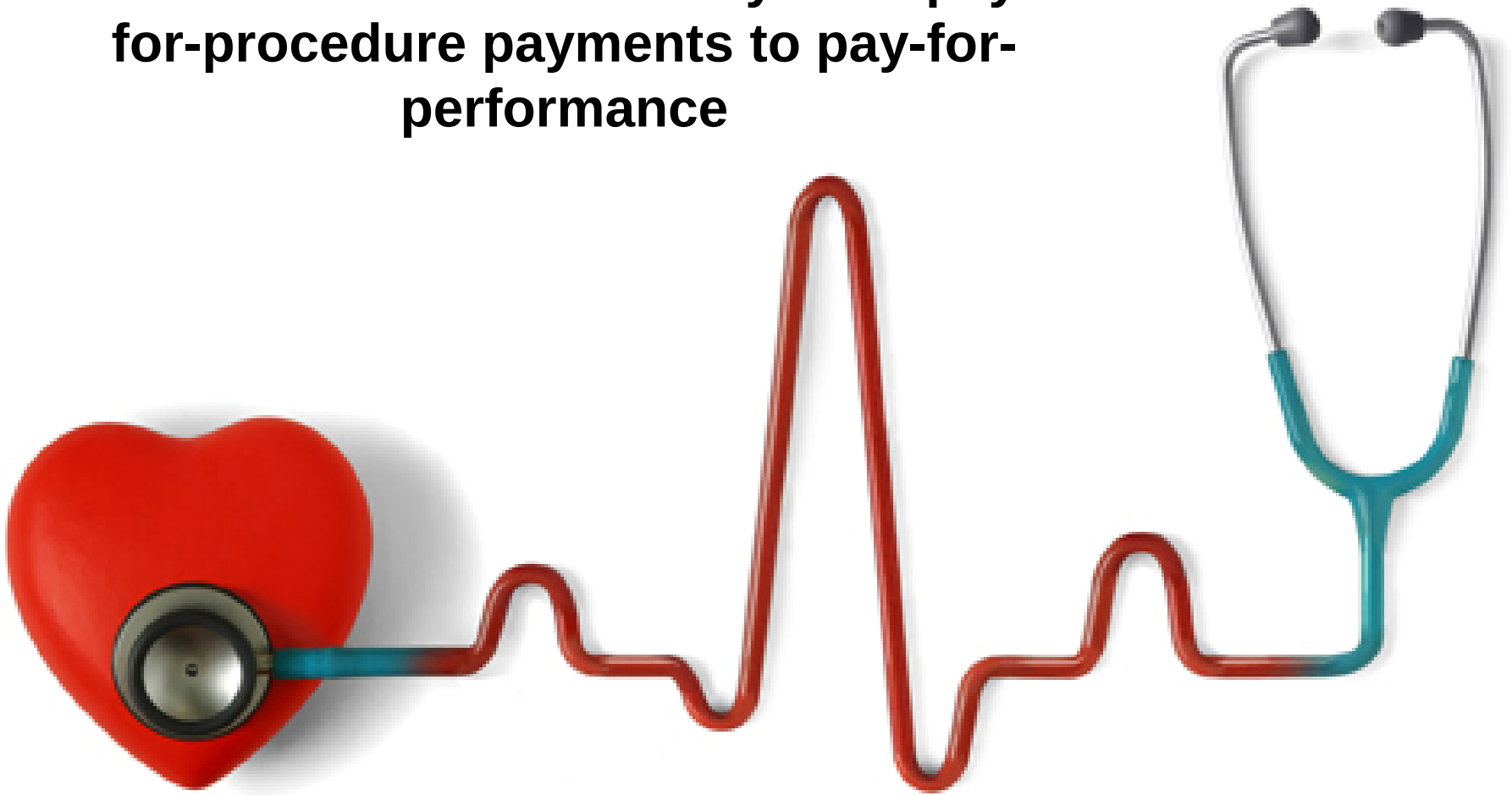
Engagement Objectives

- The objectives are as follows:
  - Create a financially sustainable healthcare model that will serve as a road-map for local delivery of medical services in conjunction with RCMS to the residents of the coastal communities located in southern Mendocino and northern Sonoma counties.
  - Evaluate the community benefit of reinstating some level of after-hours urgent care.
  - Develop a long-term fiscally responsible plan to expand other local medical services and facilities; in order to reduce time wasting, stressful transportation, and road trips, and enable more community members to age-in-place.
  - Enable a course for the future to anticipate advances in medical services and delivery.

