

Sonoma Valley Hospital

FY 2009 Budget

Table of Contents

CEO Message	Page 1
Statement of Revenues and Expenses.....	Page 3
Cash Balance Forecast.....	Page 4
Activity Measures	Page 5
Three Year Capital Budget (FY'09, FY'10, FY'11).....	Page 6

CEO Message
Fiscal Year 2009 Budget

The central message of this year's budget is this: Without a successful bond measure, we will not be able to repair and replace the infrastructure necessary to maintain a full service hospital, one that includes a 24 hour emergency room, and all of the attendant services that support it. We have deferred investment in this area for years, and we are now facing absolute needs – information systems that will no longer be supported by the vendor and utility equipment that will likely fail if not replaced. The three year capital plan included in this budget contains more than \$3 million of fiscal 2009 requests, the majority of which relate to these critical infrastructure requirements. Without a successful bond issue, we will be unable to address these needs. Accordingly, we are presenting a budget that assumes success, but which also shows the impact of a failed issue on our projected cash balances.

We realize the Board has not made a decision about the timing and scope of a bond issue, but we have made what we believe are reasonable assumptions – that the bond will be placed before the electorate this calendar year and will finance at least our existing infrastructure and working capital replacement needs.

Our budget for the coming year balances the cash flow requirements of the facility and the equally pressing need to bring our salary scales more in line with the local market. We believe it is imperative to increase our salary levels, and to do so at the beginning of our fiscal year. Our last increase was in October 2006 and we are seeing the negative consequences of falling behind the market – difficulty in recruiting and retaining certain positions and increased use of registry. Recognizing the cash flow issues facing the hospital we are not proposing to bring everyone up to market, but believe that failing to provide any increases would only diminish our financial performance. As discussed below, we are targeting our increases to specific positions so that we obtain the best return for invested dollars.

The following summarizes our approach to our fiscal 2009 salary increases, which we plan on implementing the first payroll following July 1.

The adjusted salary scales generated an increase for each job code that according to the salary survey moved up, but we capped the increase, based on our assessment of the need in each category and our ability to finance the increases.

<u>Category</u>	<u>Maximum Increase</u>
Nurses and 'Critical' Clinical Positions	6.0%
Support – Priority Positions	5.0%
All other Positions, including Management	3.0%

In addition to RNs, the first category includes LVNs, CNAs, ER Techs, Physical Therapists and Assistants, Occupational and Speech Therapists, Respiratory Therapists, Lab Scientists and Aides, Imaging Techs and Telemetry Techs. The priority support positions are in Housekeeping, Nutrition and Engineering.

Finally, we made sure that every employee's rate was at least equal to the bottom of the new range, which ensures that no one is paid below the established range. The cost of salary increases, including benefits, is slightly more than \$1.1 million. At its May 21, 2008 meeting, the Personnel Committee voted to recommend these increases.

To ensure that we generate positive cash flow despite the salary increases, we undertook several initiatives to contain expenses. These include:

Flexible staffing – particularly on the nursing units

Eliminating certain management positions and curtailing the use of consultants

Converting other management positions to part-time

Major changes to the way we manage and provide integrative medicine services

Our FTEs will remain essentially constant, despite modest volume growth.

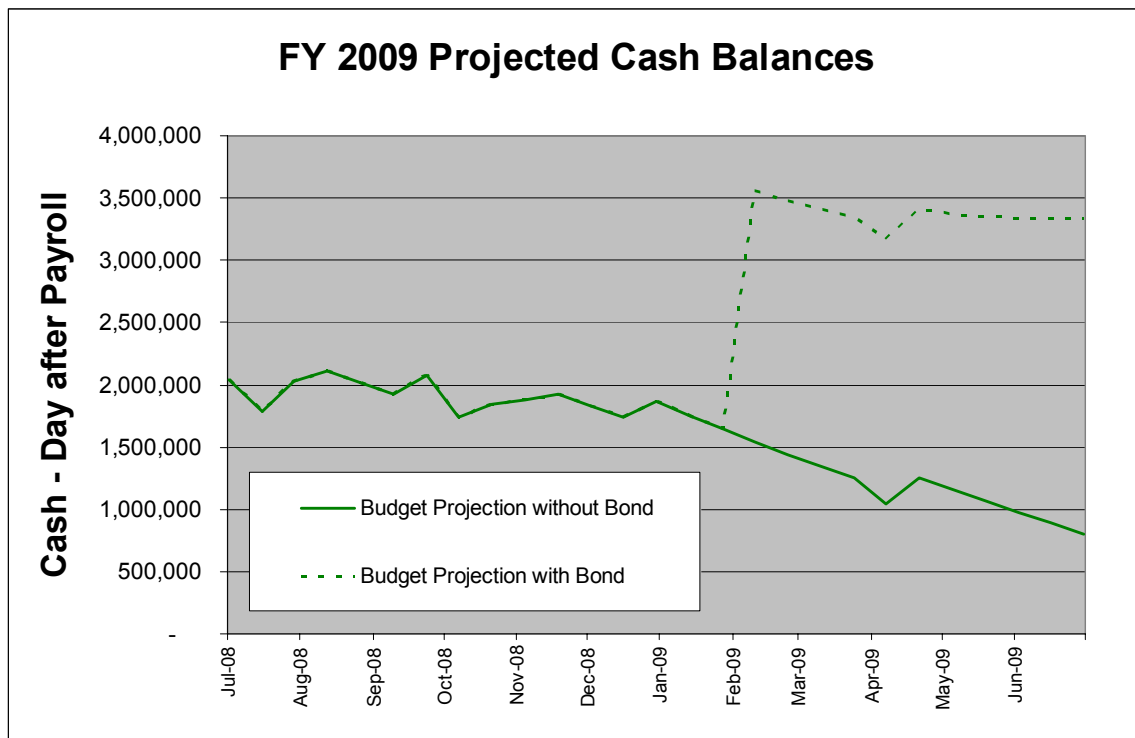
With regard to revenue, we do not expect any growth in inpatient admissions from the rates we saw during the latter part of the current year. Implicit in this approach is that we do not expect a recurrence of the very low admissions rates we saw during the summer months of 2007, so budgeted admissions for 2009 are modestly higher than 2008's annualized figure. We anticipate continued steady growth in our outpatient business.

