



**SONOMA VALLEY HEALTH CARE DISTRICT
 JOINT BOARD OF DIRECTORS AND FINANCE
 COMMITTEE
 SPECIAL STUDY SESSION AGENDA
 MAY 30, 2019**

**REGULAR SESSION 5:00 P.M.
 SVH BASEMENT CONFERENCE ROOM
 347 ANDRIEUX ST**

<p>In compliance with the Americans Disabilities Act, if you require special accommodations to participate in a District meeting, please contact District Clerk Stacey Finn at sfynn@svh.com (707) 935.5004 at least 48 hours prior to the meeting.</p>	RECOMMENDATION	
AGENDA ITEM		
<p>MISSION STATEMENT <i>The mission of SVHCD is to maintain, improve, and restore the health of everyone in our community.</i></p>		
<p>1. CALL TO ORDER</p>	<i>Rymer</i>	
<p>2. PUBLIC COMMENT <i>At this time, members of the public may comment on any item not appearing on the agenda. It is recommended that you keep your comments to three minutes or less. Under State Law, matters presented under this item cannot be discussed or acted upon by the Board at this time. For items appearing on the agenda, the public will be invited to make comments at the time the item comes up for Board consideration. At all times please use the microphone.</i></p>	<i>Rymer</i>	
<p>3. FISCAL YEAR 2020 BUDGET</p>	<i>Jensen</i>	Action
<p>4. ENSIGN SNF MANAGEMENT AGREEMENT</p>	<i>Mather</i>	Action
<p>5. ADJOURN</p>	<i>Rymer</i>	

Note: To view this meeting you may visit <http://sonomatv.org/> or YouTube.com.



To: Sonoma Valley Hospital Finance Committee & District Board Members
From: Sonoma Valley Hospital Administration
Date: May 28, 2019
Subject: Proposed FY 2020 Budget for July 1, 2019 through June 30, 2020

During fiscal year 2019 the hospital's administration implemented the following changes; the OB department closed and Home Health transferred to Hospice by the Bay. Furthermore, the Skilled Nursing Facility (SNF) was reviewed by a board approved task force, and administration has since begun the process to transfer the SNF to a third party for management. As the hospital discontinues the previously mentioned services it is necessary to reduce the hospital's overhead costs and "right size" the hospital. Administration's goal for the fiscal year 2020 budget was to reduce costs by \$4 Million. In fiscal year 2019 the hospital received an increase in government supplemental payments from previous years but since these are not guaranteed payments we have budgeted for these supplemental payments at a conservative amount.

The budgeted operating loss for fiscal year 2020 is (\$4,185,407) with a net income of \$4,903,584 and an EBDA of 7.3%. The FY 2020 budget includes the sale of the south lot with a net projected gain of \$1,200,000.

The proposed FY 2020 budget assumes the following assumptions:

- Volume is based upon a 12-month rolling average and is consistent with current trends in FY 2019
- Gross revenue includes a 6% price increase with a projected 1.5% increase in net revenue
- Contractual discounts/bad debt are based upon current experiences and adjusted for the price increase
- Government supplemental payments (IGT) are budgeted at a conservative amount
- Skilled Nursing Facility transferring to a third party for operations management as of July 1, 2019
- Reduction of overhead and operating costs - see schedule B

ATTACHMENTS:

- Attachment A --Proposed FY 2020 Budget
- Attachment B – FY 2020 Budget Cost Additions & Reductions from Base Budget
- Attachment C – FY 2020 Budgeted Payer Mix
- Attachment D – FY 2020 Budget – Cash Forecast
- Attachment E – Projected FY 2019 (without OB & HHA) compared to Proposed FY 2020 Budget

**Sonoma Valley Health Care District
Statement of Revenue and Expenses
FY 2020 Budget
July 1, 2019 through June 30, 2020**

Schedule A

FY 2020 Budget

Volume Information

Acute Discharges	1,015
Patient Days	3,828
Emergency Room Visits	10,104
Surgeries - Inpatient	330
Surgeries - Outpatient	1,573
Special Procedures	900
Gross O/P Revenue (000's)	\$ 178,835

Financial Results

Projected Gross Patient Revenue

Inpatient	\$ 80,635,223
Outpatient	106,289,890
Emergency	72,545,153
SNF	22,472,368
Total Projected Gross Patient Revenue	\$ 281,942,634

Projected Deductions from Revenue

Contractual Discounts	\$ (236,722,716)
Bad Debt	(1,800,000)
Charity Care Provision	(284,064)
Prior Period Adj/Government Program Revenue	5,798,030
Total Projected Deductions from Revenue	\$ (233,008,750)