California Healthcare Trends

California Healthcare Trends

Continual movement away from pay-for-procedure payments to pay-for-performance

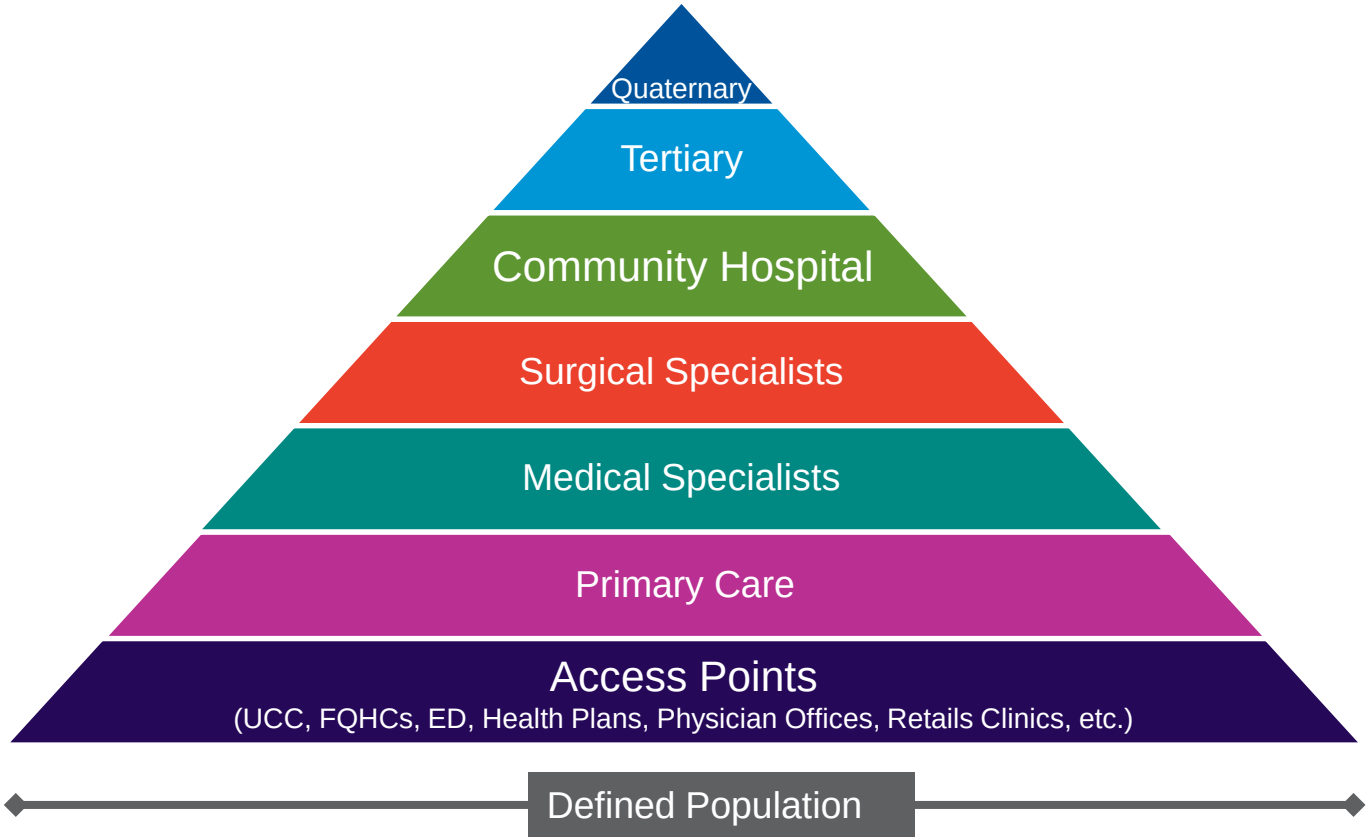


California Healthcare Trends

California Healthcare Trends

Just as efforts to reduce admissions, readmissions and length-of-stay are being achieved through new care and payment models, there will be a need to replace this “unwanted or inappropriate ” volume with “new appropriate” volume

