

New SONOMA VALLEY HOSPITAL

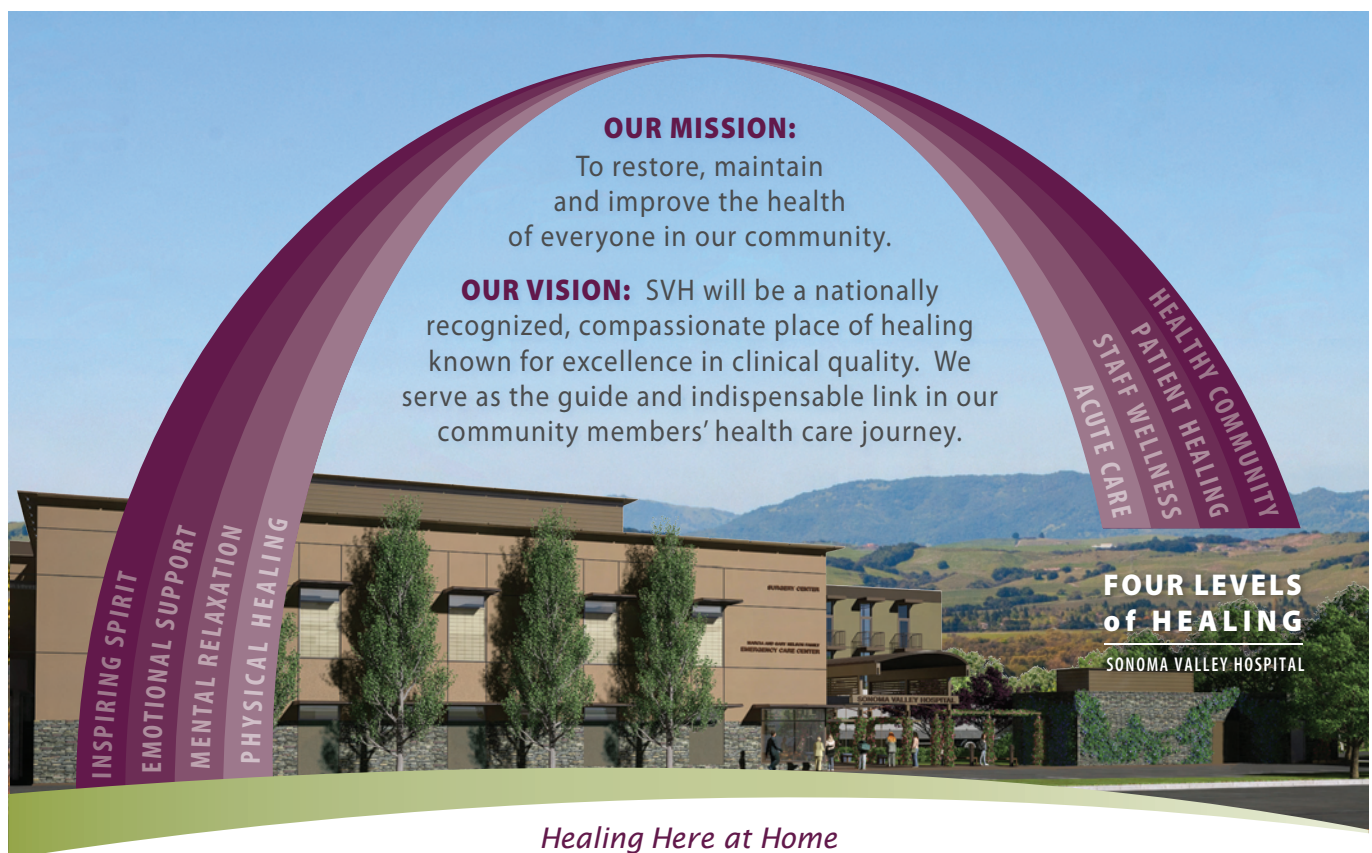


FY 2015
Three-Year Rolling
Strategic Plan

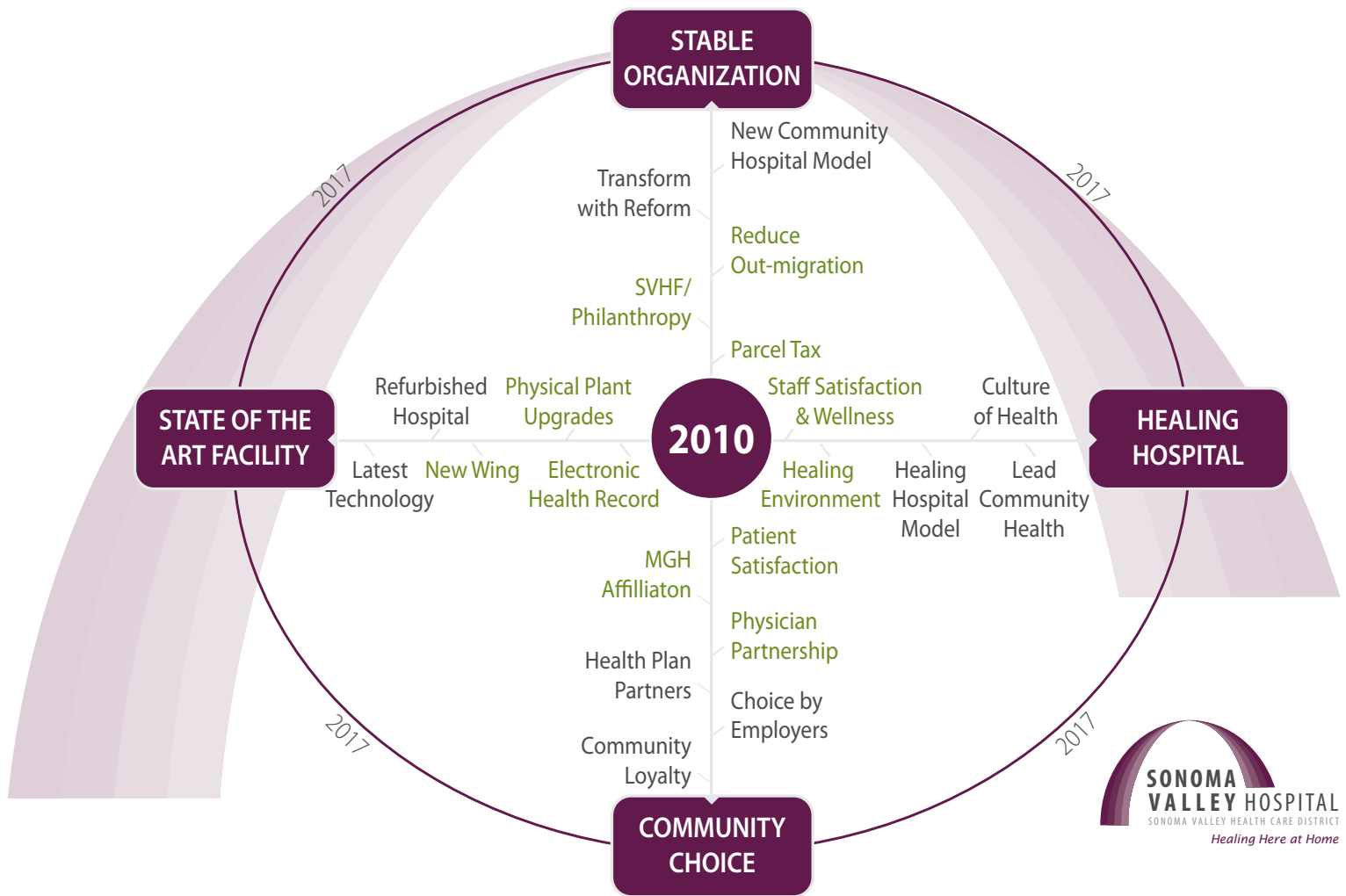
Executive Summary

Sonoma Valley Hospital ("SVH") has entered a new era of service to the Sonoma Valley. The Hospital has made tremendous strides in patient service levels, upgrade of its physical plant and creation of a positive culture. SVH is the preferred choice among residents for Emergency, Diagnostics, Rehabilitation, Skilled Nursing, Home Health Care and Occupational Health. SVH is in the process of redefining itself for the future in order to stay financially viable; provide the services that best address community needs; and help our residents to stay healthy.

