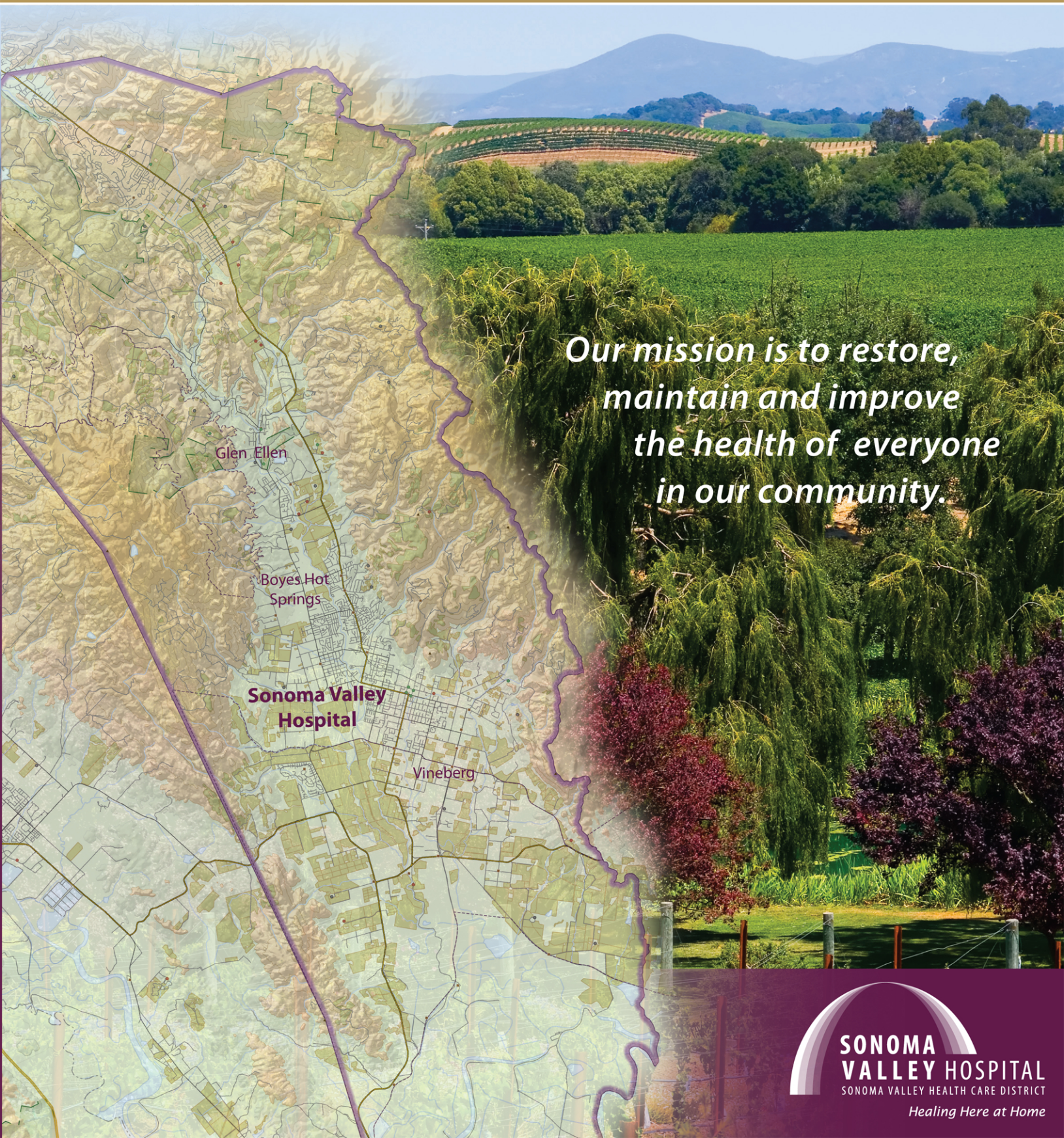


SONOMA VALLEY HOSPITAL

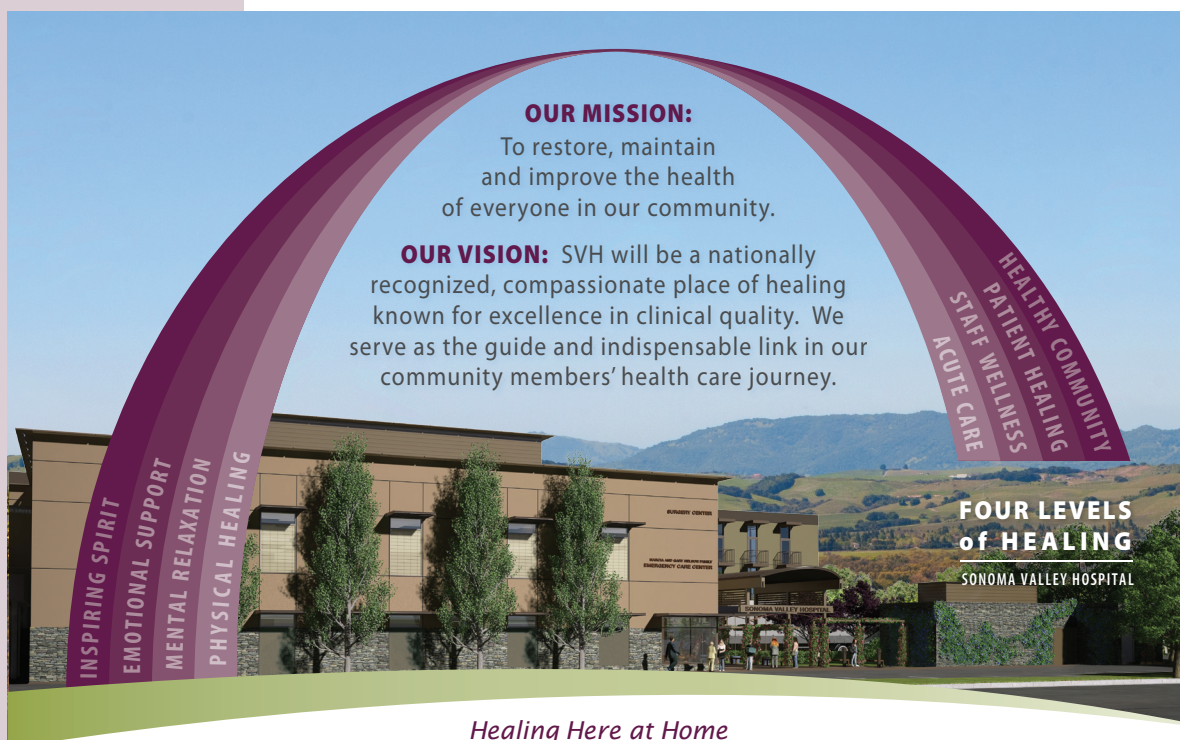
2017 Three-Year Rolling Strategic Plan

*Our mission is to restore,
maintain and improve
the health of everyone
in our community.*



FY 2107 Three-Year Rolling Strategic Plan

Sonoma Valley Hospital ("SVH") is a 75-bed acute care hospital serving the health care district made up of the Sonoma Valley including the City of Sonoma. We have 48 Acute Care beds and 27 Skilled Nursing (long term) beds. By all objective measures, SVH consistently demonstrates performance that is commensurate with or outperforms hospitals across the country. Patients and the industry recognize the extraordinary level of quality and safety that SVH provides. SVH offers a wide variety of health care services based on the needs of our district. The Emergency Department is the key service line, which requires an Intensive Care and Medical Surgical Unit, Surgery, Laboratory, Radiology and Cardiopulmonary services. In addition to these essential services, SVH provides a Skilled Nursing Facility, Home Health, a Birth Center, Occupational Health, Wound Care and Wellness programs to our community.



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 2017-2019

01 • Achieve the highest levels of safety and quality health care — SVH has excellent quality outcomes. SVH will remain in the top quartile in the Centers for Medicare and Medicaid Services (CMS) quality outcome measures, patient and staff satisfaction.

