



Hazel Hawkins
MEMORIAL HOSPITAL



Financial Pro-Forma Projection

Hazel Hawkins Memorial Hospital

February 14, 2022



- Critical Access Status:
 - Critical Access status remains through FY 2022.
 - IP Revenue per case returns to pre-CAH status averages in FY 2023.
- Revenues:
 - Gross charges increase 2% annually.
 - Annual net revenue/case increases 2%.
- Expenses:
 - Variable expenses grow with volumes plus 2% inflation.
 - Fixed expenses grow by 2% inflation.

- Salaries & Wages:
 - Variable departments grow with volumes.
 - Wages increase annually at the lower of prior 3 years rate or 4%.
 - Productivity & Registry targets from Quorum report achieved over 5 years.
- Benefits:
 - Health Benefits inflate at 5% plus change in FTEs (historical average-9%).
 - All other benefits inflate based on historical percentage of paid Salaries & Wages.
- Volume Models:
 - Target Model from Master Plan is the low-performance model.
 - 70% Model from Master Plan is the high-performance model.
- Capital Investment is based on a greenfield replacement facility.
 - Includes development of ambulatory property currently under consideration.



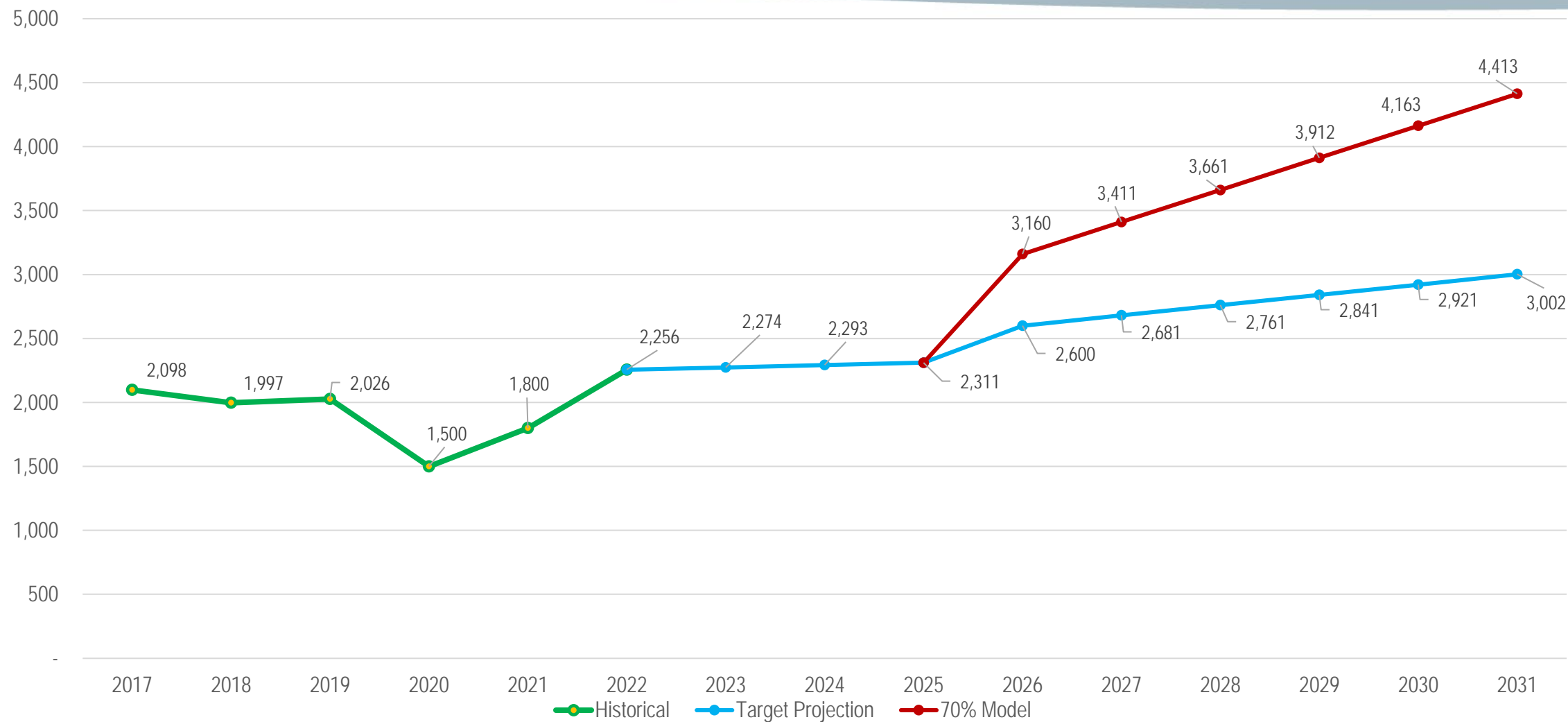
Hazel Hawkins
MEMORIAL HOSPITAL



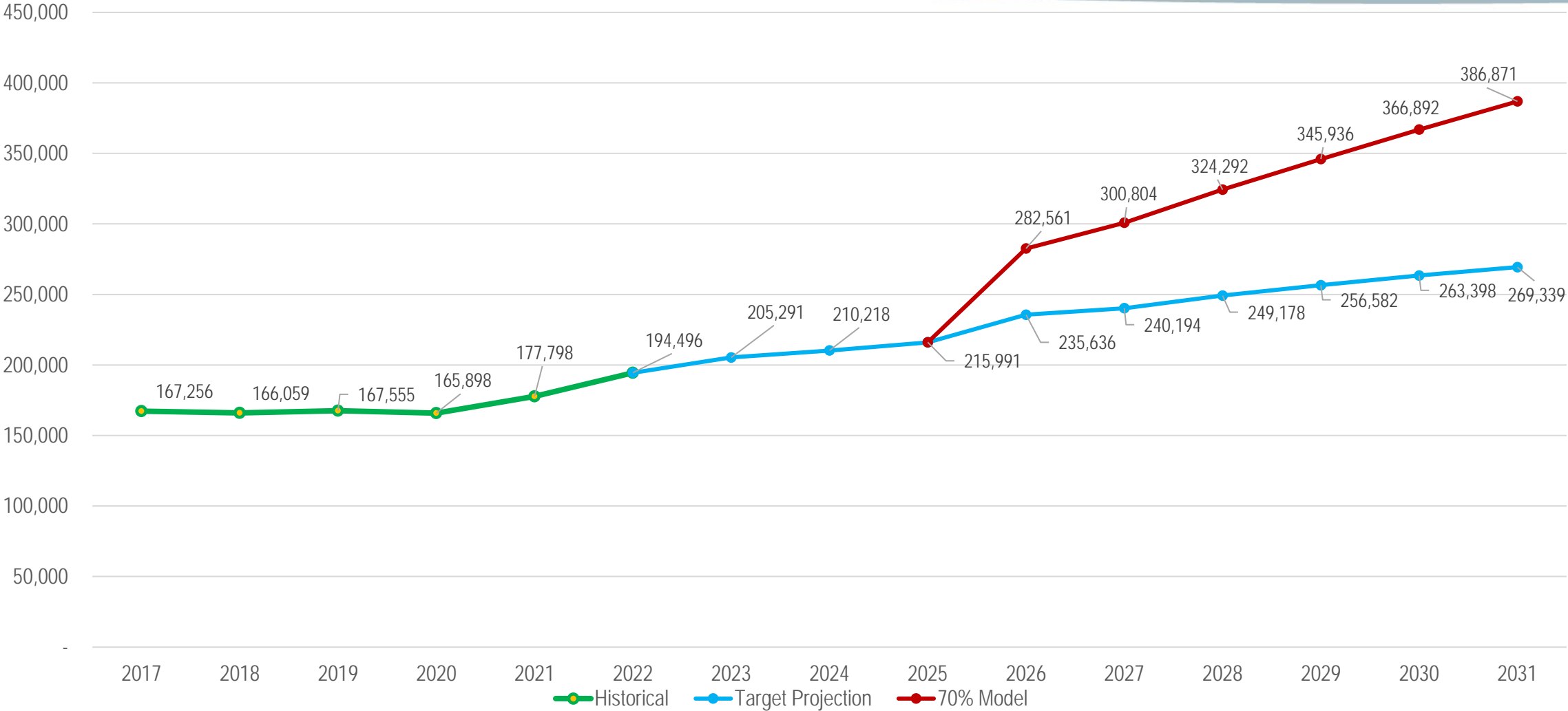
Financial Model Comparisons



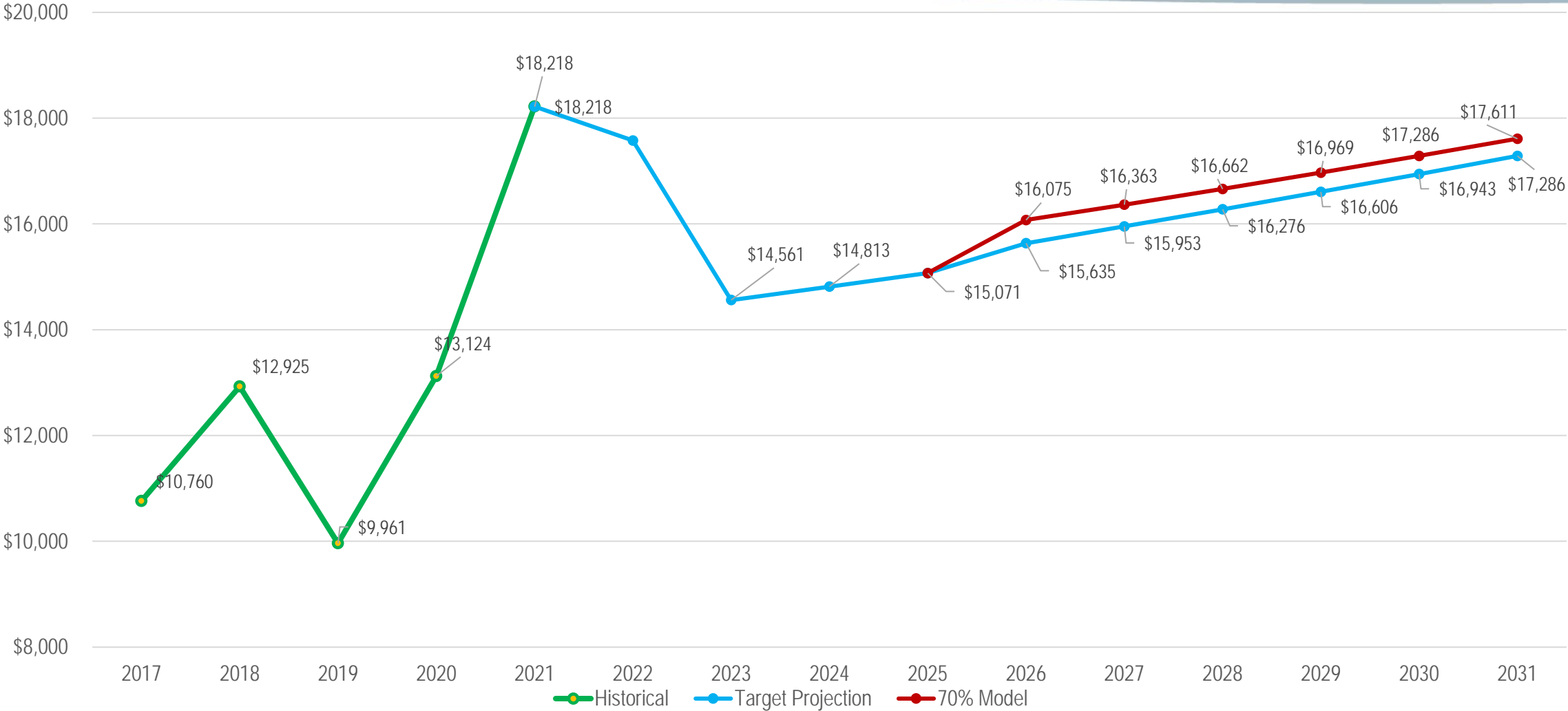
IP Discharges 2017-2031



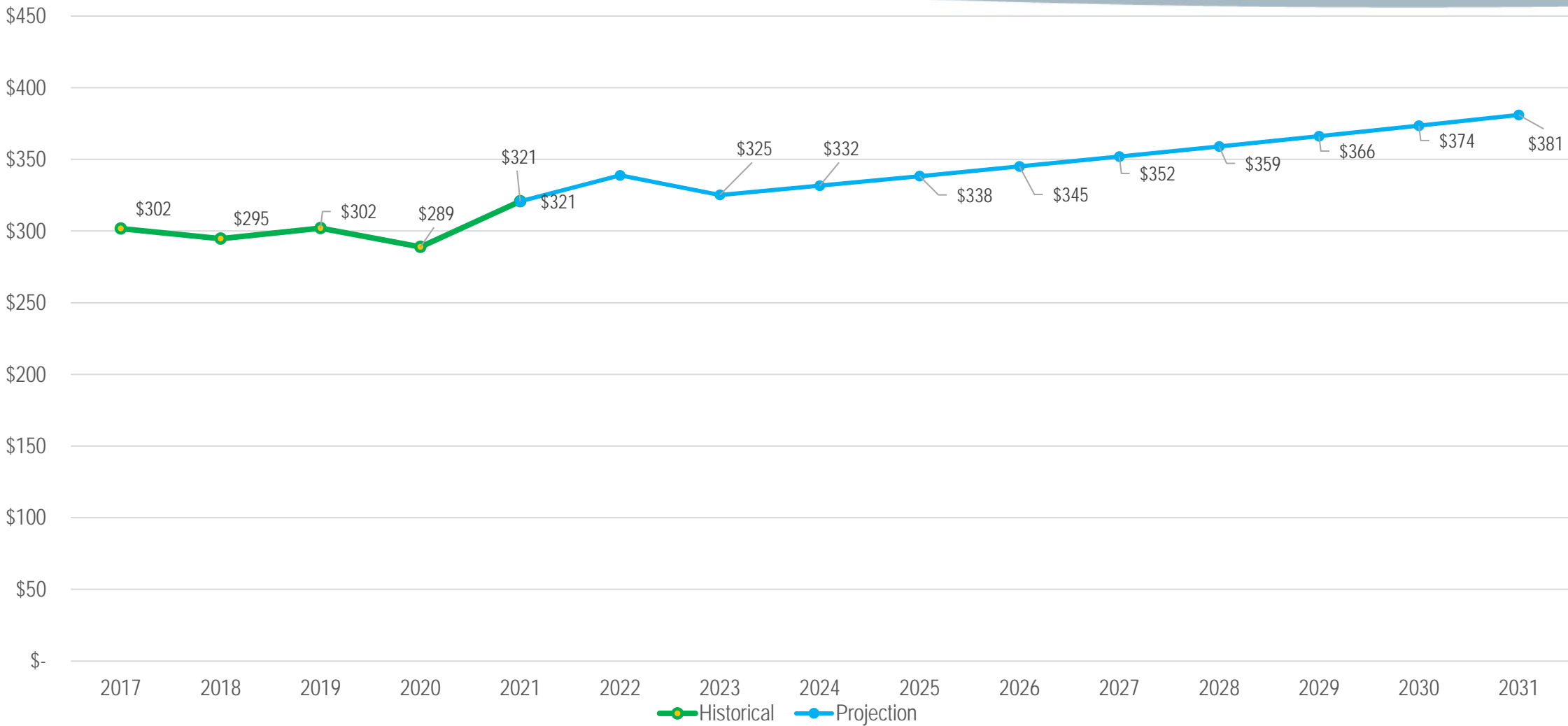
Outpatient Encounters
2017-2031



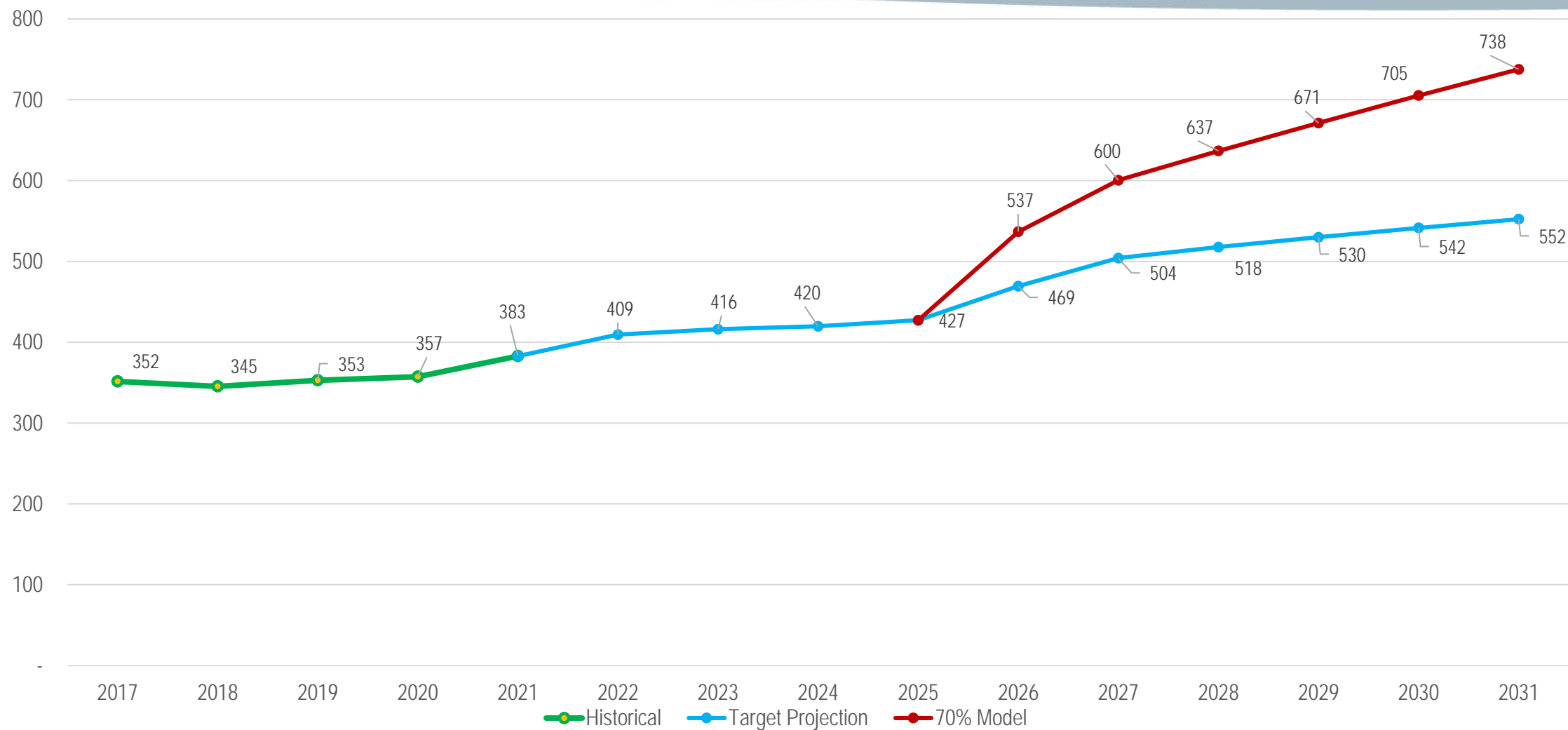