In order to become sustainable amid the shifting landscape of modern health care, SVH must rethink its role as a community hospital. New and sustainable sources of revenue are needed to replace diminishing income from traditional inpatient services. Difficult choices must be made in terms of which services are offered. New models and sources of revenue must be identified from regional expansion of selected services (e.g., Home Health Care) and increased market share of inpatient procedures. And finally, continued generous support from the community is needed.



OUR VALUES: C.R.E.A.T.I.N.G **Compassion:** We show consideration of the feelings of others at all times. **Respect:** We honor and acknowledge the value of the people, places and resources in providing care. **Excellence:** We strive to exceed the expectations of the people we serve. **Accountability:** We are reliable, self-responsible owners of the outcomes of our organization. **Teamwork:** We are productive and participative staff members who energize others. **Innovation:** We seek new and creative solutions to deliver quality healthcare. **Nurturing:** We cultivate, develop and educate those with whom we work to achieve their highest potential. **Guidance:** We direct and lead our community members through their healthcare journey and in health improvement.



Strategic Priorities 2014-2016

REDESIGN THE SMALL COMMUNITY HOSPITAL MODEL FOR GREATER VIABILITY Trends in health care and hospital economics make it clear that small hospitals can no longer be all things to all patients. To be viable, the Hospital must reinvent itself in four important ways: actively manage the mix of services offered with an emphasis on outpatient services; pursue viable opportunities to reach a broader, regional audience with selected services; eliminate or reduce costs for unprofitable services; and continue to reduce the cost structure to below Medicare payments for each patient.

PERSUADE SONOMA EMPLOYERS TO OFFER HEALTH PLANS THAT USE SONOMA VALLEY HOSPITAL AND ITS AFFILIATED PHYSICIANS The changing nature of reimbursement and stronger ties between physicians and hospitals mean that SVH will increase revenues by identifying financially attractive health plan partners for Sonoma Valley residents as an alternative to Kaiser. Access to SVH must become an important reason for employers and residents when choosing a health plan.

IMPROVE FACILITY TO BE A STATE-OF-THE-ART HOSPITAL With the opening of the new Emergency Department and Surgical Center, the Hospital took a major step toward becoming a state-of-the-art facility. However, significant additional work is needed to bring the remaining physical plant up-to-date and to improve service efficiency. The Hospital will undertake a capital campaign working with the Sonoma Valley Hospital Foundation and philanthropic community to obtain the capital needed for additional facility improvements.

BUILD A HEALING HOSPITAL AND A HEALTHIER COMMUNITY With the implementation of capitation models and the decline in inpatient volumes, hospitals will need to focus on creating healthier communities in order to succeed. SVH will continue its efforts to become a place of healing, committed to high quality services and staff who inspire physical, mental, emotional and spiritual healing for the Sonoma Valley residents.



Environment Assessment: Trends in Hospital Health Care

SVH, like many other hospitals, faces numerous challenges and rapid changes to the environment in which it operates.

