

The background of the slide is a photograph of St. Rose Hospital, a large, modern, multi-story white building with many windows. The building is partially obscured by a semi-transparent white overlay where the text is placed. The sky is blue with some white clouds.

Summary Report on the Study on the Future Sustainability of St. Rose Hospital

**Presented to the
Alameda County Board of Supervisors**

October 24, 2023



Alameda County
Health Care Services Agency

Behavioral Health | Environmental Health | Office of the Agency Director | Public Health

Presentation Overview

- **Introduction**, *Health Care Services Agency*
- **Sustainability Study Process**, *Eden Health District*
- **Summary of the completed Study on the Future Sustainability of St. Rose Hospital Summary**, *Innova Group*
- **Next Steps**, *St. Rose Hospital Board of Directors*



Steering Committee Partners



Alameda County
Health Care Services Agency

St. Rose
HOSPITAL



EDEN HEALTH
DISTRICT
INVESTING IN THE HEALTH OF OUR COMMUNITY
SINCE 1948



Washington Hospital
Healthcare System



KAISER
PERMANENTE®



ALAMEDA
HEALTH SYSTEM



Hospital Council
Northern & Central California

Purpose of the Study

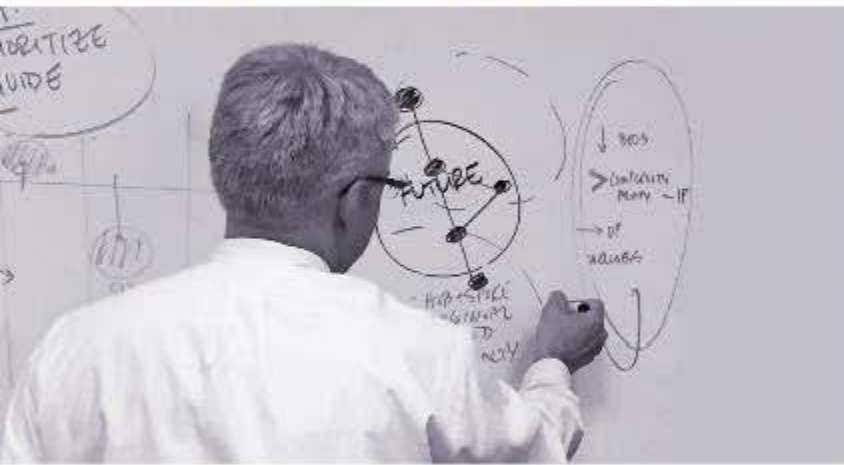
To determine the desired outcomes for meeting the health needs of the community currently served by St. Rose Hospital

Purpose of the Steering Committee

- Select consultants to conduct objective analysis and examine options
- Share in the cost of the study and direct consultants
- Make recommendations at the conclusion of the study and present those recommendations to key stakeholders

Timeline of the Study

Apr-23	Steering Committee Formed
May-23	RFP Developed and Distributed to Consulting Firms
Jun-23	RFP Responses Received and Interviews Conducted
Jul-23	Innova Group Selected and Began their work
Jul-23–Sep-23	Study Conducted with Steering Committee Monitoring
Oct-23	Study Completed and Recommendations Made



STUDY ON THE FUTURE SUSTAINABILITY OF ST. ROSE HOSPITAL

Summary Report

ENGAGEMENT OVERVIEW

The Innova Group was engaged by a consortium of regional stakeholder organizations¹ to conduct a study on the future sustainability of St. Rose Hospital

Engagement Goals	Process Worksteps
<p>Assess likely sustainability of current operations and review alternative models for SRH considering:</p> <ul style="list-style-type: none">• Key community health needs• Local, state, and national healthcare trends• SRH financial performance & sustainability• Impact of funding required seismic retrofits• Potential sources of additional funding• Potential partners• Alternative service mix and operating models	<p>Four-month process ending early October with six Steering Committee meetings</p> <ol style="list-style-type: none">1. Project Initiation & Interviews2. Internal Organizational Assessment3. Market & Community Assessment4. National/State Trends and Implications5. Volume and Financial Projections6. Future Scenarios7. Conclusions and Recommendations

¹Contracted through The Eden Health District on behalf of the Alameda County Health Care Services Agency, Alameda Health System, Kaiser Permanente, Washington Hospital Healthcare District, St. Rose Hospital, and the Hospital Council of Northern and Central California