02 • Systematically identify new and enhanced service and revenue opportunities — Working in partnership with our excellent physicians and other affiliate groups and institutions, we will continue to expand the health care services based on community need to increase local access to health care. In addition, we will ensure quality health care with fiduciary oversight and ask the community to renew its support for the parcel tax to ensure we have a high quality hospital.

03 • Continuously improve efficiency — SVH is a small hospital in a small community and must have a laser-like focus on efficiency and financial discipline. Through evidence-based medicine and other innovative best practices, we will continue to provide the highest quality of care at the lowest possible cost.

04 • Support progress toward a Healthy Community — SVH lives its mission to restore, maintain and improve the health of everyone in our community. We do this through a population health strategy that includes children's health education, health awareness and disease management programs.

Environment Assessment: Trends in Hospital Health Care

The disruption in health care signaled by reform, changes in government reimbursement programs, and mandates to reduce utilization of hospital inpatient care continue to affect hospital operations. In addition, commercial payers continue the trend of compensating hospitals differently for many services. As a result, hospitals find themselves moving toward a team approach that coordinates inpatient and outpatient care for defined populations, continuing to closely monitor quality of care outcomes even outside of the hospital, while necessarily becoming more creative in providing the services the community needs.

The challenges are especially critical for small hospitals like ours, which serve a smaller patient base and lack economies of scale. We see several important trends that are impacting our hospital: 1) continued declines in reimbursement for services; 2) the challenges of managing more efficiently while simultaneously providing high quality care and outstanding service because patients have increased choices; 3) the importance of a convenient and well-managed Emergency Department; and 4) the increased integration of various providers and payers linked to an overall patient management regime. While the future role of a primary care hospital in smaller communities is still emerging, SVH is at the forefront in defining a sustainable and successful model.

We are seeing dramatic and continuous declines in reimbursement driven by government insurance programs, which impacts all types of insurance. This downward pressure on margins means that all hospitals must be much more efficient while growing new service revenues. For small hospitals in California, the dominance of government as the main reimbursement source for patients underscores the need for efficiency as the level of that reimbursement is so low. With over 80% of our patients in Medicare or Medi-Cal insurance programs, SVH has made progress in managing costs, improving margins, and sustaining our Hospital with lower reimbursement even while improving quality.

Emergency care remains the foundation for our community engagement. We have strengthened our emergency services to maintain high patient satisfaction, while seeing patient visits to the Emergency Department increase by 20 percent in just the past year. A major focus is to continue growing outpatient services, all of which are important for our future. We also are identifying creative new solutions, such as our recent successful efforts to attract new physicians through our physician timeshare offices and to maintain physicians in the community through both a 1206(b) and 1206(l) clinic.

As we move ahead, tighter integration of physicians, providers and hospital networks

Environment Assessment: Trends in Hospital Health Care *(cont)*

is needed to deliver comprehensive and coordinated care, including wellness/prevention, episodic care, and management of chronic conditions, mental/behavioral health, and appropriate end-of-life care. Effective integration management will be critical to ensure sustainable delivery systems, especially as reimbursement moves toward bundled payments and capitation arrangements based on the wellness, outcomes and the health status of individuals. SVH is well positioned for this because we offer services across the entire continuum of care including Skilled Nursing, Home Health Care and Outpatient Rehabilitation.

The implementation of the Affordable Care Act, expansion of Medi-Cal and the decline of inpatient services continue to stimulate a wide variety of changes, which particularly affect small hospitals. These include a decrease in the number of uninsured patients; restrictions on access to some physicians and hospitals (narrow networks); higher out-of-pocket costs for patients who selected certain options; and an increase in the numbers of individuals covered by Medi-Cal. With more patients now having health insurance, the need for more physicians in every community has increased.

Finally, there continues to be strong emphasis on quality, patient safety, and outcomes, as well as advances in information technology, electronic health records, and telemedicine. While positive and necessary,

these contribute to rising health care expenditures and must be managed appropriately. With so many changes happening over the last few years, it is clear that access and efficiency for outpatient services is the key to a sustainable hospital.