Projected Net Patient Service Revenue

Risk contract revenue	\$ 428,180
Net Hospital Revenue	\$ 49,362,064

Other Op Revenue	\$ 705,592
Projected Total Operating Revenue	\$ 50,067,656

Projected Operating Expenses

Salary and Wages and Agency Fees	\$ 22,018,511
Employee Benefits	7,975,375
Total People Cost	\$ 29,993,886
Med and Prof Fees (excl'd Agency)	5,242,232
Supplies	6,429,769
Purchased Services	4,420,345
Depreciation	3,201,156

**Sonoma Valley Health Care District
Statement of Revenue and Expenses
FY 2020 Budget
July 1, 2019 through June 30, 2020**

Schedule A

	<u>FY 2020 Budget</u>
Utilities	1,220,285
Insurance	474,990
Interest	528,625
Other	1,180,746
Matching Fees (Government Programs)	1,561,029
Projected Operating expenses	\$ 54,253,063
Projected Operating Margin	\$ (4,185,407)
Projected Non Operating Rev and Expense	
Miscellaneous Revenue/(Expenses)	\$ (223,851)
Sale of South Lot	\$ 1,200,000
Donations	16,500
Physician Practice Support-Prima	(156,000)
Parcel Tax Assessment Rev	3,800,000
Projected Total Non-Operating Rev/Exp	\$ 4,636,649
Net Income / (Loss) prior to Restricted Contributions	\$ 451,242
Capital Campaign Contribution	\$ -
Restricted Foundation Contributions	\$ 2,518,319
Net Income / (Loss) w/ Restricted Contributions	\$ 2,969,561
GO Bond Tax Assessment Rev	3,104,784
GO Bond Interest	(1,170,761)
Projected Net Income/(Loss) w GO Bond Activity	\$ 4,903,584
Projected EBDA - Not including Restricted Contributions	\$ 3,652,398 7.3%
FTE'S	246.1

Sonoma Valley Health Care District
Schedule of Cost Additions & Reductions from Base Budget
FY 2020 Budget
July 1, 2019 through June 30, 2020

Schedule B

	FY 2020 Budget	
	July 1, 2019 - June 30, 2020	
Additions/Reductions from Base Budget:		
1. 6% Price increase with a projected 1.5% increase in Net Revenue		
	Gross Revenue	15,017,346
	Revenue Deductions	<u>(14,290,160)</u>
		727,186
2. Transfer of Skilled Nursing Facility		
	Net Revenue	(3,546,182)
	SNF Labor Costs (salaries & benefits)	2,788,777
	PT, OT, ST Labor Costs (Salaries & Benefits)	505,072
	Other Direct Costs	92,748
	Shared Services Contract Revenue	<u>550,000</u>
		390,415
3. Increase in Wound Care Volume (additional 1,560 visits)		
	Net Revenue	237,634
	Additional Direct Costs	<u>(77,792)</u>
		159,842
4. Decrease in Capitation Revenue		(695,536)
5. Reduction of 9.3 FTE's (salaries & benefits)		948,130
6. Reduction in Nursing & Other Clinical Registry Costs		782,178
7. Salary Increases (2% at April 1, 2019 & 2% at January 1, 2020)		(617,452)
8. Increase CMO from .2 to .4 FTE's		(82,350)
9. SFP Clinic Manager		(102,157)
10. New Radiology Technician		(122,309)
11. New Facilities Coordinator Position		(72,659)
12. Reduction of OB/Pediatric Physician Call Pay		196,736
13. Reduction in Administrative Consulting		115,114
14. Reduction in Public Relations Consulting		106,114
15. Reduction in SFP Clinic Consulting		137,125
16. Reduction in Marketing/Public Relations Cost		32,163
17. Reduction in Surgery costs (January 2020 - June 2020)		50,000
18. Reduction of Depreciation Expense		265,297
19. Sale of South Lot - Net		1,200,000
20. Reduction of Prima Physician Support		<u>531,287</u>
Total Cost Additions & Reductions from Base Budget - FY 2020 Budget		<u><u>3,949,124</u></u>

**Sonoma Valley Health Care District
Schedule of Payer Mix
FY 2020 Budget
July 1, 2019 through June 30, 2020**

Schedule C

	FY 2020 Budget
	<u>July 1, 2019 - June 30, 2020</u>
Medicare	43.1%
Medicare Managed Care	14.6%
Medi-Cal	17.0%
Self Pay	1.4%
Commercial	19.8%
Worker's Comp.	2.2%
Capitated	1.9%
	<hr/>
	100.0%