STAKEHOLDER PARTICIPATION

The Innova Group interviewed over 40 individuals and coordinated with a Steering Committee to develop conclusions

Stakeholder Interviews

- Interviewees included:
- SRH Board members, medical staff leaders, and hospital management
 - Elected and appointed officials in Alameda County and the City of Hayward
 - Leaders from area hospitals/health systems
 - Other healthcare providers including EMS and area health clinics

Steering Committee

The Steering Committee met six times to review and discuss key findings

- Colleen Chawla Director, Alameda County Health Care Services Agency
- Mike Cobb, Executive Director, St. Rose Foundation
- Angus Cochran, Community Support Services Chief, Washington Hospital
- Garret Contreras, SRH Board Chair and City of Hayward Fire Chief
- Debra Flores, Senior VP & Area Manager, Kaiser Permanente
- Mark Fratzke, COO, Alameda Health System
- Mark Friedman, CEO, Eden Health District
- Rebecca Gebhart, Consultant, Alameda County Health Care Services Agency
- Maya Greenfield, Executive Dir, Strategy & Business Development, Kaiser Permanente
- Jay Harris, Board Member, St. Rose Hospital
- Kimberly Hartz, CEO, Washington Hospital Healthcare System
- James Jackson, CEO, Alameda Health System
- Rebecca Rozen, Regional VP, Hospital Council Northern and Central California
- Pamela Russo, Board Chair, Eden Health District

SRH BACKGROUND

Hayward Sisters Hospital dba St. Rose Hospital (“SRH”) is a general acute care, not-for-profit, 171 licensed bed facility in Hayward, CA which offers emergency, obstetrics and coronary care, as well as other inpatient and outpatient services. SRH is the sole corporate member of St. Rose Medical Office Building and the St. Rose Hospital Foundation.

SRH’s 21-acre campus includes 8 medical office buildings in addition to the 5-story hospital tower and administrative offices.

SRH is a critical safety net resource and one of three general acute Disproportionate Share Hospitals (DSH) in Alameda County. It serves as a designated emergency STEMI receiving center and is one of only 21 hospitals in CA approved to perform elective PCI without onsite cardiac surgery backup.

Many of SRH’s patients are uninsured or Medi-Cal beneficiaries with a low rate of reimbursement. Due to this payor mix, SRH has relied on significant financial support from other sources.



Brief Ownership/Management History

SRH opened in 1962, sponsored by the Sisters of St. Joseph of Wichita, Kansas which entered a merger in 1995 to become Via Christi Health System (“Via Christi”). In 2005, SRH separated from Via Christi to become an independent nonprofit hospital.

In 2013, the Attorney General approved SRH’s decision to enter into a management agreement and option to acquire SRH with Alecto. Alecto has managed SRH since that time, employing the CEO and CFO.

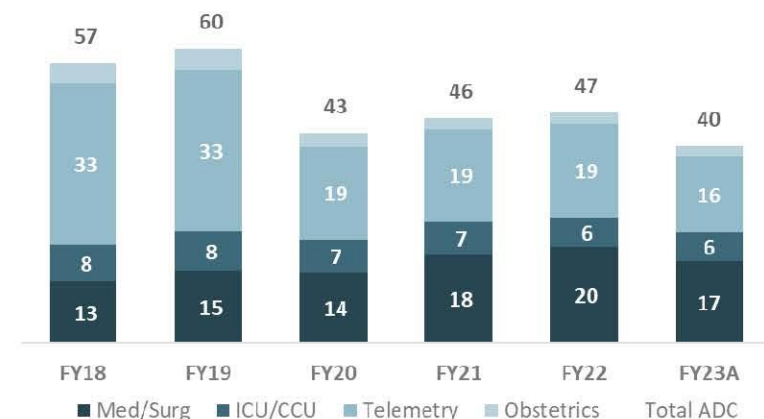
ASSESSMENT SUMMARY: UTILIZATION & CAPACITY