Pyramid of Success



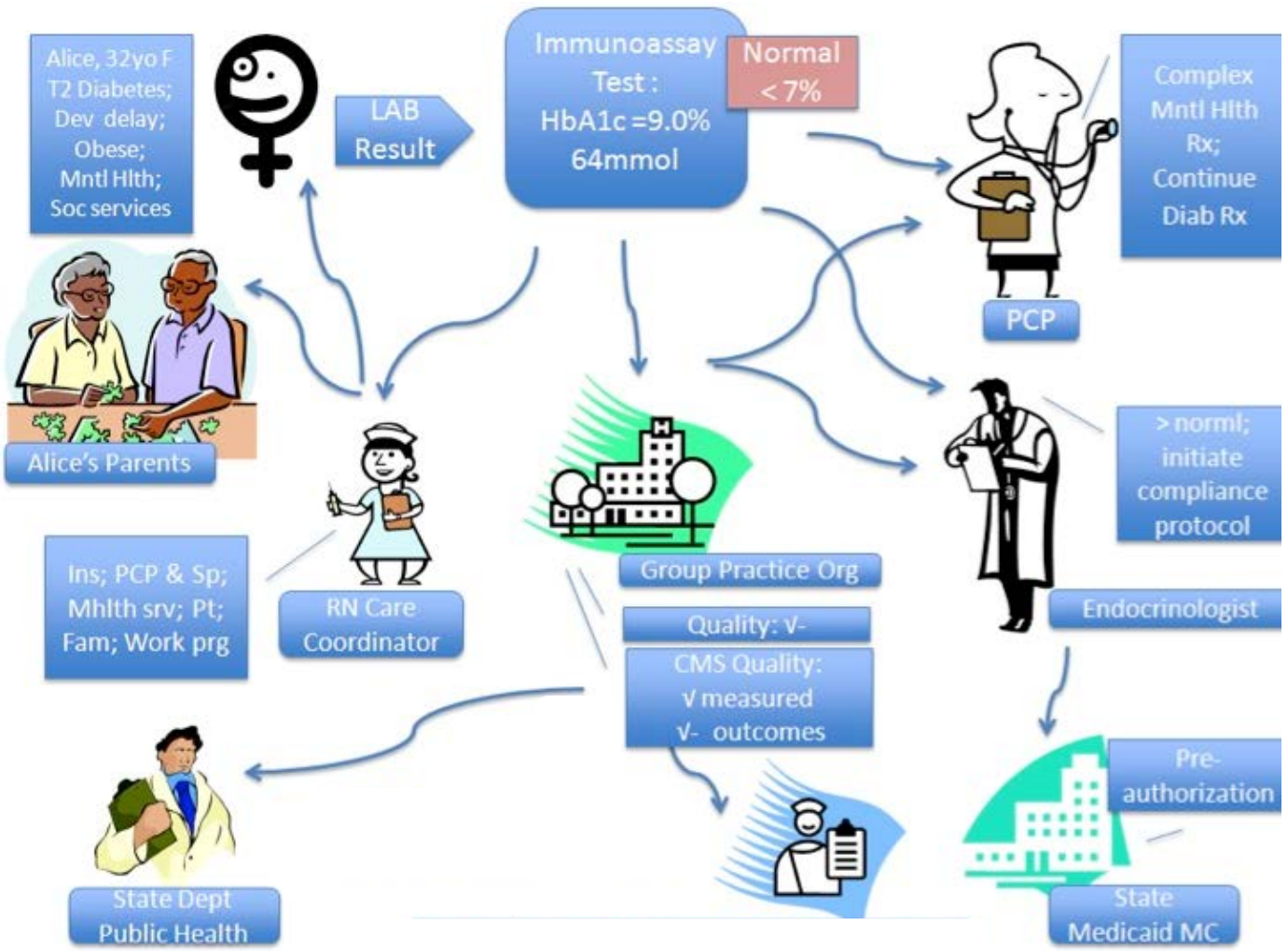
Commercial	CMS	Dual Eligibles	Medicaid
■ HMO ■ PPO ■ Direct to Employers ■ Insurance Exchange ■ Bundled Payment	■ ACO-MSSP ■ Pioneer ACO ■ Medicare Advantage ■ Bundled Payment	■ HMO	■ HMO ■ Fee-for-service

California Healthcare Trends

COVERED CALIFORNIA

California Healthcare Trends

IT's Increasing Role



California Healthcare Trends

Physician shortages are looming

Discussion of Healthcare Models: The Context

Review of Current Market Services	Review of Healthcare Districts in Other Rural Areas	State and National Trends	Interviews and Community Input	Determine Community Need
■ Services offered in service area today ■ Demographics ■ Inpatient, ED, ambulatory surgery, skilled nursing use rates, and market share ■ Payer Mix ■ Clinical staff in service area	■ Services offered ■ Profitability of hospital (if applicable) ■ Payer mix and other financial indicators ■ Criteria needed for success	■ Review of key trends and their impact on future delivery of healthcare services	■ Interview selected members of CLSD and RCMS Boards ■ Community feedback to understand the area's health service needs	■ Projected use of inpatient, ED, ambulatory surgery, skilled nursing services ■ Physicians to support population ■ Projected change in payer mix ■ Identification of needed services