IP Net Revenue per Case
2017-2031



OP Net Revenue per Encounter
2017-2031



Hospital FTEs 2017-2031



| Hazel Hawkins Memorial Hospital Income Statement Projections-Target Model Volumes FYE 06/30 | | | | | | Projection Period | | | | | | | | | |
|---|-----------------------|---------------------|---------------------|-----------------------|--------------------|---------------------|-----------------------|-----------------------|-----------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 |
| Revenues | | | | | | | | | | | | | | | |
| Gross Charges | \$ 356,475,851 | \$ 358,711,116 | \$ 351,936,025 | \$ 300,688,046 | \$ 338,361,316 | \$ 399,502,192 | \$ 426,914,739 | \$ 447,366,754 | \$ 469,603,941 | \$ 528,695,201 | \$ 553,569,223 | \$ 585,441,303 | \$ 616,218,179 | \$ 647,122,034 | \$ 677,829,235 |
| Contractuals | (247,934,800) | (245,441,158) | (239,383,563) | (192,314,789) | (207,277,580) | (253,174,567) | (282,503,359) | (295,406,323) | (309,563,841) | (350,673,246) | (367,813,803) | (390,208,503) | (411,781,275) | (433,533,389) | (455,137,728) |
| Net Patient Revenues | 108,541,051 | 113,269,957 | 112,552,463 | 108,373,257 | 131,083,736 | 146,327,625 | 144,411,380 | 151,960,431 | 160,040,099 | 178,021,955 | 185,755,420 | 195,232,800 | 204,436,905 | 213,588,645 | 222,691,507 |
| Other Operating Revenues | 2,563,675 | 2,552,266 | 3,124,099 | 9,864,665 | 8,328,243 | 2,190,864 | 2,208,681 | 2,226,855 | 2,245,392 | 2,264,299 | 1,083,585 | 1,103,257 | 1,123,322 | 1,143,789 | 1,164,665 |