- **Volumes dropped during the pandemic in 2020 and have not rebounded**
 - Inpatient census of 40 in FY23 vs 60 in FY19
 - ED visits of ~26,000 in FY23 vs ~35,000 in FY19
 - Surgery & cath cases are 20%-30% below FY19 levels
- **The ED is highly occupied, but other services operate below 50% occupancy**
 - ED remains occupied at >100% of standard capacity
 - Available inpatient beds (102 acute*) are 40% occupied but maternity beds are less than 20% occupied
 - Cath is near 50% occupied and ORs are 30% occupied
- **Service mix is primarily ED-driven medical and cardiac**
 - 50% of inpatient services are medical and 24% are cardiac
 - Maternity volumes are very low (300 births/yr) ADC of 2-3
 - Referral driven surgical cases are very low

*Although SRH is licensed for 171 beds, its current available bed capacity is 130, 28 of which are currently under renovation to develop a subacute unit leaving 102 available acute beds

- **SRH does not have a robust aligned physician network to drive elective volumes**
 - Virtually all non-emergency inpatient admissions come from OB/GYNs (which is very low volume)
 - Due to recruiting difficulties, aging medical staff is not being replenished with younger physicians
- **Outpatient volumes are limited**
 - Even with a robust ED, only 26% of SRH's revenue is from outpatient services vs > 50% for comparable hospitals - this creates a greater burden for inpatient services to cover overhead expenses

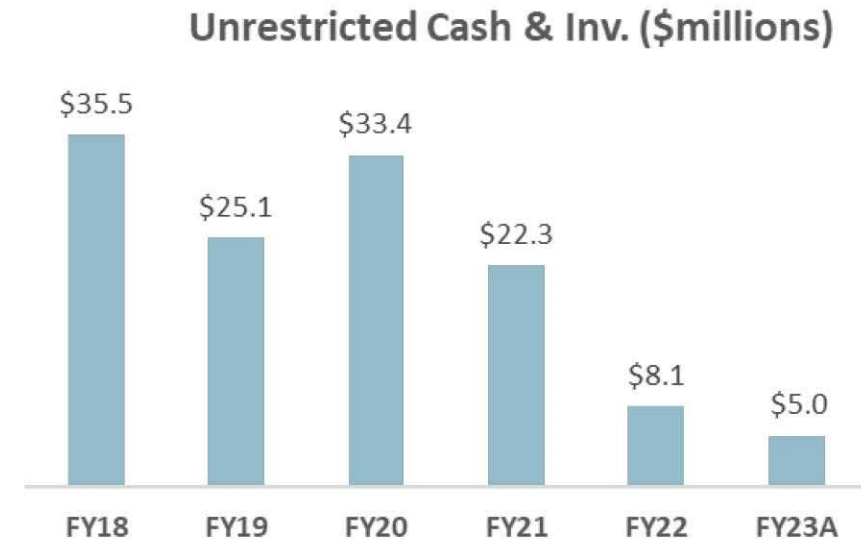
SRH Average Daily Census (ADC) Trends by Bed Type



ASSESSMENT SUMMARY: FINANCIAL TRENDS

- **Payor mix is heavily government-dependent**
 - Inpatient volumes are primarily Medicare (52%) and Medi-Cal (38%), with <10% commercial
 - ED volumes are primarily Medi-Cal (53%) with 20% Medicare, 14% commercial, and 12% self-pay/other
 - SRH relies on supplemental government & philanthropic revenue to support shortfalls related to its payor mix
- **Losses have grown steadily since 2020**
 - SRH lost \$3.7M in FY20, \$5.9M in FY22 and is forecast to lose ~\$10.7M in FY23 (with \$3.2M in extraordinary expenses)
 - Net cash flow (after additional \$5M in emergency county funding) is forecast to exceed negative \$3M in FY23
- **Growing losses have depleted cash reserves**
 - SRH was essentially out of operating cash at the end of FY23 before receiving \$5M in emergency County funding
 - SRH was awarded \$17.6M from the distressed hospital loan program which is expected in early FY24

- **Operating losses and limited cash reserves strain SRH's financial capacity and debt service coverage**
 - SRH must cover debt service from cash reserves since it is currently generating negative cash flows from operations
 - SRH failed to meet any of its three loan covenant ratio requirements in FY22 and will likely not meet them in FY23
 - SRH does not have the financial capability/access to capital needed to invest in growth strategies



Note: FY23 forecasted based on 10 months of data (July). Sources: SRH audited and internal financial statements