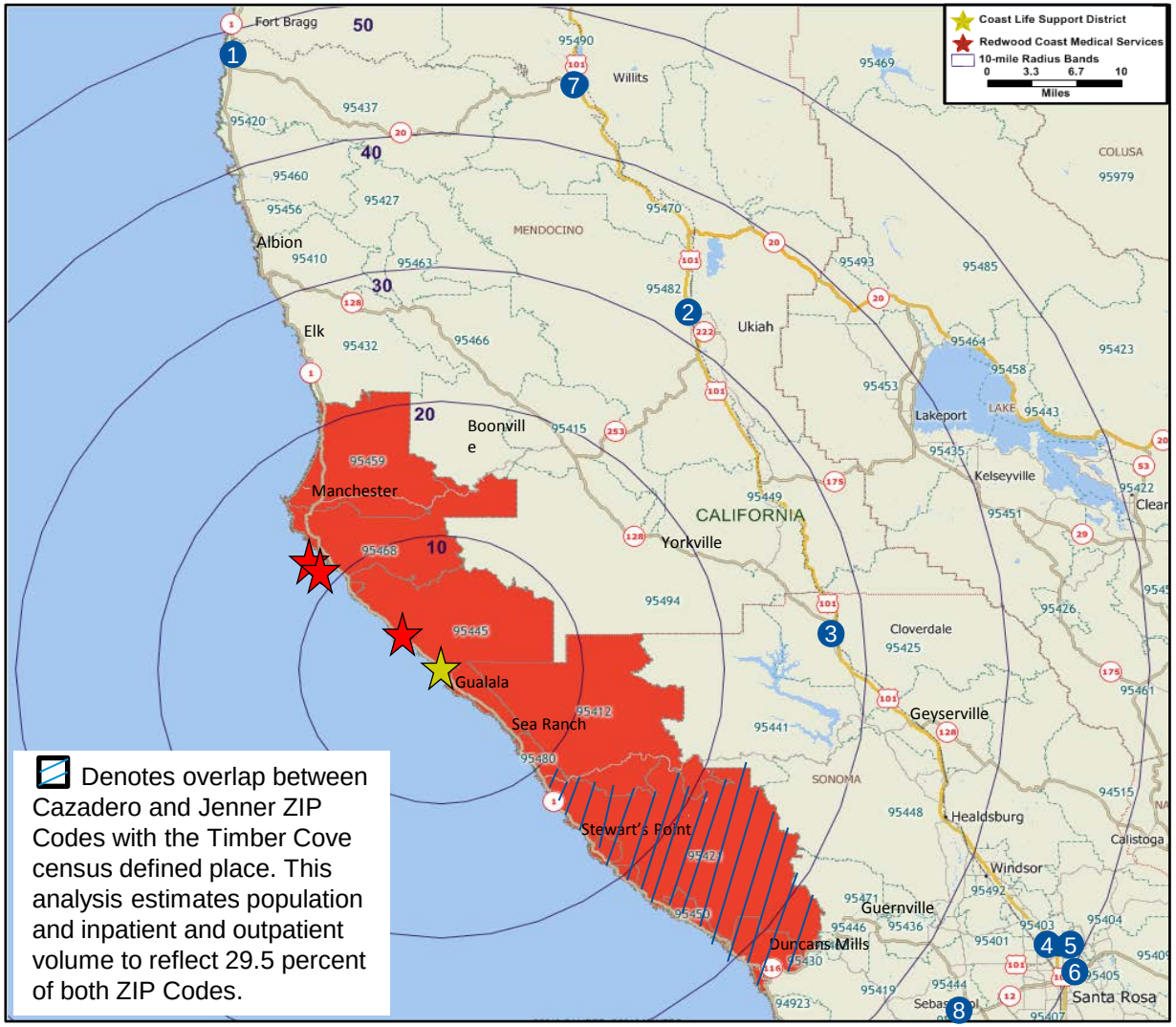
Three Healthcare Models

1) Expand Urgent Care Hours

3) Develop a New Ambulatory Care Center

2) Build Community Medical Center

Discussion of Healthcare Models



Source: The Camden Group
Note: Beds represents licensed acute care beds.

Area Hospitals

1. **Mendocino Coast District Hospital *(49 beds)***
59.6 miles driving (98 min. drive time)
47.6 miles direct

2. **Ukiah Valley Medical Center *(78 beds)***
65.9 miles driving (122 min. drive time)
31.5 miles direct

3. **Healdsburg District Hospital *(26 beds)***
69.9 miles driving (131 min. drive time)
27.3 miles direct

4. **Kaiser Foundation Hospital – Santa Rosa *(173 beds)***
79.8 miles driving (140 min. drive time)
48.1 miles direct

5. **Sutter Medical Center of Santa Rosa *(135 beds)***
80.8 miles driving (142 min. drive time)
48.3 miles direct

6. **Santa Rosa Memorial Hospital – Montgomery *(278 beds)***
82.8 miles driving (144 min. drive time)
49.7 miles direct

7. **Frank R. Howard Memorial Hospital *(25 beds)***
87.4 miles driving (143 min. drive time)
44.4 miles direct

8. **Palm Drive Hospital *(37 beds)***
75.5 miles driving (138 min. drive time)
46.0 miles direct

Option 1 – Expand Urgent Care Hours

- The Camden Group completed the expanded urgent care financial analysis and issued the assessment, findings, and conclusions as a separate document dated November 6, 2013.
- In the urgent care analysis document, The Camden Group made efforts to assess the reasonableness of the following aspects of RCMS' analysis:
  - The fiscal year ("FY") 2014 budgeted cost estimates
  - The incremental costs associated with extending the urgent care clinic's on-call coverage to supplement its current operating hours
  - The reasonableness of RCMS's current revenue per visit
  - If another model could be more appropriate to meeting the urgent care needs of the community outside a federally qualified health center ("FQHC")

Option 1 – Expand Urgent Care Hours

- The Camden Group compared RCMS' model to other organizational models and determined that utilizing RCMS' current structure is the most cost-effective and best reimbursement model given the community's payer mix.
  - Recommendation: Expansion of urgent care was consistently stated as the highest need by community members. RCMS' existing infrastructure is the most financially viable, cost-effective, and consistent model to expand healthcare services to the community.
  - The Camden Group recommends CLSD and RCSM continue to work together to expand urgent care services to the community.

