



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.



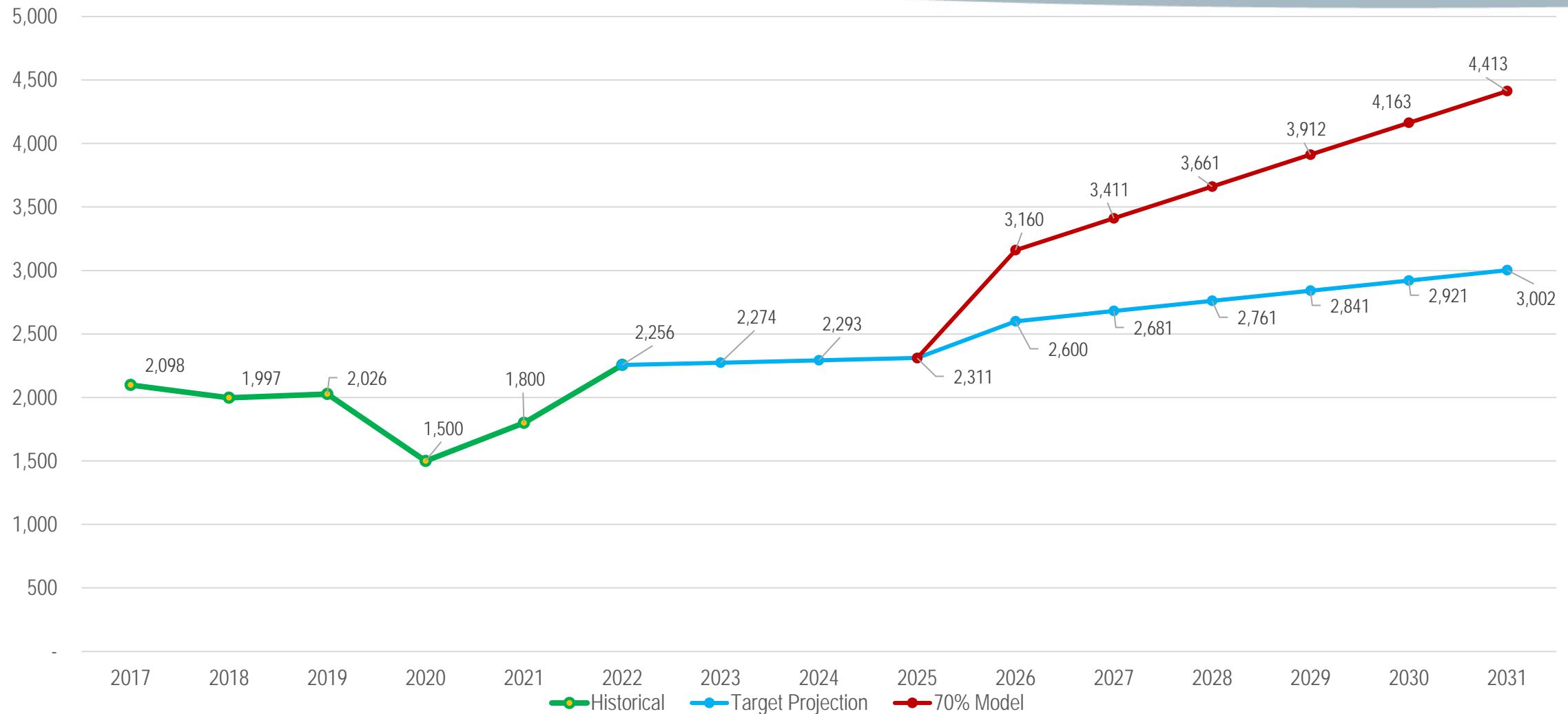
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Financial Model Comparisons