SVH offers services across the entire continuum of care including Skilled Nursing, Home Health Care and Outpatient Rehabilitation.

SVH Situation Analysis

The Community Served SVH serves a small community, running from Glen Ellen down through the City of Sonoma, including Boyes Hot Springs, El Verano and Vineburg. The two main zip codes served are 95476 and 95442. The population of these areas is approximately 42,000 and very limited growth is anticipated in the coming years.

Age Of Residents And Growth Rates Of Seniors SVH's service area has a disproportionate share of 50+ residents and is under-represented in younger age categories. In 2014, residents aged 55 and older made up 39% of the total population. This group is predicted to climb to 42% in the next three years. Statewide, the percentage of the population over 55 years old is just 21%.

Growth Of Latino Population Over the past three years, Sonoma's Latino population has grown from 26% to 28%, and is projected to grow to 31% within the next three years. SVH continues to support this population with increased access to health care services as well as bilingual health education services.

Payer Mix Trends The Hospital continues to address the effects of a changing payer mix. Medi-Cal now represents around 20% of SVH volume, an increase from just 7% less than two years ago. Although low reimbursement causes significant fiscal strain, the supplemental payments received do help cushion the Hospital's loss on these patients. Medicare volumes are stable, continuing to represent approximately half of our payer mix, while the commercially insured payer volumes have dropped from 24% to 20% of the total, which equates to over \$2 million dollars less revenue per year.

Patient Satisfaction And Experience SVH has high patient satisfaction and it continues to improve. Over the past twelve months, SVH has scored above the 60th percentile in six of the nine areas surveyed and often is in the 80th percentile in several areas. This means we are above average compared to hospitals in the nation as monitored by CMS.

Quality Outcomes SVH is in the top 25% of hospitals in the nation according to a set of surveys monitored by CMS. The Value Based Purchasing score is monitored annually and SVH received a bonus for the past two years for being in the top quartile for quality outcomes.

SVH Situation Analysis *(cont)*

Inpatient Admissions Inpatient admissions, while having declined rapidly for many years, actually increased approximately 4% this past year versus the prior year (1,214 in FY15, up from 1,168 in FY14).

Emergency Services Emergency Department visits are expected to remain over 10,500 annually with over 70% market share. ED visits have increased by over 20% in the last two years, and admissions from this service also are projected to continue to increase.

Managing Service Line Profitability SVH is an innovative leader in the hospital industry for its use of a cost accounting system to manage service lines for improved safety, efficiency and profitability. There is an ongoing process to achieve the highest efficiency in each of our 10 service units and all currently have positive operating margins.

Outpatient Market Share SVH has been successful in increasing outpatient volumes over the past few years. The market for outpatient procedures for Valley residents is projected to grow by 3.6% from FY 2014 to FY 2017, and SVH will continue to compete to be the preferred provider in many areas. SVH has a high market share in Lab, Radiology and Rehabilitation, with a year-over-year increase in Orthopedic Surgery. General Surgery has declined this past year. We currently have specialists in Urology, General Surgery, Bariatrics, Orthopedics, ENT, Spine, Vascular, Cardiology, Pain Management, and Nephrology.