Inpatient Utilization Assumptions

Coast Life Support District
Service Area Opportunity for Retained Inpatient Volume - Market Share Sensitivity Analysis
Calendar Year 2011

Service Line	Total Service Area Inpatient Discharges	Coast Life Potential Retained Inpatient Discharges	Market Share Range Scenarios			Resultant Discharges		
			Low	Medium	High	Low	Medium	High
Cardiology - Medical	26	24	45.0%	60.0%	75.0%	11	14	18
Endocrine	5	4	35.0%	50.0%	65.0%	2	2	3
Gastroenterology	33	30	40.0%	55.0%	70.0%	12	17	21
General Medicine	24	17	45.0%	60.0%	75.0%	8	10	13
General Surgery	37	28	35.0%	50.0%	65.0%	10	14	18
Neurology	18	16	35.0%	50.0%	65.0%	5	8	10
Oncology (Medical)	16	8	20.0%	35.0%	50.0%	2	3	4
Orthopedics	50	40	25.0%	40.0%	55.0%	10	16	22
Pulmonary Medicine	42	41	50.0%	65.0%	80.0%	20	26	33
Urology	9	8	25.0%	40.0%	55.0%	2	3	4
Volume from other Service Lines	115	0						
Total	**374**	**215**				**81**	**114**	**146**
Overall Market Share for Target Areas		*57.5%*	*21.7%*	*30.5%*	*39.0%*			
Patient Days		962				370	514	658
Average Length-of-Stay		4.5				4.5	4.5	4.5
Average Daily Census		2.6				1.0	1.4	1.8
Bed Need At 80% Occupancy		4.0				2.0	2.0	3.0

Clients/Coast_Life_Support_District/Business_Plan_2013/Planning/[CLSD_Assessment_Tables.xlsx]Opportunity (2)

Sources: OSHPD Inpatient Discharge Database, 2011, and The Camden Group

Notes: Service lines defined by The Camden Group; excludes normal new borns (MS-DRG 795). Includes acute care only.

Inpatient Utilization Assumptions

- The projected payer mix of the community medical center was assumed to include a slightly higher percentage of Medicare and Medi-Cal patients and a lower proportion of private coverage and other payer patients when compared to the market.
  - It was assumed there would be no change in payer mix distribution through the projection period.

Coast Life Support District

Inpatient Payer Mix - Service Area Market versus the Community Medical Center

Based on Data From Calendar Year 2011

Payer	Patient Days	
	Service Area Market	Community Medical Center
Medicare - FFS	43.8%	48.4%
Medicare - Managed Care	3.7%	4.1%
Total	47.5%	52.5%
Medi-Cal - FFS	16.8%	18.6%
Medi-Cal - Managed Care	6.2%	6.9%
Total	23.0%	25.5%
Private Coverage - FFS	0.4%	0.3%
Private Coverage - Managed Care	20.1%	14.3%
Total	20.6%	14.6%
Other Payers	8.9%	7.4%
Total	**100.0%**	**100.0%**

istrict/Business_Plan_2013/Planning/CAH_Utilization_Projections/[Bed_Need_and_Volume.xlsx]Payer Mix Table

Source: OSHPD Inpatient Discharge Database 2011 and The Camden Group

Notes: Excludes normal new borns (MS-DRG 795)

Option 2 – Build Community Medical Center

- **Recommendation**: The Camden Group does not believe that building a small community medical center (less than 25 licensed beds) in CLSD's service area would serve as a financially sustainable healthcare model for the community due to an amalgamation of high start-up costs to build the facility, low patient occupancy levels, undesirable payer mix, anticipated challenges recruiting and retaining clinical providers, and required ongoing needed financial support.
- In addition, anticipated future trends in the healthcare environment (e.g., reimbursement levels, declining inpatient use, physician and clinical shortages) will continue to make it difficult to successfully operate and maintain financially viable hospitals in general, and smaller hospital players in particular.

Option 3 – Develop a New ACC

- The ACC includes a new building that could house new/expanded outpatient services.
- The site of the ACC would be located adjacent to the current RCMS clinic in Gualala, on land currently owned by RCMS.
- The new/expanded ambulatory services are assumed to include:
  - Urgent care center with current capability, and dedicated additional space with telehealth capabilities.
  - Primary care services, to include space for four primary care providers (one geriatric provider).
  - Specialty care services, to include space for rotating specialists (existing and new), as well as space dedicated for telemedicine visits/consults. To determine and prioritize specialty expansion to the community (in-person and/or through telemedicine), community need to support specialists should be considered (see table on following page).

Option 3 – Develop a New ACC

- At a 2010 population size of 6,194, the service area could support the following specialists on a part-time, rotating basis:
  - Cardiology*
  - Dermatology
  - Gastroenterology
  - General surgery
  - Hematology
  - and oncology
  - Neurology
  - OB/GYN
  - Ophthalmology*
  - Orthopedics*
  - Otolaryngology
  - Pediatrics
  - Urology
  - Based on discussions with CLSD, population was held flat at 2010 levels.