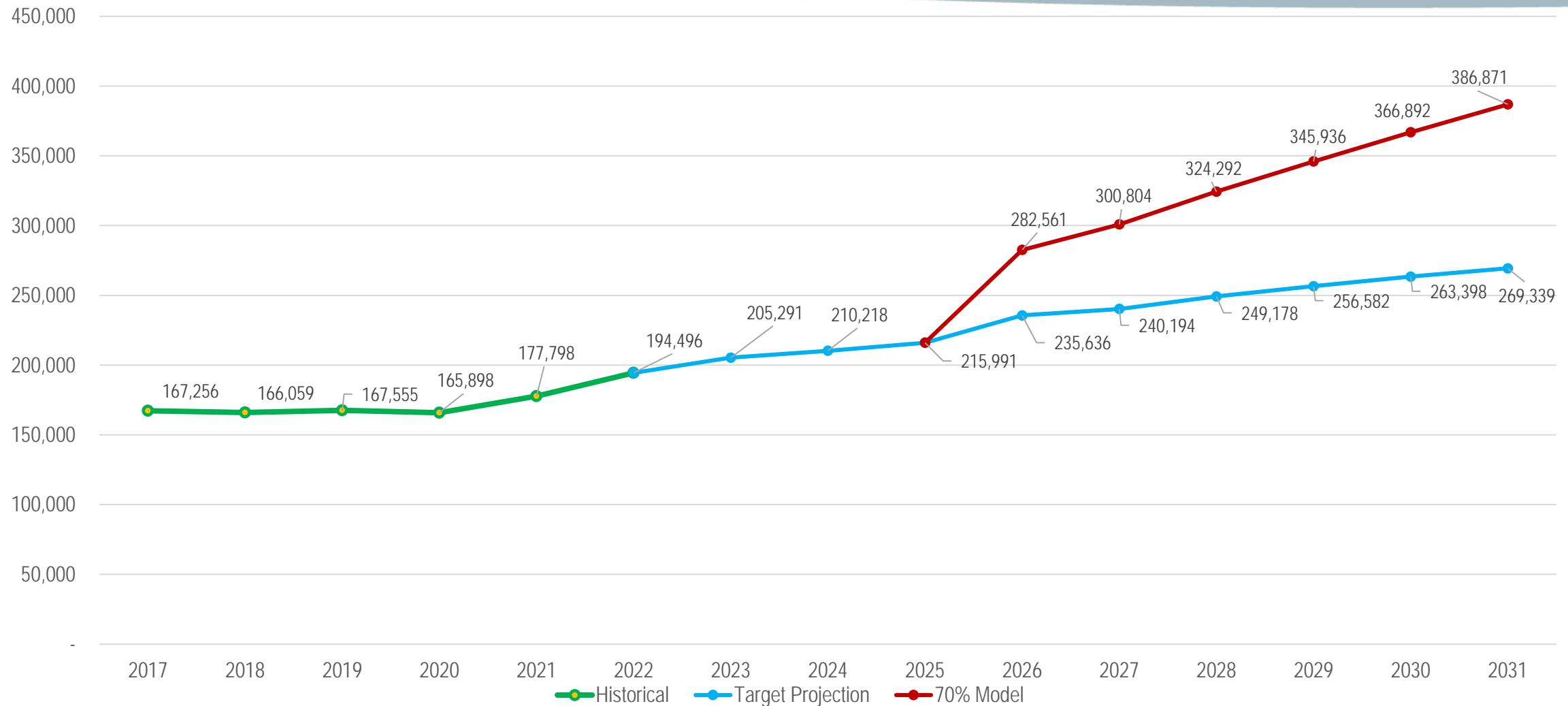


IP Discharges 2017-2031

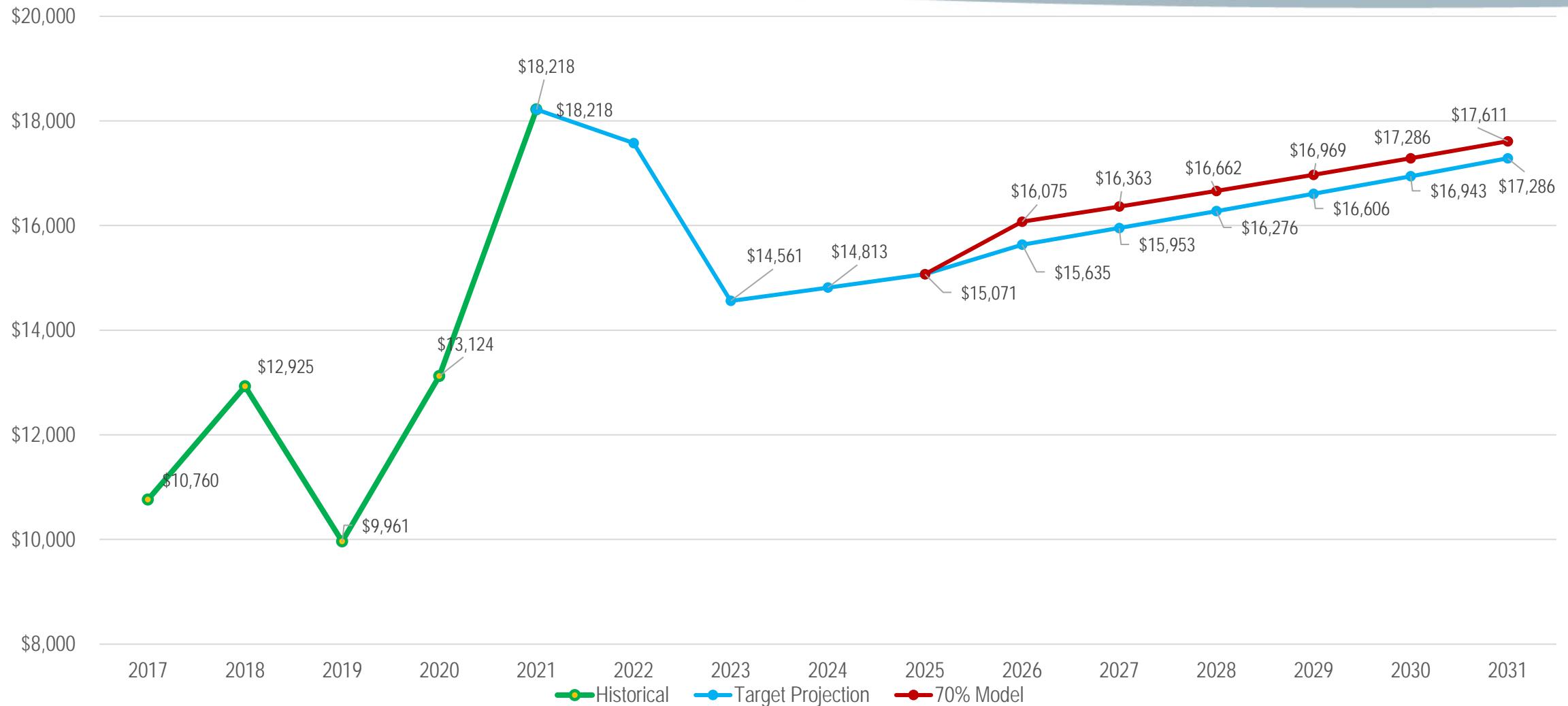