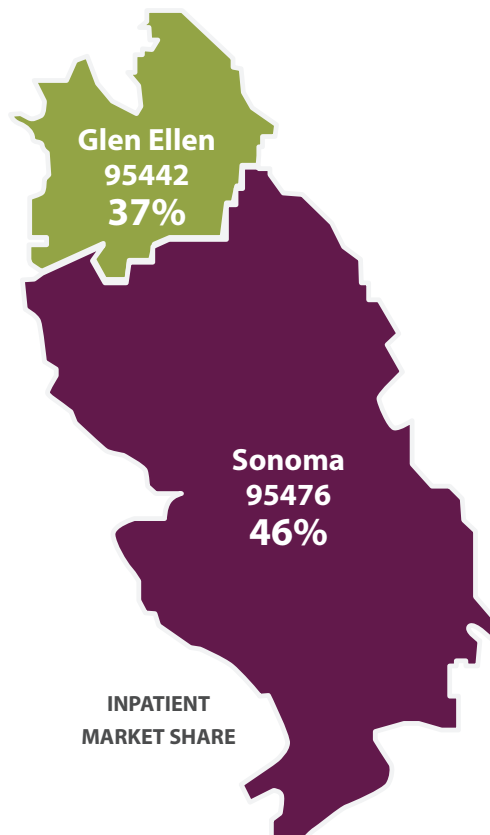
Changes in reimbursement and medical practice rules are impacting hospital margins:

- Government rules and reimbursement practices are placing severe pressure on Hospital revenues as patient care is pushed to outpatient treatment; reimbursement rates are reduced; patient outcomes are tied to reimbursement; and post-facto audits cause reimbursement take-backs.
- Commercial, fee-for-service margins are declining as insurers take their cue from governmental reimbursement and medical practice requirements.
- At the same time, regulatory requirements for Hospital operations, staffing and procedures are not being scaled back to provide commensurate expense reduction opportunities.

There are opportunities on the horizon that may offset some of the margin pressure, but they are not here yet:

- The health care market is moving toward a capitation model, which, once implemented, holds the possibility of higher margins, improved cash flow, and aligned incentives for improving community health.
- Advances in medical treatment, technology and health care practices are becoming a necessary part of hospital expense management to help offset the pressure on revenues.
- Tight integration of physicians and hospital networks has created more alignment to lower the costs of providing services and protecting market share.

SVH Situation Analysis



- SVH serves a very small community making it difficult for the Hospital to ever be fully self-supporting. It has become clear that both community and philanthropic support are required to sustain the Hospital financially.
- SVH's service area has a disproportionate share of 50+ residents and is under-represented in younger age categories. Seniors make up a significant portion of the SVH market with 19.5% of the Valley being over 65 years of age. This is significantly higher than the 13.2% average in the U.S.
- Consistent with a large and growing senior population, SVH is experiencing an increase in Medicare patients as a percent of total volumes. Due to lower government reimbursement, this is also placing pressure on margins.
- SVH's service area has a large and fast growing Latino population. By 2016, more than 32% of the Valley's population will be Hispanic. Latinos are expected to make up over 50% of California's population by 2050, and that benchmark could be reached in the SVH service area before that time.
- SVH has dramatically improved its service delivery over the past few years and now ranks above the national average for patient satisfaction and patient safety.
- Consistent with other institutions, the Hospital is experiencing steep declines in inpatient volumes.
- However, gross outpatient revenue is increasing dramatically, up by ~50% between 2010 and 2013.
- Hospital margins are extremely low. Some services lose money (e.g., Obstetrics) while other services (e.g., Surgery, Home Care and Rehabilitation) are profitable and are targeted areas of growth.
- The Hospital is known and valued by the community for its emergency care services.
- SVH has a good share of the market for Medicine, Gynecology, Inpatient Rehabilitation/Skilled Nursing, Outpatient Rehabilitation, Home Health Care and Diagnostics. SVH is showing positive growth and recovery in Orthopedics and Gastroenterology.
- Demand for new/additional physicians in the SVH service area should be relatively low during the planning period. Expected growth varies by sub-specialty, but current projections show no significant recruitment is needed until 2016.

Source: 2011 OSHPD Report

Competitive Assessment

SVH is one of eight hospitals in a 25-mile radius from Sonoma and is significantly smaller than all but one of these facilities. Kaiser Permanente is the largest competitor for SVH (when both San Rafael and Santa Rosa facilities are combined), although capturing volume from these hospitals will require SVH to win a larger share of the health plans used by Valley businesses and residents.