* Indicates specialties with partial physician coverage currently

Coast Life Support District
Physician Full-Time Equivalents Required to Support Population
Calendar Year 2013

Specialty	Physician Demand	Physician Supply (2)
Primary Care (1)	**3.62**	5.75
Allergy and Immunology	0.05	
Cardiology	0.21	0.05
Cardiovascular Surgery	0.05	
Dermatology	0.18	
Endocrinology	0.05	
Gastroenterology	0.17	
General Surgery	0.62	
Hematology and Oncology	0.24	
Infectious Disease	0.06	
Neonatology	0.03	
Nephrology	0.07	
Neurology	0.15	
Neurosurgery	0.06	
Obstetrics and Gynecology	0.65	
Ophthalmology	0.29	0.10
Oral and Maxillofacial Surgery	0.07	
Orthopedics	0.40	0.05
Otolaryngology	0.21	
Pediatrics	0.97	
Physical Medicine and Rehab	0.11	
Plastic Surgery	0.07	
Pulmonary Disease	0.10	
Radiation Oncology	0.07	
Rheumatology	0.04	
Thoracic Surgery	0.05	
Urology	0.22	
Population	**6,194**	

Clients/Coast_Life_Support_District/Business_Plan_2013/Planning/[Physician_Ratios.xlsx]Sheet1

Sources: Redwood Coast Medical Services, GMENAC 1990; Merritt, Hawkins & Assoc. 2002; Claritas, Inc., and The Camden Group

Denotes FTE demand greater than or equal to 1.0.

(1) Primary care providers inclusive of family practice, internal medicine, and mid-level providers (e.g., physician assistants, nurse practitioners).

(2) MD/DO providers are considered 1.0 FTE per 40 hours worked per week. Mid-level providers are assigned an FTE of 0.75.

Assumptions

The table below summarizes the sources and uses of funds in the development of the ACC.

Coast Life Support District
Ambulatory Care Center: Sources and Uses of Funds
Pre-opening and Years 1 - 5

Sources	Amount	Uses	Amount
Loan proceeds	$0	Capital expenditures [1]	$8,000,000
Equity contribution	8,940,000	Project Contigency of 5 percent	400,000
		Pre-opening expenses	420,000
		Working Capital	120,000
Total	**$8,940,000**	**Total**	**$8,940,000**

https://sharepoint.thecamdengroup.com/Clients/Coast_Life_Support_District/Business_Plan_2013/Financial/[Coast_ACC_Finance_012114.xlsx]Sources_Uses

[1] Capital expenditures include building costs, architecture, engineering, and some furniture

Financial Projection: Pre-opening and Five-years

The table below summarizes the estimated financial performance of the ACC during the pre-opening period and the first five years of operation.

Coast Life Support District
Ambulatory Care Center: Operating Financial Performance
Pre-opening and Years 1 - 5