Outpatient Encounters

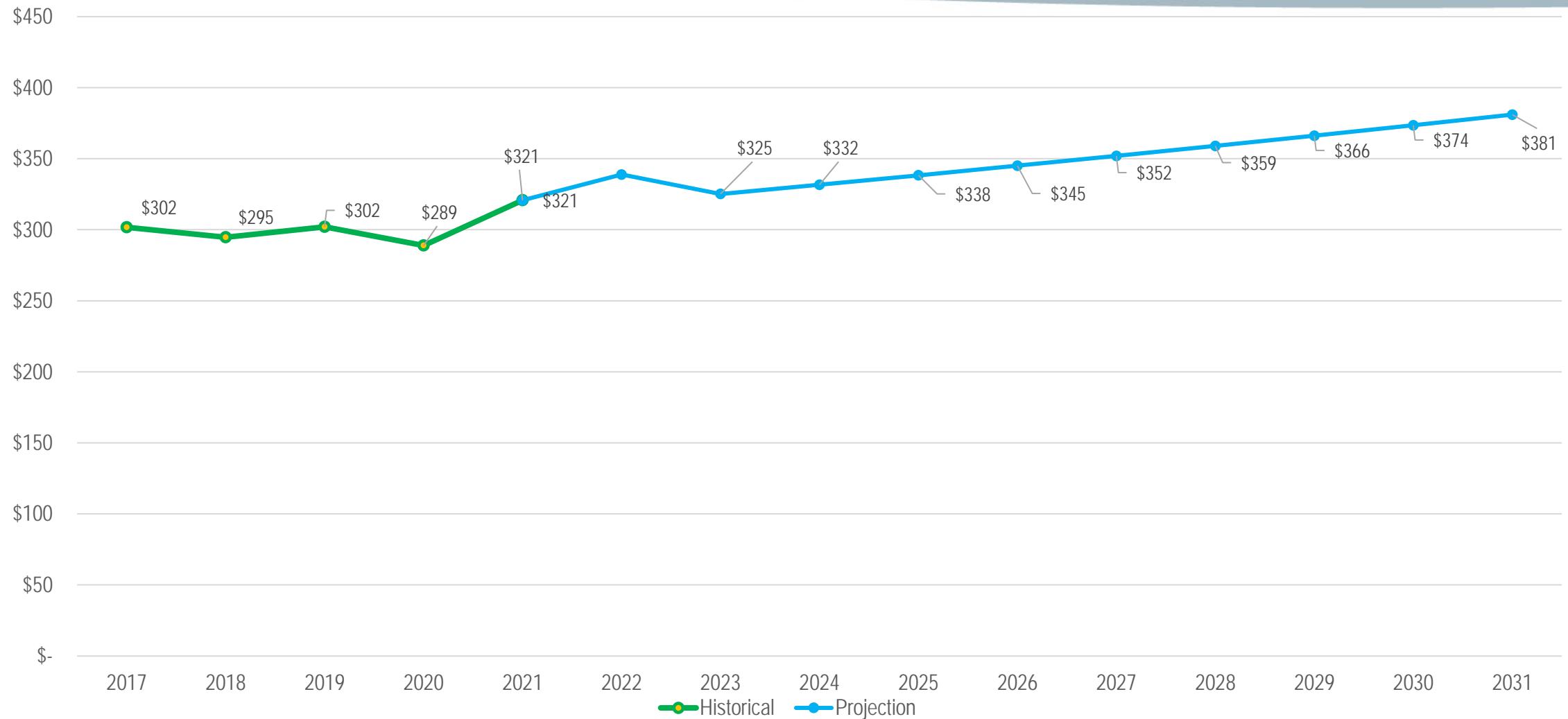
2017-2031



IP Net Revenue per Case 2017-2031