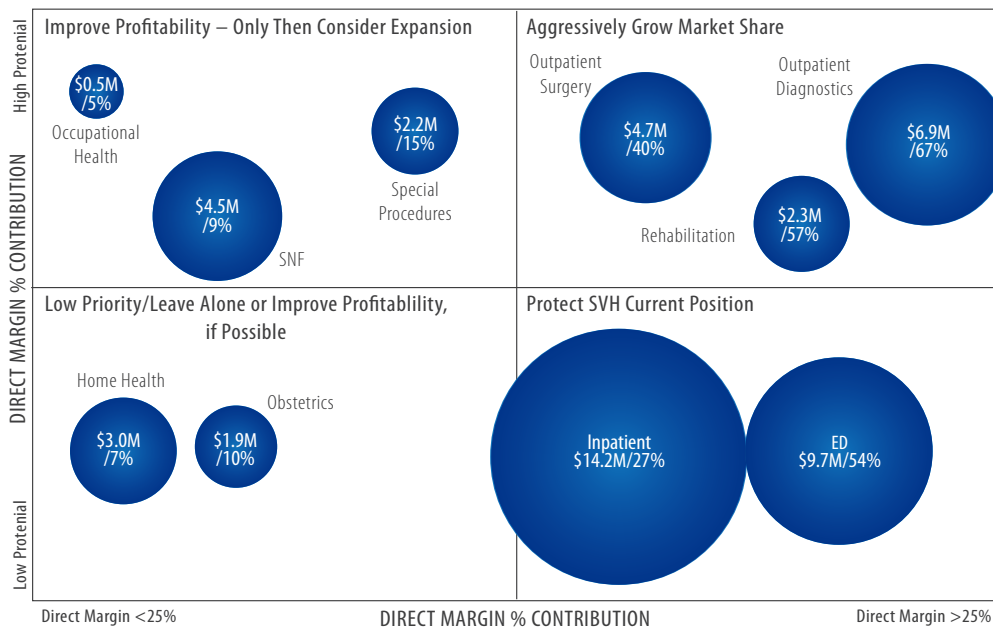
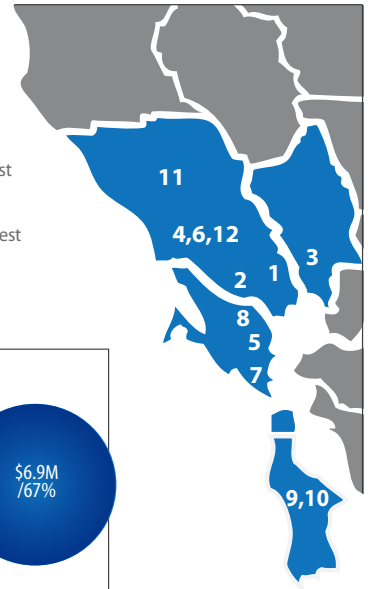
Primary Care Primary Care continues to be in large demand in our area. Working closely with Prima Medical Foundation (the 1206(l) physician clinic), SVH is continuously monitoring the supply and demand situation for Primary Care and working with our partners to recruit new providers as necessary.

Innovation Over the past few years, SVH has worked with many different community partners to bring services and education to our community. Satellite Healthcare (a dialysis company) is moving into the Sonoma Valley. In addition, we work with many organizations, such as the Sonoma Valley Community Health Center to improve access to health care.

Competitive Assessment

Sonoma Valley is a relatively isolated community and SVH is the only hospital in the Valley. However, there are eleven other hospitals in the closely surrounding communities. Kaiser Permanente has the highest inpatient market share in the Valley after SVH. Many of the larger employers in the Valley choose Kaiser as their primary insurance option because it has historically offered a low-cost solution.

- | | | |
|---|---|---|
| 1. Sonoma Valley
Total Beds 75 | 5. Kaiser San Rafael
Total Beds 116 - 25 mi. South | 9. UCSF Medical Center
Total Beds 660 - 43 mi. South |
| 2. Petaluma Valley
Total Beds 80 - 14 mi. West | 6. Santa Rosa Memorial
Total Beds 256 - 21 mi. Northwest | 10. Kaiser San Francisco
Total Beds 236 - 43 mi. South |
| 3. Queen of the Valley Napa
Total Beds 181 - 17 mi. East | 7. Marin General
Total Beds 218 - 30 mi. South | 11. Healdsburg Hospital
Total Beds 25 - 35 mi. Northwest |
| 4. Kaiser Santa Rosa
Total Beds 173 - 23 mi. Northwest | 8. Novato Hospital (Sutter)
Total Beds 47 - 20 mi. Southwest | 12. Sutter Santa Rosa
Total Beds 120 - 44 mi. Northwest |



Marin General, Santa Rosa Memorial and UCSF, which are tertiary hospitals, receive the highest number of inpatient admissions from our service area. Most of these admissions are for services that a primary care hospital should not provide.