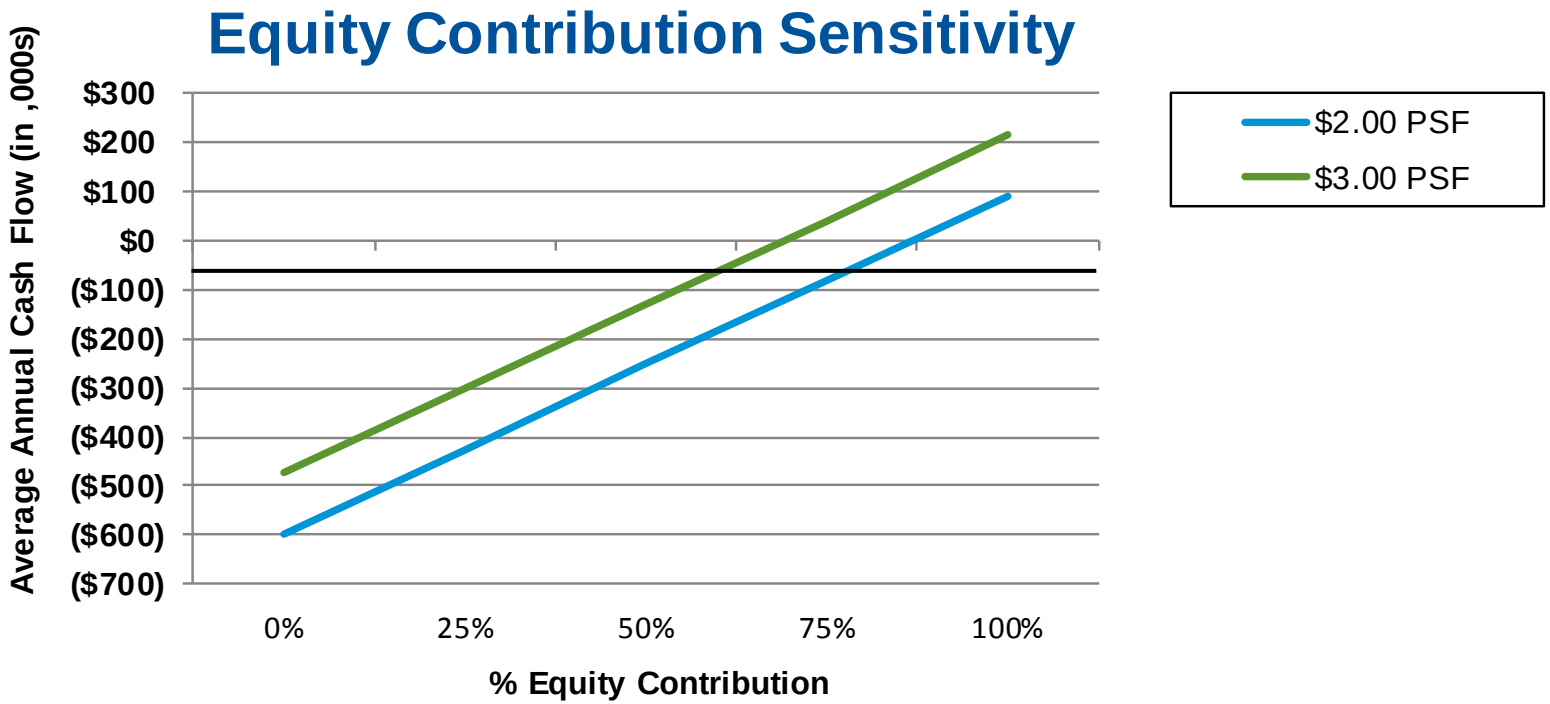
Category	Pre-opening	Projected Year 1	2	3	4	5
Revenue (Rental Income)	**$0**	**$204,000**	**$246,000**	**$252,150**	**$258,454**	**$264,915**
Operating Expense [(1)]	**$420,000**	**$132,000**	**$159,900**	**$159,900**	**$159,900**	**$159,900**
EBITDA	**($420,000)**	**$72,000**	**$86,100**	**$92,250**	**$98,554**	**$105,015**
Depreciation	$0	$298,000	$298,000	$298,000	$298,000	$298,000
Interest on Debt		-	-	-	-	-
Net Operating Income	**($420,000)**	**($226,000)**	**($211,900)**	**($205,750)**	**($199,446)**	**($192,985)**

https://sharepoint.thecamdengroup.com/Clients/Coast_Life_Support_District/Business_Plan_2013/Financial/[Coast_ACC_Finance_012114.xlsx]PandL_1

(1) Does not include potential land lease expense

Equity Contribution Sensitivity

The table below highlights the sensitivity of the average annual cash flow of the ACC (over the first five years) to the initial equity contribution and rental rate.



Note: Loan terms were assumed to a be 5.0 percent interest rate over a 25 year period. These assumptions are estimates only and have been used to help understand the order of magnitude should the District decide to finance a portion of the ACC.

Partnership with Health Systems and Community Providers

- CLSD and RCMS should consider partnering with hospital/health system to provide expanded access to healthcare services in the community (e.g., specialists, tele-health).
  - Partnership to provide urgent care services and clinical staffing
  - Specialists/Residents rotate to community physically or remotely
  - Expand other outpatient/ancillary services to community needed by new specialists rotating to the community
- Establish electronic linkages to clinically integrate with other providers:
  - Share patient information: hospitals, physicians, labs, other services

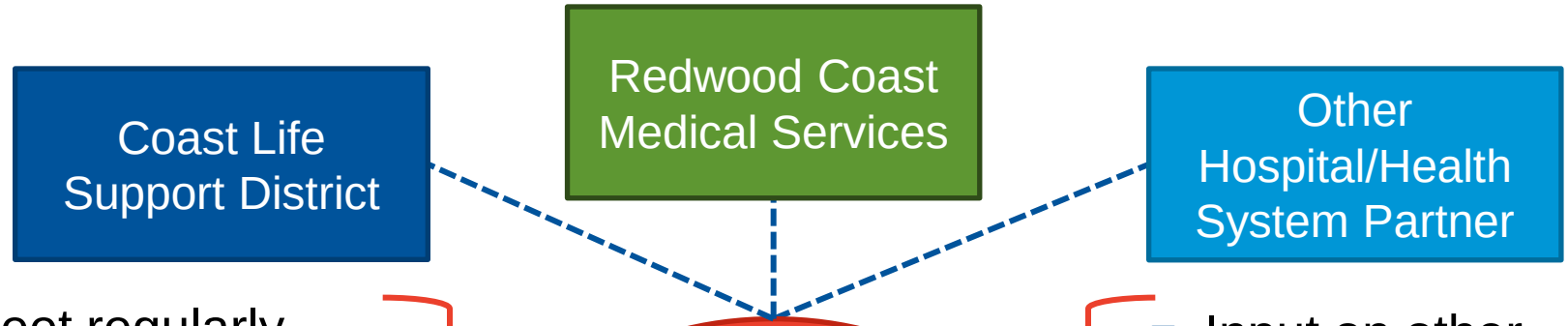
Partnership with Health Systems and Community Providers