| Net Revenues | 111,104,726 | 115,822,223 | 115,676,562 | 118,237,922 | 139,411,979 | 148,518,489 | 146,620,061 | 154,187,285 | 162,285,491 | 180,286,254 | 186,839,005 | 196,336,057 | 205,560,227 | 214,732,434 | 223,856,172 |
| Expenses | | | | | | | | | | | | | | | |
| Salaries & Wages | 46,049,464 | 46,856,060 | 49,053,172 | 51,645,119 | 60,520,498 | 61,924,816 | 65,711,032 | 69,186,115 | 73,405,931 | 82,348,672 | 89,961,998 | 95,225,165 | 100,550,012 | 105,995,612 | 111,573,579 |
| Benefits | 23,187,583 | 23,503,771 | 24,818,372 | 27,385,123 | 30,371,736 | 32,008,550 | 34,301,726 | 35,852,249 | 37,707,233 | 41,578,793 | 44,610,542 | 46,509,569 | 48,388,531 | 50,264,259 | 52,154,536 |
| Professional Fees | 13,382,296 | 13,890,751 | 14,200,621 | 15,596,203 | 16,613,614 | 17,062,349 | 18,084,699 | 19,251,372 | 20,421,379 | 21,523,359 | 22,628,809 | 23,666,369 | 24,707,539 | 25,609,536 | 26,515,288 |
| Supplies | 10,622,928 | 10,836,043 | 10,522,582 | 10,942,052 | 12,451,021 | 14,063,786 | 14,828,311 | 15,455,059 | 16,138,543 | 17,975,480 | 18,677,425 | 19,593,734 | 20,462,266 | 21,317,482 | 22,155,341 |
| Purchased Services | 11,392,844 | 11,417,173 | 11,181,312 | 10,868,872 | 12,387,120 | 11,858,401 | 12,112,553 | 12,354,804 | 12,601,901 | 12,853,939 | 13,111,017 | 13,373,238 | 13,640,702 | 13,913,516 | 14,191,787 |