Sonoma Valley Hospital Inpatient Market Position

- SVH inpatient cases decreased by 8.7% between 2010 and 2013, from 1,790 cases in 2010 to 1,636 in 2013. The decline in inpatient volume is, at least in part, a function of having certain procedures moved from inpatient to outpatient.
- Sonoma Valley Hospital's share of inpatient cases fell to 43.5% in 2012 (2013 data on market share is not yet available), decreasing 2.5% since 2010. Share loss can be attributed to implementation of case management and increased scrutiny from payers as SVH provides appropriate levels of care for all patients.
- Marin General Hospital now has about a 6% inpatient market share, up from 3% in 2010, which shows that the regional partnership is effective.
- Santa Rosa Memorial and Napa's Queen of the Valley hospitals also handle a large number of inpatient procedures that could be done at SVH. Sonoma Valley Hospital lost share in five of its top seven inpatient procedures and lost significant share in other, less common procedures (e.g., General Medical, Pulmonary, Neurology, Neonatology).
- Kaiser Santa Rosa and San Rafael combined handle approximately 13.8% of inpatient procedures for Sonoma Valley residents and have a large share of many of the most common procedures.

| Inpatient Share | SVH Visits | SVH Share 2012 | Share Change 2010-12 |
|----------------------|--------------|----------------|----------------------|
| Rehabilitation (SNF) | 353 | 90.5% | -4.1% |
| Orthopedics | 176 | 35.5% | 1.7% |
| Obstetrics | 151 | 46.0% | -1.1% |
| Medicine | 149 | 65.4% | -4.4% |
| Gastroenterology | 112 | 56.3% | 3.8% |
| Cardiology | 109 | 35.2% | -2.6% |
| General- Surgical | 93 | 35.5% | -0.6% |
| All Other | 285 | 23.7% | -7.4% |
| Total | 1,428 | 43.5% | -2.5% |

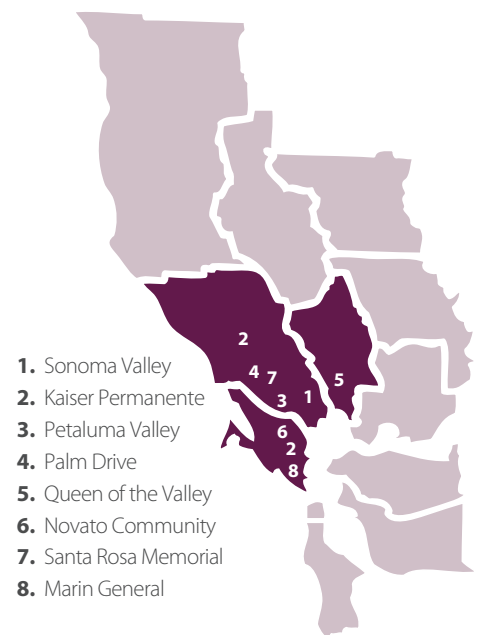
Outpatient Market Position

- Outpatient surgical market share for the primary service area increased significantly, from 27% in 2010 to 32.1% in 2013. However, SVH is underperforming in surgery and is experiencing significant outmigration for surgeries that can easily be done locally.
- Kaiser Santa Rosa and San Rafael handle approximately 17% of outpatient surgeries performed for residents in the combined service area. Sonoma patients are attracted to Kaiser due to its attractive pricing for its HMO offering despite experiencing considerable inconvenience in traveling to facilities outside the Sonoma Valley.
- Queen of the Valley in Napa and Petaluma Valley Hospital are secondary competitors for outpatient surgeries. Queen of the Valley handles about 9% of Sonoma Valley residents' outpatient surgeries.