**Sonoma Valley Health Care District
Cash Forecast - FY 2020 Budget**

Schedule D

**FY 2020 Budget
July 1, 2019 - June 30, 2020**

Hospital Operating Sources		
1	Patient Payments Collected	43,001,080
2	Capitation Revenue	428,180
3	Napa State	134,774
4	Other Operating Revenue	705,592
5	Other Non-Operating Revenue	302,868
6	Unrestricted Contributions	16,500
7	Line of Credit	-
	Sub-Total Hospital Sources	44,588,994
Hospital Uses of Cash		
8	Operating Expenses	50,365,125
10	Add Capital Lease Payments	680,628
11	Additional Liabilities	
12	Capital Expenditures	2,518,319
13	Line of Credit	1,200,000
	Total Hospital Uses	54,764,072
	Net Hospital Sources/Uses of Cash	(10,175,078)
Non-Hospital Sources		
14	Restricted Cash/Capital Donations	2,518,319
15	Parcel Tax Revenue	3,800,000
16	Net Proceeds - South Lot	1,200,000
17	Other:	
18	IGT	4,223,030
19	IGT - AB915 (Net)	900,000
20	PRIME	675,000
	Sub-Total Non-Hospital Sources	13,316,349
Non-Hospital Uses of Cash		
21	Matching Fees	1,561,029
	Sub-Total Non-Hospital Uses of Cash	1,561,029
	Net Non-Hospital Sources/Uses of Cash	11,755,320
	Net Sources/Uses	1,580,242
	Cash and Equivalents at beginning of period	3,049,046
	Cash and Equivalents at end of period	4,629,288
	Budgeted Days of Cash on Hand at end of period	33.55

**Sonoma Valley Health Care District
Statement of Revenue and Expenses
FY 2019 Projected Compared to FY 2020 Budget**

Schedule E

	<u>Projected</u> FY 2019 - a)	<u>Variance</u>	<u>Budget</u> FY 2020
Volume Information			
Acute Discharges	1,013		1,015
Patient Days	3,818		3,828
Emergency Room Visits	10,129		10,104
Surgeries - Inpatient	344		330
Surgeries - Outpatient	1,611		1,573
Special Procedures	961		900
Gross O/P Revenue (000's)	\$ 177,675		\$ 178,835
Financial Results			
Gross Patient Revenue			
Inpatient	\$ 74,975,677	5,659,546	\$ 80,635,223
Outpatient	101,817,185	4,472,705	106,289,890
Emergency	75,857,521	(3,312,368)	72,545,153
SNF	20,036,740	2,435,628	22,472,368
Total Gross Patient Revenue	\$ 272,687,123	\$ 9,255,511	\$ 281,942,634
Deductions from Revenue			
Contractual Discounts	\$ (224,011,164)	(12,711,552)	\$ (236,722,716)
Bad Debt	(1,735,000)	(65,000)	(1,800,000)
Charity Care Provision	(303,091)	19,027	(284,064)
Prior Period Adj/Government Program Revenue	9,838,776	(4,040,746)	5,798,030
Total Deductions from Revenue	\$ (216,210,479)	\$ (16,798,271)	\$ (233,008,750)
Net Patient Service Revenue	\$ 56,476,644	\$ (7,542,760)	\$ 48,933,884
Risk contract revenue	\$ 898,786	(470,606)	\$ 428,180
Net Hospital Revenue	\$ 57,375,430	\$ (8,013,366)	\$ 49,362,064
Other Op Revenue	\$ 446,493	259,099	\$ 705,592
Projected Total Operating Revenue	\$ 57,821,923	\$ (7,754,267)	\$ 50,067,656
Projected Operating Expenses			
Salary and Wages and Agency Fees	\$ 24,848,492	(2,829,981)	\$ 22,018,511
Employee Benefits	8,980,628	(1,005,253)	7,975,375
Total People Cost	\$ 33,829,120	(3,835,234)	\$ 29,993,886
Med and Prof Fees (excl Agency)	5,802,379	(560,147)	5,242,232
Supplies	7,011,039	(581,270)	6,429,769
Purchased Services	4,686,250	(265,905)	4,420,345
Depreciation	3,452,088	(250,932)	3,201,156
Utilities	1,213,479	6,806	1,220,285
Insurance	436,620	38,370	474,990
Interest	622,603	(93,978)	528,625
Other	1,236,404	(55,658)	1,180,746
Matching Fees (Government Programs)	2,761,323	(1,200,294)	1,561,029
Projected Operating expenses	\$ 61,051,305	\$ (6,798,242)	\$ 54,253,063
Projected Operating Margin	\$ (3,229,382)	\$ (956,025)	\$ (4,185,407)