| Occupancy Expenses | 8,931,809 | 8,896,579 | 8,772,217 | 8,665,122 | 8,924,134 | 9,324,813 | 9,509,975 | 9,700,174 | 9,894,178 | 10,092,061 | 10,293,902 | 10,499,780 | 10,709,776 | 10,923,971 | 11,142,451 |
| Other Expenses | 514,928 | 353,448 | 538,462 | 525,090 | 453,845 | 592,413 | 609,878 | 622,075 | 634,517 | 647,207 | 660,151 | 673,354 | 686,821 | 700,558 | 714,569 |
| Interest Expense | 1,993,088 | 1,921,985 | 1,813,128 | 1,747,885 | 1,814,927 | 1,562,309 | 1,421,162 | 1,301,347 | 1,175,373 | 1,043,261 | 904,611 | 767,163 | 637,461 | 500,484 | 430,853 |
| Total Expenses | 116,074,941 | 117,675,809 | 120,899,867 | 127,375,465 | 143,536,895 | 148,397,437 | 156,579,336 | 163,723,195 | 171,979,053 | 188,062,772 | 200,848,455 | 210,308,372 | 219,783,108 | 229,225,419 | 238,878,404 |
| Other Non Operating Revenues/Expenses | 3,875,060 | 4,119,445 | 4,394,431 | 4,484,948 | 4,424,968 | 3,745,613 | 3,820,525 | 3,896,936 | 3,974,874 | 4,054,372 | 4,135,459 | 4,218,168 | 4,302,532 | 4,388,582 | 4,476,354 |
| Net Income | (1,095,155) | 2,265,859 | (828,873) | (4,652,595) | 300,052 | 3,866,664 | (6,138,750) | (5,638,975) | (5,718,687) | (3,722,146) | (9,873,991) | (9,754,147) | (9,920,350) | (10,104,403) | (10,545,878) |
| Additional Depreciation | - | - | - | - | - | - | - | 258,333 | 258,333 | 11,529,167 | 12,471,301 | 12,471,301 | 12,471,301 | 12,471,301 | 12,471,301 |
| Additional Interest Expense | - | - | - | - | - | - | - | 187,500 | 184,015 | 8,992,899 | 9,655,424 | 9,466,157 | 9,269,792 | 9,066,063 | 8,854,695 |