ASSESSMENT SUMMARY: FACILITIES & REAL ESTATE

- **SRH owns significant real estate assets**
 - 21 acres located adjacent to I-880 one exit south of CA 92
 - Approximately 133,000 sf of hospital space and 28,000 sf of administrative space
 - 8 MOB's with ~88,000 sf of leasable space generating \$1.5M in annual lease revenue
- **Facilities appear to be well maintained for their age**
 - Hospital has good to fair appearance for age of facilities (1962/1981); very well maintained
 - Patient room and treatment space sizes small compared to current standards (ED is especially small)
 - An architectural/engineering facilities conditions assessment has not been recently completed, so underlying condition of facilities cannot be confirmed
- **Seismic retrofit will be required by 2030**
 - Main building is **SPC 2 and NPC 2**. ED/critical care building is SPC 3 and **NPC 2 (red=requires retrofit)**
 - SRH's estimate for SPC and NPC upgrade is between \$20M and \$22M and could be closer to \$27M¹ with escalation

¹Caveat: The Innova Group is not an engineering firm and is not qualified to evaluate the proposed SPC/NPC designs or cost estimates

ASSESSMENT SUMMARY: MARKET OVERVIEW

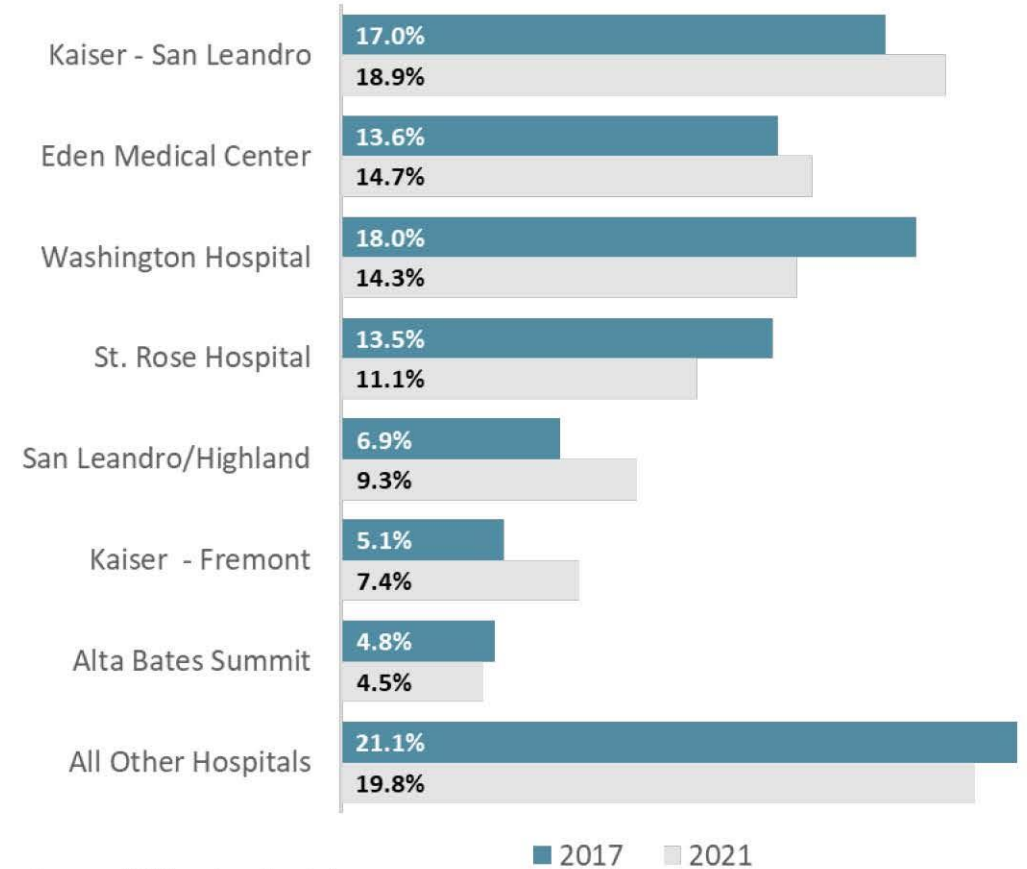
- **SRH draws from a focused service area**
 - SRH's core service area covers Hayward, Union City, San Lorenzo, and zips in Fremont and San Leandro
 - SRH draws 75% of its hospital admissions and 78% of its ED visits from this area
 - 60% of SRH's admissions come from Hayward – where it has 15% market share
- **SRH's core market population is projected to decline slightly over five years, but aging will drive increases in healthcare demand**
 - The service area population of 413,000 is projected to decline by 0.5% over the next five years but grow older
 - Five-year market volumes are projected to grow by 4% for inpatients, 6% for ED, and 9% for outpatients
 - Total market obstetrics volumes are projected to decline by 10% due to changes in birth rates and population