- Advice/Consults in real time: emergency rooms, specialty physicians, tele-health
- Manage patient care: identify high-risk patients, patient monitoring at home or remote setting

- CLSD and RCMS should continue to explore grants to fund innovations in tele-health/remote access that will expand healthcare locally.
- Partner with others to increase access to services;
  - Use of “smart” technology, home health, tele-health
  - Expanded senior programs and age-in-place services (e.g., Village Model) (see Appendix A)
  - Expanded wellness/preventative and chronic care management services to manage the population's health
  - Increased broadband to ensure reliable connections

Partnership

Health Systems and Community Providers

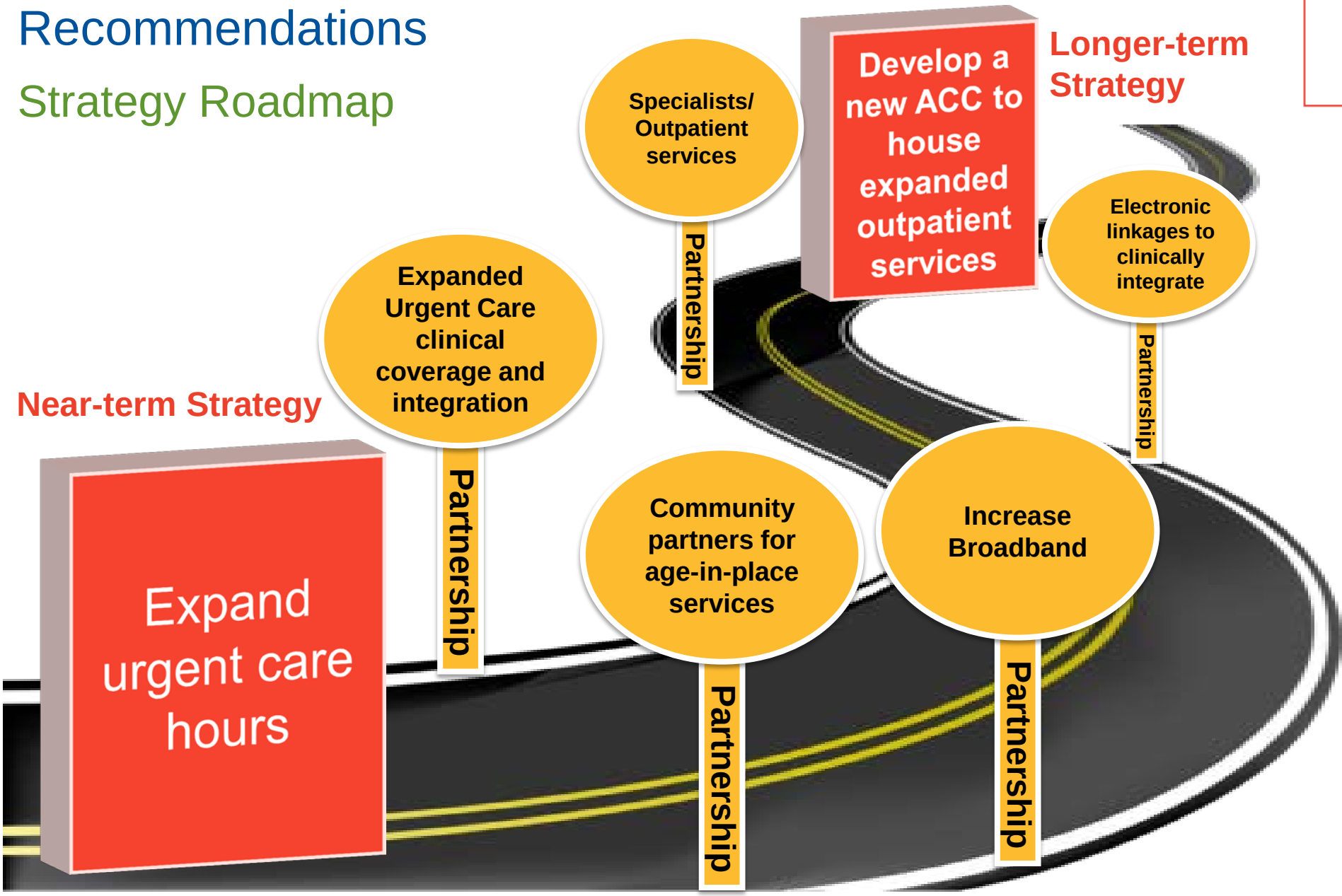


- Meet regularly
- Determine local community needs
- Outpatient service needs
- Equipment
- Electronic linkages

- Input on other partnerships, clinical staffing
- Grievances
- Financial and operational issues

Recommendations

Strategy Roadmap



Next Steps

1. Expansion of urgent care services
2. Form building planning group/develop plan/needs
3. Identify and obtain planning grant/funding
4. Pursue partnerships/affiliations (urgent care, other needs)
5. Grant funding for age-in-place coordinator position