| Adjusted Net Income | \$ (1,095,155) | \$ 2,265,859 | \$ (828,873) | \$ (4,652,595) | \$ 300,052 | \$ 3,866,664 | \$ (6,138,750) | \$ (6,084,808) | \$ (6,161,036) | \$ (24,244,212) | \$ (32,000,717) | \$ (31,691,605) | \$ (31,661,443) | \$ (31,641,768) | \$ (31,871,874) |
| Net Income by Functional Operation | | | | | | | | | | | | | | | |
| Hospital | \$ 2,611,772 | \$ 6,571,353 | \$ 3,538,511 | \$ 1,824,253 | \$ 9,906,866 | \$ 13,052,042 | \$ 3,711,998 | \$ 5,054,485 | \$ 5,904,846 | \$ (11,217,566) | \$ (15,905,563) | \$ (14,311,889) | \$ (12,921,515) | \$ (11,599,365) | \$ (10,458,703) |
| Clinics | (3,920,092) | (4,841,989) | (5,789,250) | (7,721,191) | (7,044,144) | (7,902,691) | (8,387,032) | (9,446,826) | (10,069,481) | (10,644,090) | (13,020,735) | (13,560,297) | (14,113,110) | (14,558,308) | (15,019,317) |
| Home Health | 239,744 | 480,952 | 184,387 | 513,293 | (755,801) | (589,117) | (732,660) | (813,854) | (902,434) | (998,742) | (1,106,177) | (1,221,783) | (1,346,120) | (1,479,779) | (1,623,392) |
| SNF | (26,579) | 55,544 | 1,237,479 | 731,051 | (1,806,870) | (693,570) | (731,055) | (878,613) | (1,093,967) | (1,383,813) | (1,968,243) | (2,597,636) | (3,280,698) | (4,004,316) | (4,770,462) |
| Net Income | \$ (1,095,155) | \$ 2,265,859 | \$ (828,873) | \$ (4,652,595) | \$ 300,052 | \$ 3,866,664 | \$ (6,138,750) | \$ (6,084,808) | \$ (6,161,036) | \$ (24,244,212) | \$ (32,000,717) | \$ (31,691,605) | \$ (31,661,443) | \$ (31,641,768) | \$ (31,871,874) |