| Inpatient Share for Selected Admissions | SVH | Kaiser Combined | Santa Rosa Memorial | Marin General | Queen of the Valley |
|---|-------|-----------------|---------------------|---------------|---------------------|
| General- Surgical | 35.5% | 18.7% | 6.1% | 4.2% | 8.4% |
| Cardiology | 35.2% | 13.9% | 6.1% | 14.5% | 8.1% |
| Medicine | 65.4% | 15.8% | 4.4% | 0.9% | 1.8% |
| Orthopedics | 35.5% | 15.6% | 8.1% | 5.0% | 7.1% |
| Obstetrics | 46.0% | 22.3% | 4.9% | 2.1% | 4.9% |

Emergency Department Market Position

The Hospital's emergency market share continues to be high at 68% for the combined service area and the number of emergency visits is increasing each year.

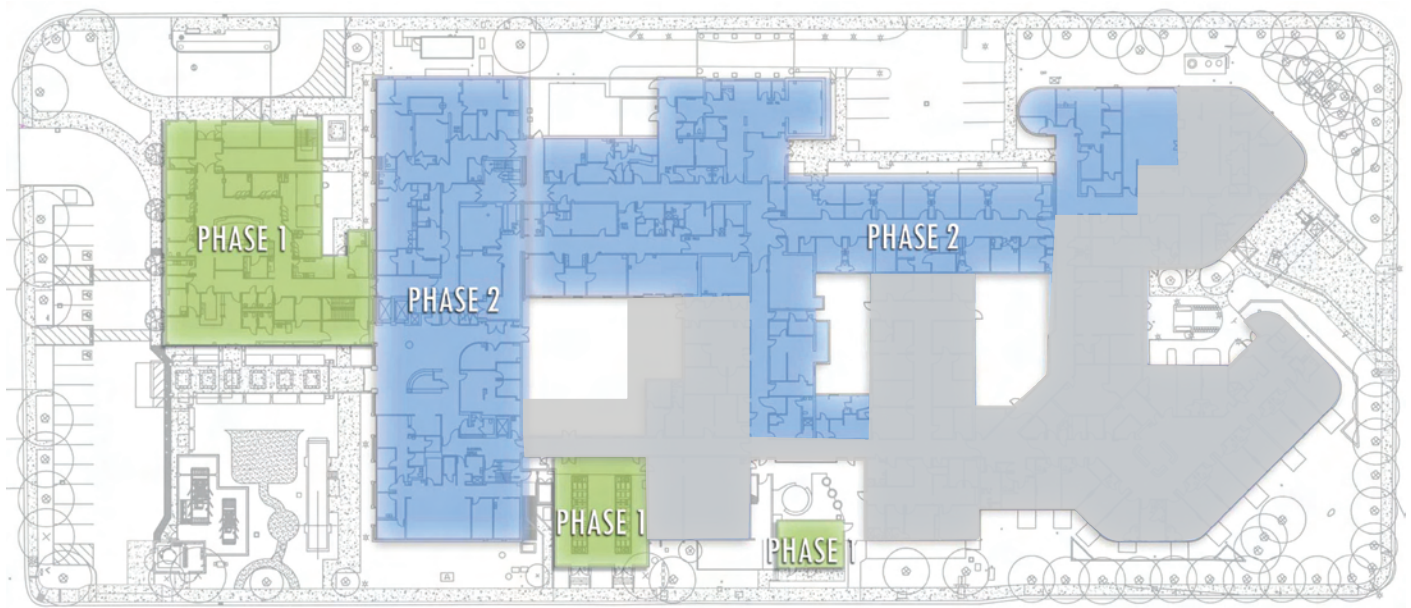


The Future

Sonoma Valley Hospital has emerged from a period of turmoil and uncertainty about its future. The Hospital has made significant progress in stabilizing the organization and dramatically improving service delivery and quality. With generous support from the community, the Hospital has completed construction of a new Emergency Department and Surgery Center, which opened in February of 2014. The Hospital also has addressed some of the long-standing deferred maintenance issues to bring older facilities up to seismic requirements, allowing these areas to function effectively for another 20 years.