**Sonoma Valley Health Care District
Statement of Revenue and Expenses
FY 2019 Projected Compared to FY 2020 Budget**

Schedule E

	<u>Projected</u> <u>FY 2019 - a)</u>	<u>Variance</u>	<u>Budget</u> <u>FY 2020</u>
Projected Non Operating Rev and Expense			
Miscellaneous Revenue/(Expenses)	\$ (129,581)	(94,270)	\$ (223,851)
Sale of South Lot		1,200,000	\$ 1,200,000
Donations	5,350	11,150	16,500
Physician Practice Support-Prima	(449,864)	293,864	(156,000)
Parcel Tax Assessment Rev	3,800,000	-	3,800,000
Projected Total Non-Operating Rev/Exp	\$ 3,225,905	\$ 1,410,744	\$ 4,636,649
Net Income / (Loss) prior to Restricted Contributions	\$ (3,477)	\$ 454,719	\$ 451,242
Capital Campaign Contribution			
Restricted Foundation Contributions	\$ 2,030,233	488,086	\$ 2,518,319
Net Income / (Loss) w/ Restricted Contributions	\$ 2,026,756	\$ 942,805	\$ 2,969,561
GO Bond Tax Assessment Rev	3,053,232	51,552	3,104,784
GO Bond Interest	(1,230,197)	59,436	(1,170,761)
Projected Net Income/(Loss) w GO Bond Activity	\$ 3,849,791	\$ 1,053,793	\$ 4,903,584
Projected EBDA - Not including Restricted Contributions	\$ 3,448,611		\$ 3,652,398
	6.0%		7.3%
FTE'S	280.3	(34.2)	246.1

a) - Projected FY 2019 is 10 months actual at 4/30/2019 and 2 months budgeted through 6/31/2019 without OB and HHA revenue and direct costs.



To: SVH Finance Committee and Board of Directors
From: Ken Jensen, CFO
Date: May 2019
Subject: Proposal to Transfer Skilled Nursing Operations to a Contracted Operator

RECOMMENDATION TO THE BOARD OF DIRECTORS:

Management is recommending to the Sonoma Valley Hospital Board of Directors that the operation and financial risk of its Skilled Nursing Unit be transferred to Ensign (Bouverie Healthcare Services) by approving the following three agreements:

- OPERATIONS TRANSFER AGREEMENT transfers the operation and financial responsibility for the operation of the Skilled Nursing Unit from Sonoma Valley Hospital (Operator) to Ensign (Manager). Ensign will operate under the SVH license. SNF employees will be transferred to the employment of Ensign. Ensign intends to apply for a sub-acute license in order to care for more acute patients. Ensign assures that there would be a minimum of 5 SNF beds.
- MANAGEMENT AGREEMENT is the contract required by the State to allow for a licensed facility to allow a contract manager to operate and be responsible for any of its beds.
- SHARED SERVICES AGREEMENT identifies those services that will be shared with and paid for by Ensign. This document will be a dynamic instrument that will add and delete services that change during the years.

A TERM SHEET FOR EACH AGREEMENT IS ATTACHED

BACKGROUND:

The SNF at SVH has operated under the Hospital license and up until a few years ago it was covering its operation costs through the Medicare Cost Report. Regulations were changed to “cap” the reimbursable costs and over the years cost inflation has exceeded the “cap”. In completing the budget for FY 2018/19 and prior to some efficiencies that were implemented, the Unit was facing upwards of an \$800,000 loss. Management undertook a review of the alternatives that included closing the Unit. A task force including staff, Board and public members was established to review alternatives, including closing the unit. Even after implementing some efficiencies it was determined that the Unit would not break even. Ensign, a company well established in the long term and skilled nursing business, approached the committee and made a proposal to take over the Unit and operate it under the Hospital license at no risk to SVH. The committee recommended that management enter into discussion with Ensign to determine if an arrangement could be established that would maintain skilled nursing beds for the community. Ensign determined that if they could use beds for both SNF and Long Term care that the unit could become profitable. Contracts were proposed and negotiated that would allow Ensign to take full responsibility operating and financing the unit. This led management to the recommendation above.