| Hazel Hawkins Memorial Hospital Income Statement Projections-70% Volume Model FYE 06/30 | | | | | | Projection Period | | | | | | | | | |
|---|-----------------------|---------------------|---------------------|-----------------------|--------------------|---------------------|-----------------------|-----------------------|-----------------------|------------------------|------------------------|------------------------|------------------------|------------------------|-----------------------|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 |
| Revenues | | | | | | | | | | | | | | | |
| Gross Charges | \$ 356,475,851 | \$ 358,711,116 | \$ 351,936,025 | \$ 300,688,046 | \$ 338,361,316 | \$ 399,502,192 | \$ 426,914,739 | \$ 447,366,754 | \$ 469,603,941 | \$ 629,349,606 | \$ 684,937,609 | \$ 750,053,374 | \$ 815,173,803 | \$ 881,793,469 | \$ 949,629,650 |
| Contractuals | (247,934,800) | (245,441,158) | (239,383,563) | (192,314,789) | (207,277,580) | (253,174,567) | (282,503,359) | (295,406,323) | (309,563,841) | (424,998,983) | (464,804,287) | (511,787,914) | (558,814,165) | (607,090,570) | (656,324,348) |
| Net Patient Revenues | 108,541,051 | 113,269,957 | 112,552,463 | 108,373,257 | 131,083,736 | 146,327,625 | 144,411,380 | 151,960,431 | 160,040,099 | 204,350,623 | 220,133,322 | 238,265,460 | 256,359,639 | 274,702,898 | 293,305,301 |
| Other Operating Revenues | 2,563,675 | 2,552,266 | 3,124,099 | 9,864,665 | 8,328,243 | 2,190,864 | 2,208,681 | 2,226,855 | 2,245,392 | 2,264,299 | 1,083,585 | 1,103,257 | 1,123,322 | 1,143,789 | 1,164,665 |
| Net Revenues | 111,104,726 | 115,822,223 | 115,676,562 | 118,237,922 | 139,411,979 | 148,518,489 | 146,620,061 | 154,187,285 | 162,285,491 | 206,614,923 | 221,216,908 | 239,368,717 | 257,482,961 | 275,846,687 | 294,469,966 |
| Expenses | | | | | | | | | | | | | | | |
| Salaries & Wages | 46,049,464 | 46,856,060 | 49,053,172 | 51,645,119 | 60,520,498 | 61,924,816 | 65,731,246 | 69,228,160 | 73,471,521 | 91,203,812 | 102,831,683 | 111,547,652 | 120,493,384 | 129,753,433 | 139,224,173 |
| Benefits | 23,187,583 | 23,503,771 | 24,818,372 | 27,385,123 | 30,371,736 | 32,008,550 | 34,304,229 | 35,857,454 | 37,715,353 | 45,373,860 | 50,061,407 | 53,297,265 | 56,524,421 | 59,768,719 | 63,005,372 |
| Professional Fees | 13,382,296 | 13,890,751 | 14,200,621 | 15,596,203 | 16,613,614 | 17,062,349 | 18,084,699 | 19,251,372 | 20,421,379 | 21,523,359 | 22,628,809 | 23,666,369 | 24,707,539 | 25,609,536 | 26,515,288 |
| Supplies | 10,622,928 | 10,836,043 | 10,522,582 | 10,942,052 | 12,451,021 | 14,063,786 | 14,828,311 | 15,455,059 | 16,138,543 | 21,217,972 | 22,847,840 | 24,752,245 | 26,622,934 | 28,502,062 | 30,386,119 |
| Purchased Services | 11,392,844 | 11,417,173 | 11,181,312 | 10,868,872 | 12,387,120 | 11,858,401 | 12,112,553 | 12,354,804 | 12,601,901 | 12,853,939 | 13,111,017 | 13,373,238 | 13,640,702 | 13,913,516 | 14,191,787 |
| Occupancy Expenses | 8,931,809 | 8,896,579 | 8,772,217 | 8,665,122 | 8,924,134 | 9,324,813 | 9,509,975 | 9,700,174 | 9,894,178 | 10,092,061 | 10,293,902 | 10,499,780 | 10,709,776 | 10,923,971 | 11,142,451 |
| Other Expenses | 514,928 | 353,448 | 538,462 | 525,090 | 453,845 | 592,413 | 609,878 | 622,075 | 634,517 | 647,207 | 660,151 | 673,354 | 686,821 | 700,558 | 714,569 |
| Interest Expense | 1,993,088 | 1,921,985 | 1,813,128 | 1,747,885 | 1,814,927 | 1,562,309 | 1,421,162 | 1,301,347 | 1,175,373 | 1,043,261 | 904,611 | 767,163 | 637,461 | 500,484 | 430,853 |
| Total Expenses | 116,074,941 | 117,675,809 | 120,899,867 | 127,375,465 | 143,536,895 | 148,397,437 | 156,602,052 | 163,770,445 | 172,052,763 | 203,955,470 | 223,339,420 | 238,577,067 | 254,023,038 | 269,672,280 | 285,610,611 |
| Other Non Operating Revenues/Expenses | 3,875,060 | 4,119,445 | 4,394,431 | 4,484,948 | 4,424,968 | 3,745,613 | 3,820,525 | 3,896,936 | 3,974,874 | 4,054,372 | 4,135,459 | 4,218,168 | 4,302,532 | 4,388,582 | 4,476,354 |
| Net Income | (1,095,155) | 2,265,859 | (828,873) | (4,652,595) | 300,052 | 3,866,664 | (6,161,466) | (5,686,225) | (5,792,397) | 6,713,824 | 2,012,947 | 5,009,818 | 7,762,455 | 10,562,990 | 13,335,710 |
| Additional Depreciation | - | - | - | - | - | - | - | 258,333 | 258,333 | 11,529,167 | 12,471,301 | 12,471,301 | 12,471,301 | 12,471,301 | 12,471,301 |
| Additional Interest Expense | - | - | - | - | - | - | - | 187,500 | 184,015 | 8,992,899 | 9,655,424 | 9,466,157 | 9,269,792 | 9,066,063 | 8,854,695 |
| Adjusted Net Income | \$ (1,095,155) | \$ 2,265,859 | \$ (828,873) | \$ (4,652,595) | \$ 300,052 | \$ 3,866,664 | \$ (6,161,466) | \$ (6,132,058) | \$ (6,234,746) | \$ (13,808,241) | \$ (20,113,779) | \$ (16,927,640) | \$ (13,978,638) | \$ (10,974,375) | \$ (7,990,287) |
| Net Income by Functional Operation | | | | | | | | | | | | | | | |
| Hospital | \$ 2,611,772 | \$ 6,571,353 | \$ 3,538,511 | \$ 1,824,253 | \$ 9,906,866 | \$ 13,052,042 | \$ 3,689,282 | \$ 5,007,235 | \$ 5,831,136 | \$ (781,595) | \$ (4,018,625) | \$ 452,077 | \$ 4,761,289 | \$ 9,068,028 | \$ 13,422,884 |
| Clinics | (3,920,092) | (4,841,989) | (5,789,250) | (7,721,191) | (7,044,144) | (7,902,691) | (8,387,032) | (9,446,826) | (10,069,481) | (10,644,090) | (13,020,735) | (13,560,297) | (14,113,110) | (14,558,308) | (15,019,317) |
| Home Health | 239,744 | 480,952 | 184,387 | 513,293 | (755,801) | (589,117) | (732,660) | (813,854) | (902,434) | (998,742) | (1,106,177) | (1,221,783) | (1,346,120) | (1,479,779) | (1,623,392) |
| SNF | (26,579) | 55,544 | 1,237,479 | 731,051 | (1,806,870) | (693,570) | (731,055) | (878,613) | (1,093,967) | (1,383,813) | (1,968,243) | (2,597,636) | (3,280,698) | (4,004,316) | (4,770,462) |
| Net Income | \$ (1,095,155) | \$ 2,265,859 | \$ (828,873) | \$ (4,652,595) | \$ 300,052 | \$ 3,866,664 | \$ (6,161,466) | \$ (6,132,058) | \$ (6,234,746) | \$ (13,808,241) | \$ (20,113,779) | \$ (16,927,640) | \$ (13,978,638) | \$ (10,974,375) | \$ (7,990,287) |