ASSESSMENT SUMMARY: MARKET POSITION

- **SRH holds 4th highest share in its market**
 - SRH's inpatient market share declined from 13.5% in 2017 to 11.1% in 2021
 - SRH's highest market share is in cardiovascular – its lowest is in obstetrics and behavioral
 - SRH's ED market share dropped from 17.4% in 2019 to 13.4% in 2021 (dropped primary in Med-Cal)
 - SRH holds about 3% of the outpatient surgery market share
- **SRH serves a critical role in ED volumes**
 - The closest EDs for the majority of SRH ED patients are the hospitals in San Leandro
 - San Leandro hospitals are already over capacity based on reported data and would be overwhelmed if they were to receive 10-15K more visits from SRH

Inpatient Adult Market Share by Hospital



Source: HCAI patient level datasets

ASSESSMENT SUMMARY: FINANCIAL PROJECTIONS

- **Baseline financial projections incorporate service additions and enhancement**
 - Subacute unit assumed to open in FY24
 - Cath lab replacement (existing cath lab remains for backup)
- **Losses are projected to ease initially then grow**
 - \$4M in additional funding (County + IGT match) in FY24
 - Subacute unit assumed to be ramped up by FY25
 - With limited growth prospects, net inflation erodes margins (expenses inflating faster than government payor revenues)

- **Despite cash infusions in FY24, SRH is projected to deplete cash reserves again by FY25**
 - The distressed hospital loan and additional County/IGT funding could keep SRH cash positive for a few months, but without additional funding or changes in operating performance, SRH is not projected to remain sustainable
- **Sensitivities do not change the conclusion**
 - Even if the distressed hospital loan is forgiven and \$4M-\$5M of additional support (from any source) could be sustained, it would not be enough to maintain sufficient cash balances

SRH Net Income/(Loss) (\$millions)

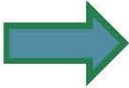
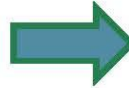
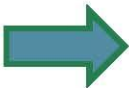


SRH Unrestricted Cash & Investments Balance (\$millions)



Notes: See key assumption summary. FY23 forecasted based on 10 months of data (July). Sources: SRH audited and internal financial statements

ASSESSMENT: INDUSTRY TRENDS

Relevant Trends		Strategic Implications
1) Hospitals face persistent <i>financial headwinds</i>		Improved strategic, operational, and financial performance is needed in post-pandemic “new reality”
2) Industry complexity and financial pressures have driven hospital and physician <i>consolidations into large systems and networks</i>		Very difficult for small-independent providers to access resources necessary to meet market demands and compete with established networks
3) Changes in <i>healthcare delivery models</i> accelerated during the pandemic <ul style="list-style-type: none">• Migration to ambulatory (and virtual) care for improved access and convenience at reduced cost• Post-acute care: need for subacute resources, effective episode-of-care management		Health systems need a robust network of distributed, integrated non-hospital services to meet patient needs, effectively manage episodes of care, and address larger population health goals

Does SRH, as an independent safety net hospital, have the human and financial capital (time, talent, and treasure) to succeed in this increasingly complex and challenging environment?

SCENARIOS

The Steering Committee discussed three scenarios for SRH's future: This report recommends #2 (Affiliation)

#1 Enhanced Independent Acute Care Hospital

- New services to meet community needs & generate revenue
- Close/limit programs to minimize losses from patient services
- Additional support and coordination from other area providers to drive volume growth and assist with costs

Not a sustainable model

#2 Affiliate with Another Health System

- Continue to operate as acute care hospital within a larger health system

Recommendation

#3 Close Hospital & Allocate Resources

- Option of last resort if no other options are sufficient to maintain sustainability of the hospital
- Assumes some resources currently used to support SRH could be applied to meet community needs in other ways