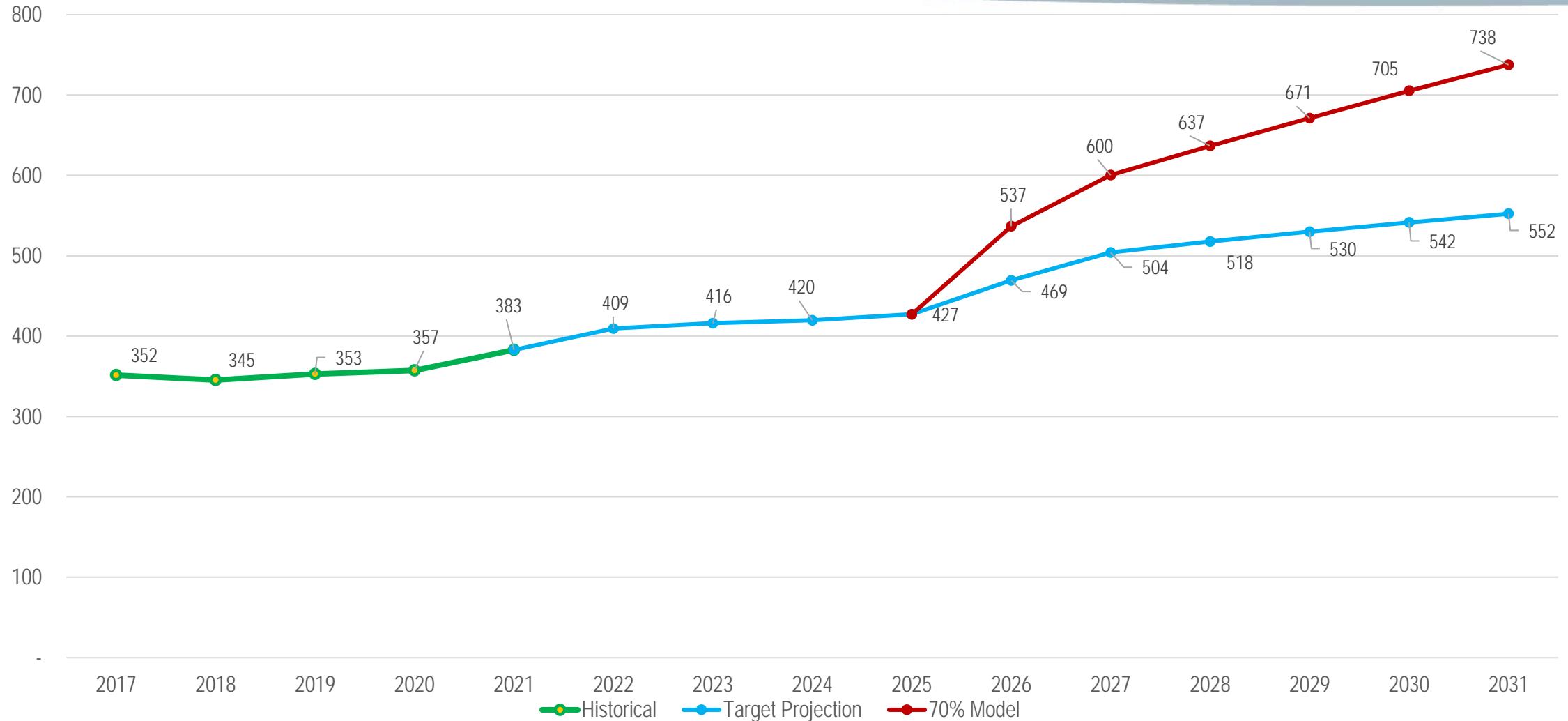


OP Net Revenue per Encounter 2017-2031



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																		
Revenues	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.