Reimbursements from Medicare and Medi-Cal are significantly below cost and the Hospital still must rely on the support of an annual parcel tax to achieve financial stability. The future will include ongoing pressure on margins as insurance companies and government policies work to further reduce reimbursement for care. The community has been very generous in recent years through the approval of a General Obligation Bond, the parcel tax and significant philanthropic contributions.

Sonoma Valley Hospital is uniquely positioned to succeed in the continually evolving landscape that is health care today. The old hospital model, in which the economics of health care are largely based on serving those who are acutely ill, is no longer viable. The 'Future' is a hospital economic model growing from the need to serve the entire community as a place of healing and a partner in health.



Implementation Plan for the Strategic Priorities

| STRATEGIC OBJECTIVES | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 | FY 2016 | FY 2017 |
|--|-------|-------|-------|-------|-----------|---------|
| Re-design A Small Community Hospital Model For Viability | | | | | | |
| Increase surgeries with focused marketing of Orthopedics and operate as Surgery Center | x | | | | | |
| Leverage new cost accounting system to enhance service unit and procedure profitability | x | x | | | | |
| Negotiate improved systems for reimbursement with health plan partners (above cost) | | x | x | | | |
| Complete expansion of home care agency to Marin County; consider Napa & West County | | | x | | North Bay | |
| Win back ancillary services when patients are referred to out-of-area specialists through PCP | x | x | x | x | x | x |
| Increase outside referrals to SVH's Skilled Nursing Unit | x | x | x | x | x | x |
| Increase Rehabilitation, Occupational Health and Wound Care service market share through continued community outreach | x | x | x | x | x | x |
| Inspire Sonoma Employers To Offer Health Plans That Use Sonoma Valley Hospital And Its Affiliated Physicians | | | | | | |
| Create and launch an Employer Health Wellness Program | x | x | | | | |
| Build local employer loyalty and promote partner health plans to reduce out-migration | x | x | | | | |
| Offer new Medicare Advantage plan partner to Sonoma County | | x | x | | | |
| Expand shared risk agreements with additional health plans covering a larger percent of Sonoma Valley residents | | | x | x | | |
| Build loyalty and support growth of SVH affiliated physician practices | x | x | x | x | | |
| Share in Medicare savings programs with our physician partners demonstrating population health improvement | x | x | x | x | | |
| Facility Improvements To Be A State-Of-The-Art Hospital | | | | | | |
| 1st Floor refurbishment (Lobby, Lab, Corridors) for service excellence and to further enhance the image of quality | x | | | | | |
| Refurbish 3rd floor with an Integrative Health Center to enhance patient services and visits | x | | | | | |
| Obtain an MRI and move it inside the hospital (with philanthropic support) for more referrals | | x | | | | |
| Obtain Stage 2 Meaningful Use with the Electronic Health Record | | x | x | | | |
| Launch a capital campaign for a new Outpatient Diagnostic Center to enhance efficiency and reduce costs | | | x | x | x | x |
| Further build the I.T. infrastructure to create the foundation for more information technology including a patient portal | | | | x | x | |
| Build A Healing Hospital And A Healthier Community | | | | | | |
| Complete the Culture of Health through the implementation of healing hospital modules and share best practices across the nation | x | | | | | |
| Launch Integrative Health Clinic and disease reversal program | x | | | | | |
| Expand the SVH staff wellness program to family members for increased health cost savings | | x | | | | |
| Offer Wellness University & other classes to the community to improve health and brand loyalty | | x | x | | | |
| Continue to offer Health Awareness & Education programs through Compass, GirlTalk & Women's Health Center | x | x | x | x | | |
| Support Sonoma Valley Health Roundtable initiatives and lead the Circle of Wellness pilot project | x | x | x | x | | |
| Show improvement toward goals for a Healthy Sonoma County 2020 in the Valley | | | | x | x | x |

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is uniquely positioned to succeed in
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