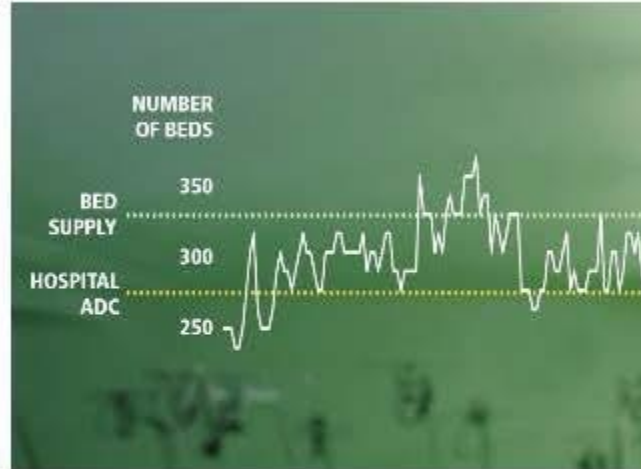
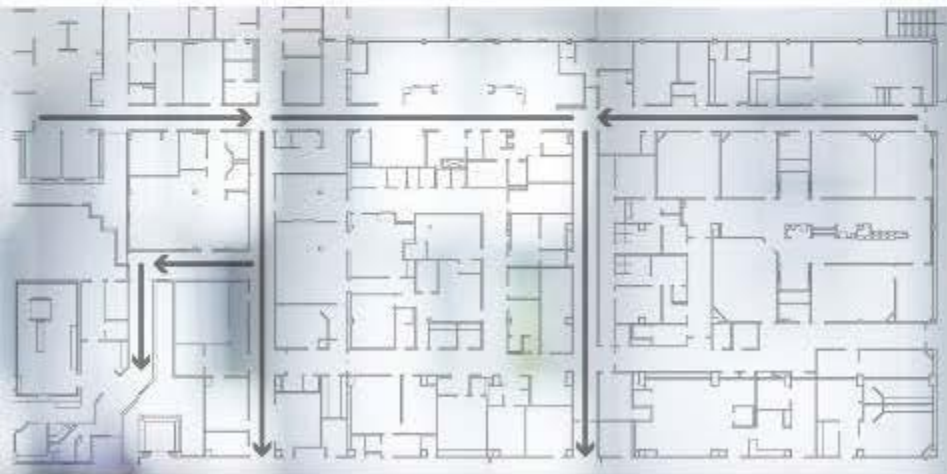
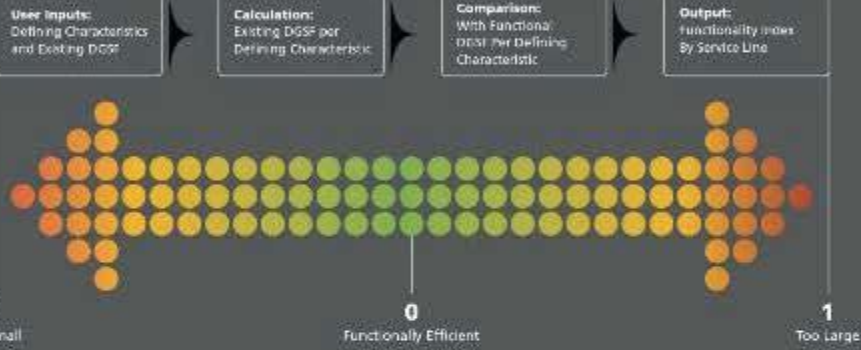
Avoid if at all possible

Note: The Steering Committee also discussed an assumption about whether the Eden Health District could regain taxation authority and generate additional funding support through a tax measure. However, the likelihood of that occurring appeared to be remote, so it is not included as a scenario.

SUMMARY CONCLUSIONS & RECOMMENDATIONS

1. **SRH is a critical resource for the community: its closure would present significant hardship to community residents and to surrounding facilities which would need to cover the area's emergency service needs**
 - SRH is focused on serving the most vulnerable population of patients – particularly those with limited funds for healthcare
 - It provides needed emergency access for south-central Alameda County
2. **SRH does not appear to be sustainable as a stand-alone hospital without substantial and ongoing increases in public funding**
 - Even with significant increases in public funding, SRH has limited resources or “economies of scale” to meet the challenging and complex needs of its environment over the next 5-10 years
 - SRH's financial distress level, as measured by available operating cash, is currently measured in months rather than years – even with the Distressed Hospital Loan – *time is of the essence to transition to a new model*
 - Potential clinical program changes including adding subacute, upgrading cardiac cath, growing Medi-Cal medical volumes, and transitioning a floor from OB to behavioral health would not provide sufficient gains to fully offset negative cash flows
3. **The SRH Board should move quickly and decisively to pursue an integrated affiliation with a health system that has sufficient resources to develop clinical programs, fund capital projects (including seismic), and secure public funding streams to support shortfalls related to its payor mix**
 - Integrating with a system which has substantial resources is the best opportunity to secure St. Rose Hospital's ability to continue offering its key community services