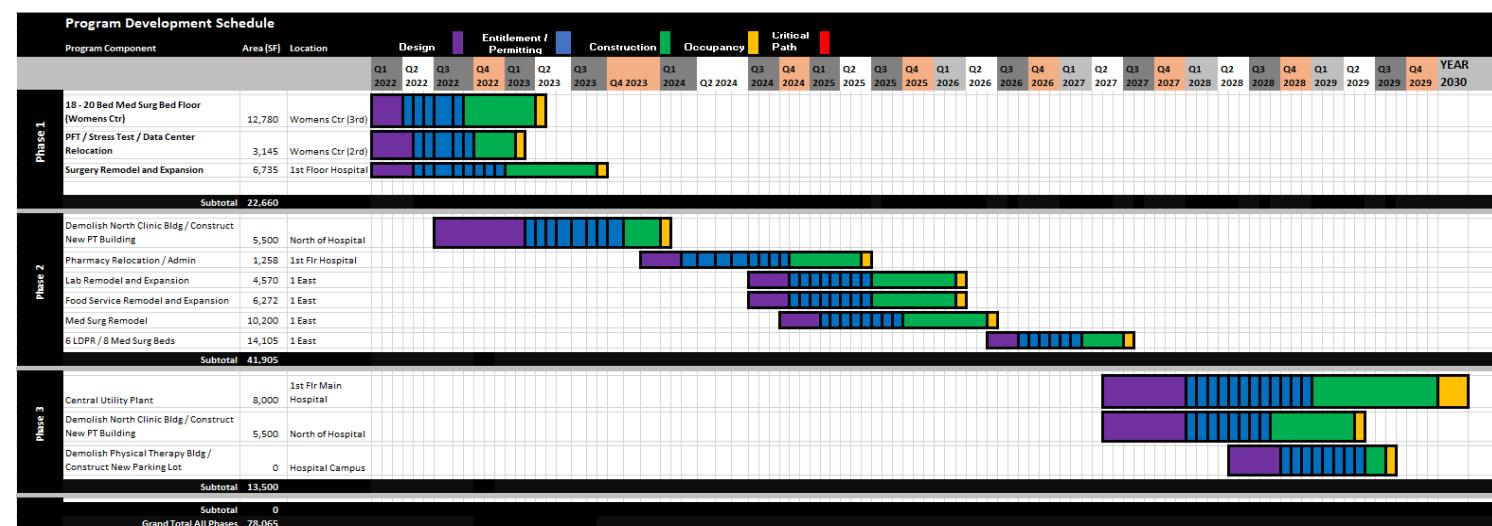
Hazel Hawkins Memorial Hospital

Scenario 1

Option of Probable Costs

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
			<u>\$ 133,481,534</u>
Medical Office Building			\$ 79,590,364
Total Project			<u>\$ 213,071,899</u>

- 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.



- 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
		<u><u>\$ 187,822,822</u></u>
Medical Office Building		\$ 79,590,364
Total Project		<u><u>\$ 267,413,186</u></u>

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



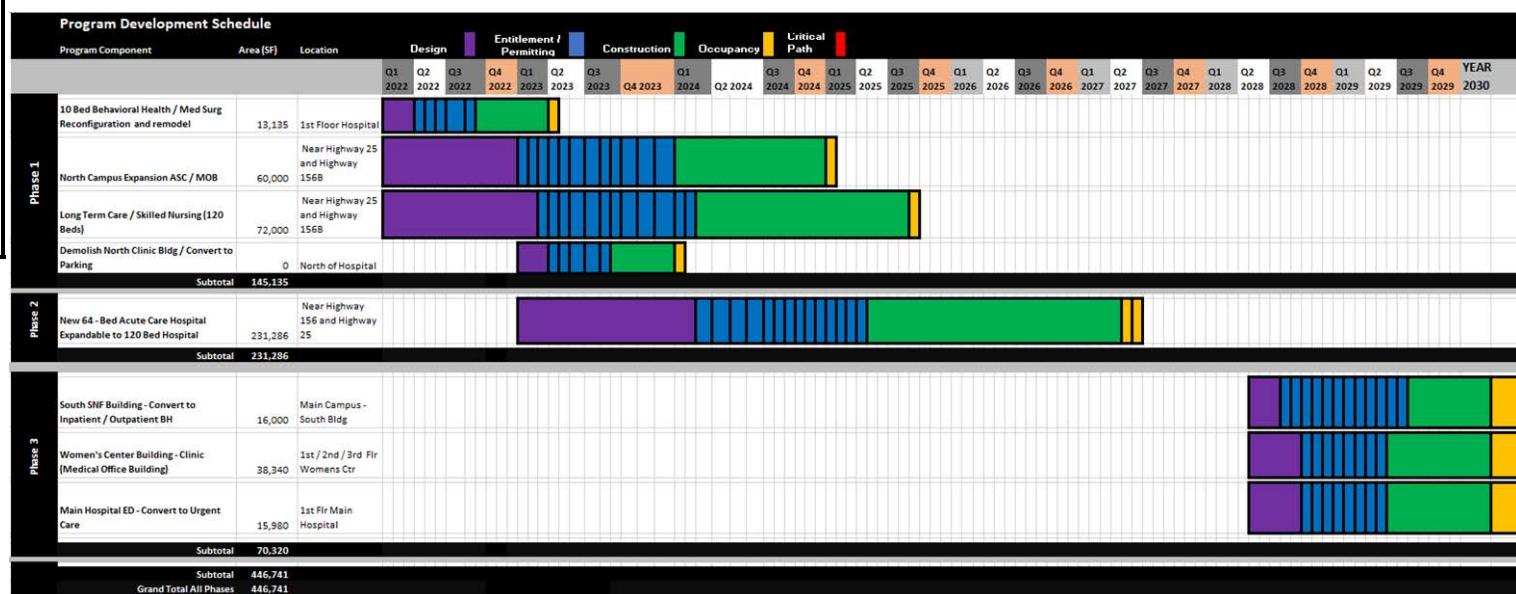
Hazel Hawkins Memorial Hospital

Recommended Direction-Replacement Hopsital

Option of Probable Costs

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
		<u><u>\$ 232,713,026</u></u>
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		<u><u>\$ 245,390,068</u></u>

- 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



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Discussion



ADAMS®