- Neither model represents a financeable scenario.
- 2020 Benchmark Comparison (CHHS Open Data) Shows:
 - Net Revenue:
 - For all comparable facilities, 12% below average. Approximately \$14M negative variance. (Systems fare better on these metrics)
 - For comparable independent facilities, 1.7% below average. Approximately \$1.9M negative variance.
 - Operating Expenses:
 - Salaries & Benefits expenses were \$13M-\$16M higher than benchmarks, whether compared to systems or independent facilities
 - FTEs did not drive this variance in 2020, Rates & Benefits were the drivers.
 - Purchased Services, Supplies & Professional Fees were favorable to benchmarks.
 - Overall Operating Income \$9-\$11M less than Benchmarks.

Hazel Hawkins Memorial Hospital

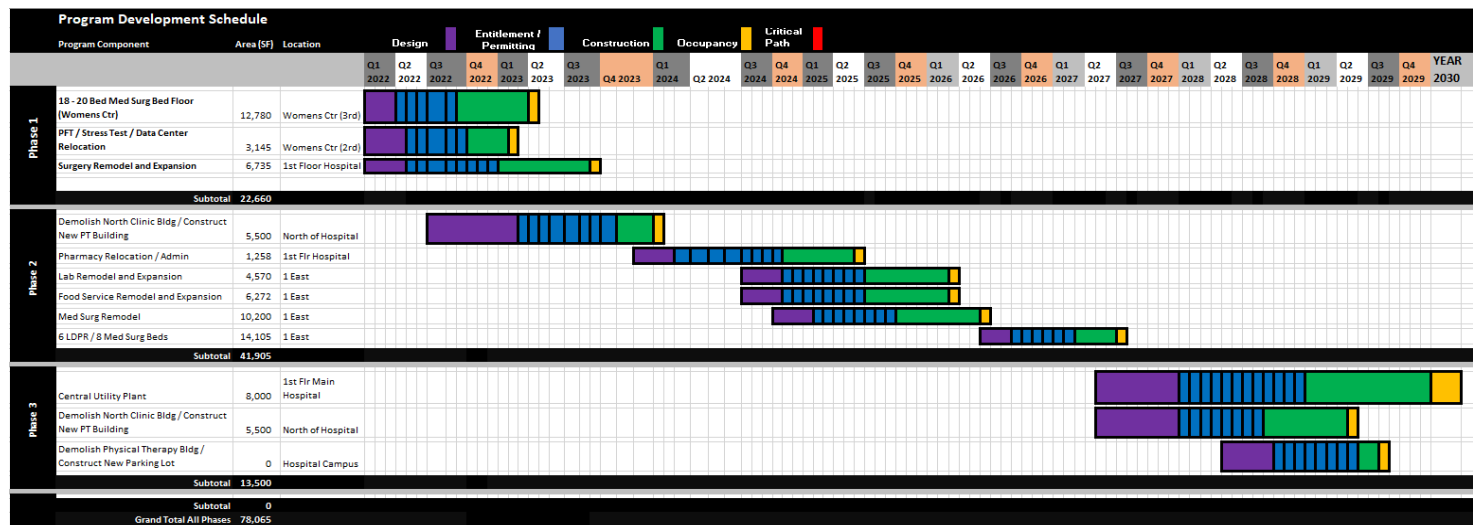
Scenario 1

Option of Probable Costs

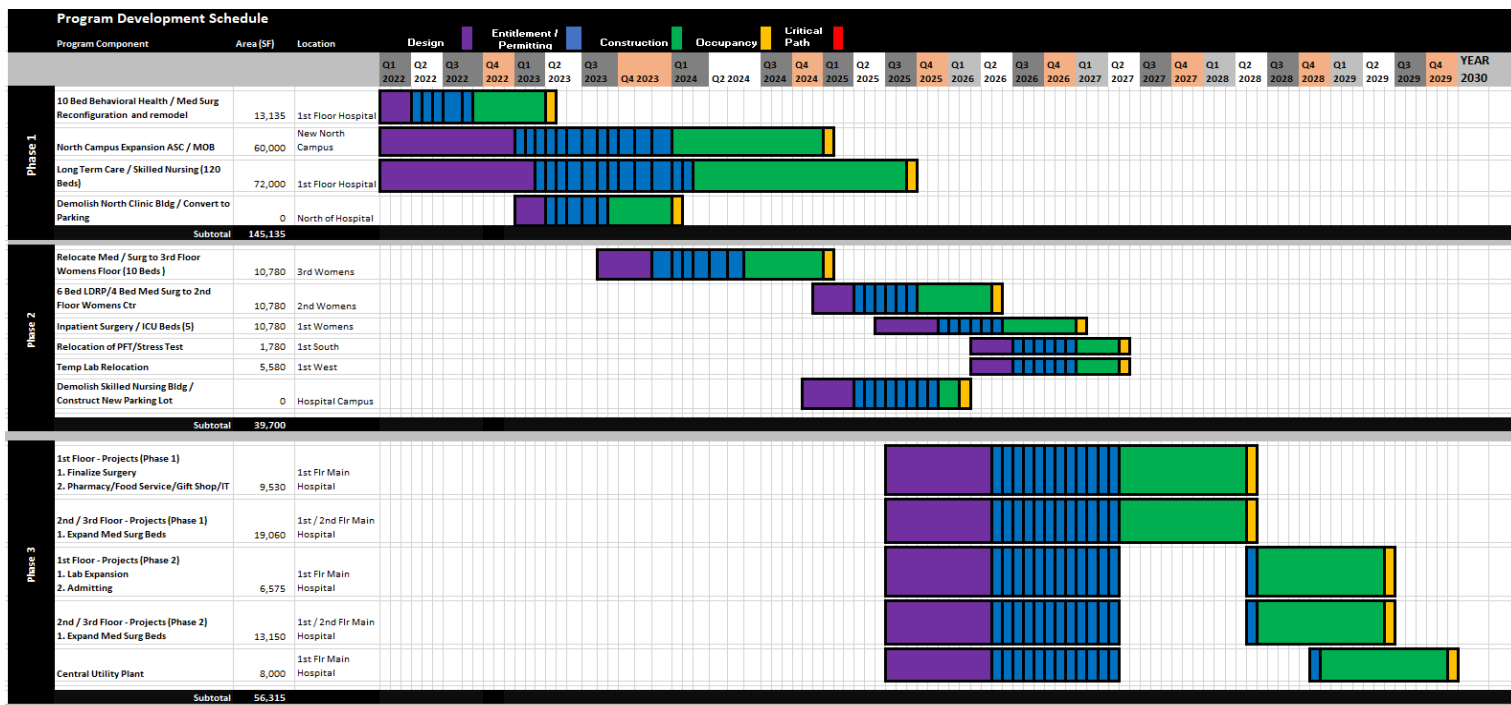
| | Total SF | Projected Costs |
|---|-----------|-----------------------|
| Construction | 72,439 | \$ 67,893,399 |
| Construction/Design Contingency | | \$ 7,730,404 |
| Escalation | 2-5 Years | \$ 23,070,769 |
| Site Costs (Demo/Parking Lot Exp) | | \$ 2,383,000 |
| Soft Costs (Arch, Permits, Certification) | | \$ 13,001,134 |
| Equipment & Furnishings | | \$ 10,225,838 |
| IT Costs | | \$ 3,919,335 |
| Project Contingency | | \$ 5,257,655 |
| | | \$ 133,481,534 |
| Medical Office Building | | \$ 79,590,364 |
| Total Project | | \$ 213,071,899 |

- Renovation and Expansion of Facility:
 - Renovation will address Seismic Issues as well as accommodate ADA, Departmental adjacencies and other FGI Issues.
 - Expands capacity to approximately 60 Beds
 - Lengthy Phase Project
- Doesn't replace original infrastructure, likely 15-year life.