SVH has a strong market share in Emergency Services, Outpatient Diagnostics, Skilled Nursing, Occupational Health and Home Health Care. There are opportunities to improve market share in Surgery, Obstetrics, Special Procedures and Inpatient Services.

Strategies & Tactics FY 2017

Strategic Priorities

Continuing & New Initiatives

Program & Tactics

Achieve the highest levels of safety and quality health care

Staff Satisfaction

Maintain good staff retention, implement more salary adjustments and continue to enhance Wellness Program participation and Culture of Health.

Inpatient Satisfaction

The Patient Experience Team is implementing more of the best practices and adding patient advisors.

Emergency Services Satisfaction

Hardwire best practices from other Emergency Departments. Increase the number of patients who receive the survey.

Physician Satisfaction

Continue to work closely with physicians on collaboration and use the annual satisfaction survey and action plan.

Evidence-Based Medicine

Continue to be at the top quartile for Value Based Purchasing. Start monitoring the Hospital Readmission and Monitoring score and publish results. Publish an outcome registry for Total Joint Replacement and Bariatrics. Work with Hospitalists to implement best practices for inpatient optimization.

Systematically identify new and enhanced service and revenue opportunities

Culture of Safety

Continue our excellent results as being one of the safest hospitals in the country.

Physician Recruitment

Recruit a new Primary Care physician to replace a physician departure.

Bariatric Institute

Continue marketing and create a center for services. Consider creating a Metabolic Center with this program.

General Surgery

Recruit another dedicated General Surgeon to add another physician clinic in Sonoma. Market this service line.

Physician Clinics

Offer 1206(b) option to some physicians. Consider becoming a Rural Health Center for higher reimbursement. Seek out a common space for SVH affiliated physicians. Research options for Urgent Care.

Strategies & Tactics FY 2017 *(cont)*

Strategic Priorities

Continuing & New Initiatives

Program & Tactics

Systematically identify new and enhanced service and revenue opportunities	Destination Hospital	Become a preferred choice for the Employer Direct program and become the preferred choice for Occupational Health and Wound Care in Sonoma County.
	Parcel Tax Renewal	Pass the parcel tax for another five years in 2017.
	Marketing	Pass the parcel tax for another five years in 2017.
	Cancer Support Sonoma	Complete the research on the healing effects of integrative therapies for people with cancer.
Continuously improve efficiency	Technology Upgrades	Implement a better Health Information Exchange, upgrade our Electronic Health Record and implement new Electronic Health Records in Outpatient Rehab and Occupational Health.
	Improve Margins	Use the cost accounting system for inpatient optimization and to continue to increase margins.
	Outpatient Diagnostic Center	SVH Foundation to consider raising at least \$3 million for better patient experience, centralized scheduling and improved efficiency by combining four different diagnostic services into one space.
	Purchase Property	Purchase the south lot using our option for operational savings. Determine the best way to make this asset contribute to our financial stability.
	Sustainability	Investigate energy savings ideas to reduce costs and continue to be a Practice Green Health hospital.
	Large Hospital Systems	Continue discussions and partnerships with larger hospitals to increase admissions and keep patients in Sonoma.
Support progress toward a Healthy Community	Population Health	Continue supporting health awareness and education through "Healthy Kids are Contagious," GirlTalk, Active Aging, Integrative Health Network, Compass, Ceres Project and the Sonoma Valley Health Roundtable.

Strategies & Tactics FY 2017 *(cont)*

Strategic Priorities

Continuing & New Initiatives

Program & Tactics

Support progress
toward a Healthy
Community

Community Care
Network

Through a grant from PRIME, implement the community care network to reduce re-admissions.

Workplace Wellness

Through Occupational Health, offer employers with over 25 employees the opportunity to partner with SVH to use our Wellness program and create a "Culture of Health" at their organizations.

Healing Hospital™

Continue to offer Wellness University™ to the staff and community. Publish the new "Clinical Healers" educational seminar. Promote SVH as a model.

SVH Foundation
Sustainable Giving

Maintain and enhance the engagement of the community and donors to give to SVH annually and consider a legacy gift.



*Leading the health care district of Sonoma Valley
in becoming and being known as
a Healthy Community*



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