Functionality Index: Departmental Square Foot Index



Building Conditions	Architecture
	<div>EXCELLENT (VALUE OF 15)</div> <div>GOOD (VALUE OF 6)</div> <div>POOR (VALUE OF 2)</div>
General Opinion	<input checked="" type="radio"/>
Site Access	<input checked="" type="radio"/>
Parking Areas	<input checked="" type="radio"/>
Roofing Systems	<input checked="" type="radio"/>
Building Skin	<input checked="" type="radio"/>
Building Fenestration	<input checked="" type="radio"/>
ADA Accessibility	<input checked="" type="radio"/>
Vertical Circulation	<input checked="" type="radio"/>
Flexibility for Re-Use	<input checked="" type="radio"/>
Subtotals	15 6 2
23/30	

Building Conditions	Infrastructure
	<div>EXCELLENT (VALUE OF 18)</div> <div>GOOD (VALUE OF 4)</div> <div>POOR (VALUE OF 2)</div>
General Opinion	<input checked="" type="radio"/>
Structural Systems	<input checked="" type="radio"/>
Mechanical Systems	<input checked="" type="radio"/>
Electrical Systems	<input checked="" type="radio"/>
Plumbing Systems	<input checked="" type="radio"/>
I.T. / Communications	<input checked="" type="radio"/>
ADA Accessibility	<input checked="" type="radio"/>
Vertical Circulation	<input checked="" type="radio"/>
Flexibility for Re-Use	<input checked="" type="radio"/>
Subtotals	18 4 2
24/30	

FINANCIAL PROJECTIONS: KEY ASSUMPTIONS

- **5-Year Volume Growth**

- Inpatient: 6%
- Emergency: 6%
- Outpatient: 9%

- **Inflation**

- Net revenue: 2% - 3%
- Expense: 3% - 4%

- **Expense Adjustments**

- \$3.2M extraordinary expenses in 2023 (CNA retro pay, cyber attack costs, settlement)

- **Subacute Unit: 30 beds**

- \$3M capital cost (FY23/FY24)
- Operational start: 4/1/24
- 90% occupancy by 10/1/24

- **Cath Lab Replacement**

- \$4M capital cost
- Operational start 10/1/24
- Incremental cases (71 FY25 to 104 FY28)

- **Other Capital Expenditures**

- Routine = \$4M annually (~90% of depreciation expense) beginning FY25
 - o FY24 = \$1M in addition to subacute and cath lab costs
- Seismic = Not included (assumed FY29/FY30)

- **County/IGT Funding**

- \$19.97M in FY23 (with \$5M in additional funding)
- \$18M in FY24 (includes \$4M addition)
- \$14M annually beginning FY25

- **Other Grants/Contributions**

- \$2M annually

- **Financing**

- \$17.65M distressed hospital loan in FY24: 6-year repayment at 0% after 18-month grace period
- \$10M line of credit: No payments in forecast period
- \$1.5M capital lease for Cath equipment in FY24

- **Expenses % Variable**

- FTES	25%
- Employee Benefits ¹	23%
- Purchased Services	10%
- Management Agreement ²	100%
- Professional Fees-Other	50%
- Supplies	80%
- HQAF Provider Fee	0%
- Other Operating Expenses	30%

Note: Expenses are variable to adj. patient days except:

¹Benefits are % of non-agency salaries

²Management agreement calculated as percent of operating revenues excluding supplemental payments

REPORT CONDITIONS AND LIMITATIONS

This report has been prepared specifically for and under the instructions and requirements of Eden Health District(Customer) under an appointment dated June 1, 2023 in connection with the St. Rose Hospital Sustainability Review project.