- Projected Cost per Year of Life:
 - Hospital Only: \$8.9M



- Replacement of acute services located in buildings that are not compliant with seismic codes.
 - Expands capacity to approximately 60-70 Beds
 - Extremely disruptive to ongoing operations
- Doesn't replace all existing infrastructure, likely 25–30-year life.



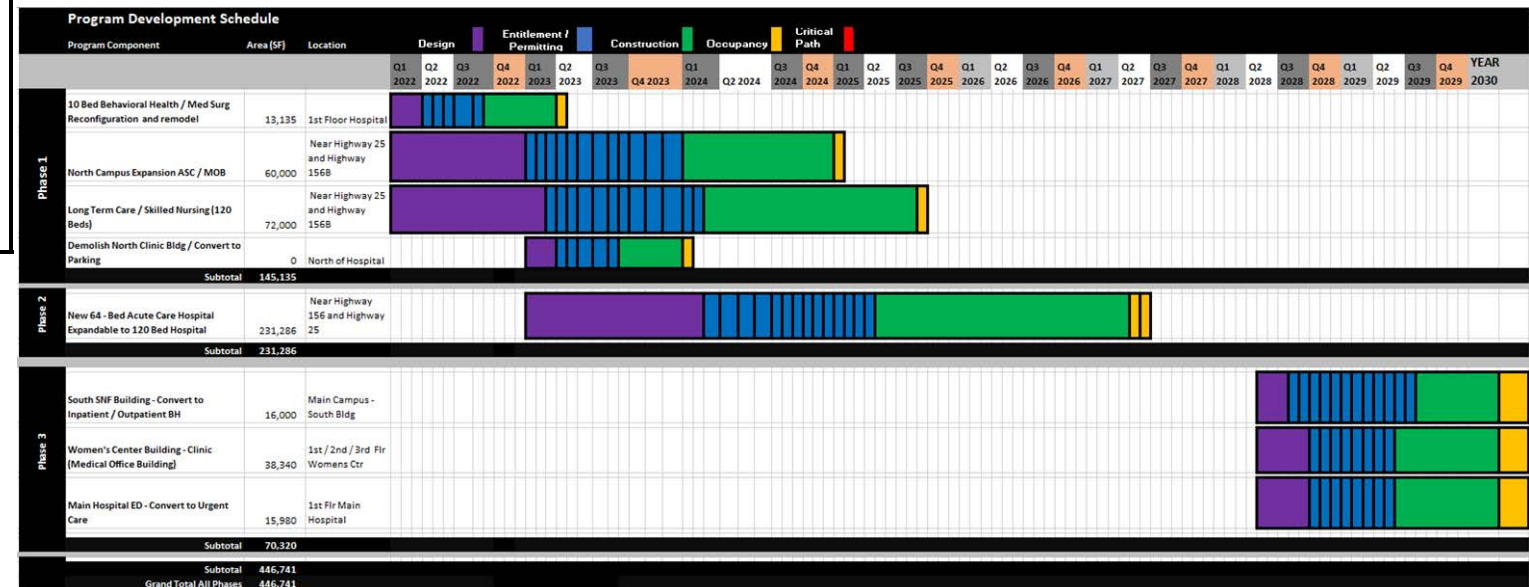
Hazel Hawkins Memorial Hospital Scenario 2 Option of Probable Costs

| | Total SF | Projected Costs |
|---|-----------|-----------------------|
| Construction | 94,252 | \$ 104,533,372 |
| Construction/Design Contingency | | \$ 11,760,801 |
| Escalation | 2-5 Years | \$ 28,110,124 |
| Site Costs (Demo/Parking Lot Exp) | | \$ 2,383,000 |
| Soft Costs (Arch, Permits, Certification) | | \$ 19,779,529 |
| Equipment & Furnishings | | \$ 6,581,729 |
| IT Costs | | \$ 7,068,900 |
| Project Contingency | | \$ 7,605,367 |
| | | \$ 187,822,822 |
| Medical Office Building | | \$ 79,590,364 |
| Total Project | | \$ 267,413,186 |

- Projected Cost per Year of Life:
 - Hospital Only: \$6.3M

| Hazel Hawkins Memorial Hospital Recommended Direction-Replacement Hospital Option of Probable Costs | | |
|---|----------|-----------------------|
| | Total SF | Projected Costs |
| Construction | 100,000 | \$ 88,047,409 |
| Construction/Design Contingency | | \$ 12,268,627 |
| Escalation | 4 Years | \$ 43,295,447 |
| Site Costs (Demo/Parking Lot Exp) | | \$ 23,485,560 |
| Soft Costs (Arch, Permits, Certification) | | \$ 20,633,599 |
| Equipment & Furnishings | | \$ 28,462,500 |
| IT Costs | | \$ 7,500,000 |
| Project Contingency | | \$ 9,019,885 |
| | | \$ 232,713,026 |
| Buildout of 3-WC into New Clinic | 1 Year | \$ 9,458,435 |
| Renovation of 2-WC to Clinic | 6 Years | \$ 12,677,041 |
| Total Project | | \$ 245,390,068 |

- Replacement of the Acute Care Infrastructure provides a number of benefits.
 - Lowest Impact on current operations and fastest scenario to completion.
 - Leverages the existing campus to become the Ambulatory and Administrative site for the system.
 - Existing Hospital infrastructure can be redeveloped into additional sub-acute beds. (SNF, Psych, etc.)
- New Hospital infrastructure has a projected life of 40-70 years.



- Projected Cost per Year of Life:
 - Hospital Only: \$5.8M over 40 years



Discussion