Sonoma Valley Hospital/Ensign (Bouverie Healthcare Services)

Skilled Nursing Terms Summary (as of 5/23/19)

There are three agreements covering the Operations (Transfer Agreement), Ensign's Management Agreement and the Shared Services Agreement. The significant terms of each agreement are summarized as follows (Operator=SVH, Manager=Ensign):

OPERATIONS TRANSFER AGREEMENT:

- Primary purpose is to transfer operational and financial responsibility for the operations of the Skilled Nursing Unit from Sonoma Valley Hospital (Operator) to Ensign (Manager)
- The SNF will continue to operate under the SVH license
- Manager will continue with SNF beds with the intent to obtain for SVH a Sub-Acute license maintaining at least 5 Skilled Nursing beds along with 22 sub-acute beds
- Term of the agreements is 10 years after the sub-acute license is issued and has an option to renew for an additional 10 years
- Manager can terminate the agreement in one year with 180 days' notice if the sub-acute license is not obtained
- Ensign will employ all SNF staff beginning July 1, 2019
- Operator will pay out to their employees and PTO liabilities before the transfer
- Inventory will be transferred to Manager on the transfer date. At the end of the Agreement, Manager will transfer back the then inventory to SVH
- Equipment (except for patient beds) and furniture will be transferred to the Manager on the transfer date. At the end of the lease, the existing equipment will be transferred back to SVH. Manager can use all patient beds but if a new patient bed is purchased, Operator the Operator will receive the bed
- Manager will be responsible for billing, collections and the maintenance of the medical record. The Manager will use the Operators Federal Tax ID for these purposes. Operator will have access to the medical records as needed
- Operator will be responsible for mandated government reports such as the Medicare/Medi-Cal/OSHPD reports.
- Mutual indemnification

- Manager will meet quarterly with the Operator and present quality, safety and other required metrics. Manager will be responsible for any action plans and will report to the SVHCD board
- Manager will provide the Medical Director

MANAGEMENT AGREEMENT:

- Again, term is 10 years, with a 180 day out at the end of one year if the sub-acute license is not received
- Manager will include in the operating expenses a management fee of 5% of the operating expenses
- Operator will receive the lesser of \$15,000 or the net income whichever is less each month with a reconciliation on a quarterly basis; the 15,000 will be increased annually based on an annual CPI-based escalator (capped at 2.5% increase, with a zero floor)
- Manager will be responsible for any losses. Operator will not have any liability for any losses
- Manager shall arrange for and maintain all necessary and proper hazard insurance covering the Facility the furniture, fixtures and equipment. Manager will obtain all necessary and proper malpractice and public liability insurance for the protection of the Manager, Tenant, and Operator and their officers, partner's agents and employees.
- Manager and Operator will meet quarterly to review operations, quality and financials. Either party will meet with one and another as requested

SHARED SERVICES AGREEMENT:

This agreement is to identify services and related costs that will be shared by the Manager and the Operator

- Operator shall provide Kitchen and Food services to SNF patients covered under this agreement. At first, Operator will charge the Manager at an agreed to cost per meal per month
- Operator shall provide Environmental Services and supplies under this agreement Operator will charge the Manager the agreed upon cost per year and it will be reviewed annually
- Manager will pay for utility costs provided by the Operator based upon the allocation made in the Medicare Cost Report each month of 7%
- Phone and Internet services will be maintained by the Operator until further notice. Cost will be based upon the Medicare Cost report Allocation

- Repairs and maintenance costs up to \$5,000 will be paid by the Operator as the Manager pays a monthly fee for facilities. Any costs over \$5,000 related to the SNF only will be paid by the Manager. Any costs that are shared with the operation will be mutually agreed upon and split appropriately
- Manager will provide its own laundry and linen services
- Operator will maintain the common areas and the Manager will pay the pro-rated costs based upon the MediCare Cost Report
- Manager's employees will have the same access to all common areas and parking as do the Operator's employees
- Manager will provide its own laundry service
- Operator will maintain the common areas and Manager will pay the pro-rated costs based upon the MediCare Cost Report allocation each month
- Operator is responsible for all taxes and an allocation will be pro-rated to the Manager
- Operator will provide lab and imaging services to the Manager at a pre-agreed to price
- Operator will be allowed to bill for certain services that are allowed for under Medicare regulations
- Operator and Manager will review costs annually. Manager will pay the actual costs as adjusted annually
- Both parties agree to share staff when identified, as appropriate at the actual cost through a pass-through arrangement
- Manager and Operator will meet annually to review costs for services. Both parties will agree to reasonably cooperate to revise and renew costs for services as mutually agreed

All agreements will be recorded with the Sonoma County Recorder's Office