This report is prepared for use and reliance by our Customer only. No third party is entitled to rely on this report unless and until they and we sign a reliance letter as set out in our Appointment. We do not in any circumstances accept any duty, responsibility or liability to any third party whatsoever (including retail investors whether by bond issue or otherwise) who has relied on this report in circumstances where they and we have not signed a reliance letter. Accordingly, we disclaim all liability of whatever nature (including in negligence) to any third party other than to our Customer or to any third party with whom we have agreed and signed a reliance letter and such liability is subject always to the terms of our Appointment with the Customer and the reliance letter with the third party.

In preparing this report we have relied on information provided by others and we do not accept responsibility for the content, including the accuracy and completeness, of such information. In no circumstances do we accept liability in relation to information provided by others.

We emphasize that any forward-looking projections, forecasts, or estimates are based upon interpretations or assessments of available information at the time of writing. The realization of the prospective financial information is dependent upon the continued validity of the assumptions on which it is based. Actual events frequently do not occur as expected, and the differences may be material. For this reason, we accept no responsibility for the realization of any projection, forecast, opinion or estimate.

Findings are time-sensitive and relevant only to current conditions at the time of writing. We will not be under any obligation to update the report to address changes in facts or circumstances that occur after the date of our report that might materially affect the contents of the report or any of the conclusions set forth therein. No person other than our Customer and any party to whom reliance has been expressly permitted by us pursuant to a reliance letter may copy (in whole or in part), use or rely on the contents of this report without our prior written permission. Any copying or use of this report (in whole or in part) whatsoever shall be accompanied by or incorporated in this notice at all times.

We accept no responsibility for, and have not authorized, the contents of any report, prospectus, supplementary prospectus, listing particulars, supplementary listing particulars, presentation or other document or communication in respect of the sale, acquisition, offering or transfer of any shares or securities or interest in them, whether on the primary or secondary market or otherwise, which uses, includes or incorporates any report, deliverable or information, or any element thereof, prepared by us under or in connection with our Appointment.



Alameda County Board of Supervisors
October 24, 2023

Background

- St. Rose and the patients it serves appreciate the past and ongoing support of Alameda County, the Board of Supervisors, and the Health Care Services Agency including the most recent \$5 Million in additional funding.
- St. Rose's independent Board of Directors has, at the recommendation of management, been discussing and exploring potential affiliations and affiliation partners on an informal basis for the past several years.
- St. Rose welcomed the opportunity to work with The Innova Group and St. Rose's management team worked hard to make sure The Innova Group had the information it requested and understood St. Rose's needs and the needs of the community.

Steps Already Taken

- St. Rose's Board of Directors, with the support of management, has already engaged Kaufman Hall and Steve Hollis to assist St. Rose and its Board of Directors in running a process to identify affiliation opportunities and affiliation partners.
 - Kaufman Hall is a nationally recognized advisory firm that has extensive experience assisting non-profit health systems and hospitals in processes similar to that which will be undertaken by St. Rose.
 - Steve Hollis is a local healthcare expert who has extensive knowledge about the local healthcare marketplace and strategic affiliations.

The Process

- St. Rose's Board of Directors, with the assistance of Kaufman Hall and Steve Hollis, will run a process which includes the following:
 - Identifying St. Rose's needs and the needs of stakeholders including the communities served by St. Rose.
 - Developing a request for proposal which identifies St. Rose's needs and expectations for any affiliation and affiliation partner.
 - Identifying potential affiliation and affiliation partners.
 - Soliciting proposals from all potential affiliation partners.
 - Developing objective criteria by which the St. Rose's Board of Directors will evaluate proposed affiliations and affiliation partners.

Next Steps

- St. Rose's Board of Directors will be working closely with Kaufman Hall and Steve Hollis to develop a Request for Proposal.
- St. Rose will move quickly while maintaining the integrity of the process and fairness to all potential affiliation partners especially those who were not part of the Steering Committee process.
- St. Rose will provide regular updates to stakeholders while maintaining the confidentiality and integrity of the process.
- St. Rose will work closely with Cal-Mortgage and other regulatory agencies to keep them apprised of the process so as to avoid any unnecessary delays.
- Above all else, St. Rose is committed to a fair and objective process that will hopefully result in several exciting affiliation opportunities for St. Rose that will benefit the communities it serves.

Thank you

Questions?