In comparing budgeted revenue figures with prior years, it will be important to recognize the two shifts we will be seeing because of new insurance contracts. Our arrangement with PacifiCare will convert from a full risk contract to fee-for-service on January 1, 2009, resulting in a decrease in capitation revenue and corresponding increase in patient revenue. Of more significance, this will eliminate our risk for providing out-of-facility care for tertiary cases, so this portion of our purchased service cost will stop. The revenue impact of this change will be more than offset by our new contract with Blue Shield, in which we will receive a capitation payment of roughly \$200,000 a month for providing care to its local HMO patients. Unlike our terminating PacifiCare contract, this arrangement does not require us to pay for tertiary care in other facilities, so it does not entail that financial risk.

Our budget does not include any costs associated with physician recruitment, because we don't believe recruitment is feasible prior to a successful election. In our projection of cash balances associated with a successful bond issue we have assumed that local general and orthopedic surgeons will commit further to our facility, bringing additional volume sufficient to bring us to a breakeven cash flow by the end of fiscal 2009.

With regard to capital expenditures, we assume that prior to the bond election, we will fund only those which are absolutely necessary, which we assume equal to an annual figure of \$500,000. A successful bond issue relieves operations of any financing burden for capital and because it will retroactively fund prior acquisitions, we assume that working capital will be replenished in the amount of \$2 million.

The following graph shows the all-important cash balance projections resulting from the budget.



SONOMA VALLEY HEALTH CARE DISTRICT
FY 2009 PROPOSED BUDGET
STATEMENT OF REVENUE & EXPENSE

05/21/2008

	ACTUAL FY 2007	July-April ANNUALIZED FY 2008	FORECAST FY 2009	VARIANCE	% INC/(DEC)
REVENUE					
ACUTE	39,715,774	45,580,303	49,980,629	4,400,326	10%
SKILLED NURSING	14,648,692	16,680,155	17,411,578	731,423	4%
OUTPATIENT	49,351,920	52,866,356	56,781,648	3,915,292	7%
HOME CARE	2,225,030	2,113,368	2,168,239	54,871	3%
EMERGENCY	16,048,900	18,804,425	20,454,103	1,649,678	9%
GROSS REVENUE	121,990,315	136,044,608	146,796,197	10,751,589	8%
CONTRCTL DISC AND DISC/OTH DED	(82,750,497)	(95,725,291)	(106,845,398)	(11,120,107)	12%
UNCOLLECT ACCTS	(1,274,994)	(1,912,800)	(1,935,000)	(22,200)	1%
COMMUNITY BENEFIT	(1,089,628)	(753,600)	(792,000)	(38,400)	5%
NET CAPITATION	1,332,375	1,334,752	2,983,482	1,648,730	124%
NET REVENUE	38,207,572	38,987,669	40,207,281	1,219,612	3%
OTHER OPERATING REVENUE	265,805	282,805	217,282	(65,523)	-23%
TOTAL REVENUES	38,473,377	39,270,474	40,424,563	1,154,089	3%
EXPENSES					
SAL & WAGES, PTO & PRO FEES AGENCY	23,083,352	23,506,890	22,900,278	(606,612)	-3%
PROPOSED SALARY INCREASES	0	0	1,115,486	1,115,486	0%
EMPLOYEE BENEFITS	4,118,493	4,073,073	4,720,201	647,128	16%
PROF FEES MEDICAL & OTHER	1,616,544	2,175,174	1,899,198	(275,976)	-13%
SUPPLIES	1,589,349	1,660,688	1,773,793	113,105	7%
MINOR EQUIPMENT	101,653	97,770	99,372	1,602	2%
PT.CHG.SUPPLIES	3,436,423	3,486,604	3,643,700	157,096	5%
PURCH.SVS.	3,018,974	3,497,899	2,817,099	(680,800)	-19%
DEPRECIATION	1,101,049	1,134,067	1,489,242	355,175	31%
UTILITIES	715,603	729,336	770,500	41,164	6%
INSURANCE	480,324	463,121	440,436	(22,685)	-5%
INTEREST	331,595	353,188	317,452	(35,736)	-10%
EDUC/TRAVEL AND OTHER EXPENSES	895,463	854,650	836,048	(18,602)	-2%
CONTINGENCY	0	0	0	0	0%
TOTAL EXPENSES	40,488,822	42,032,458	42,822,805	790,346	2%
INCOME (LOSS) FROM OPERATIONS	(2,015,445)	(2,761,984)	(2,398,242)	363,742	-13%
NONOPERATING GAINS (LOSSES):					
INTEREST INCOME AND NON-OP REV/EXP	203,968	253,627	187,405	(66,222)	-26%
FUNDRAISING EXPENSE	(215,169)	(202,466)	(64,422)	138,044	-68%
DONATIONS	690,254	363,921	500,000	136,079	37%
SVCHC	0	0	0	0	0%
TAX ASSESSMENT REVENUE	2,047,533	2,998,871	3,000,000	1,129	0%
PHYSICIAN PRACTICE SUPPORT	(760,735)	(391,221)	(123,329)	267,892	-68%
TOTAL NET NONOPERATING REVENUE	1,965,851	3,022,733	3,499,654	476,921	16%
NET INCOME	(49,594)	260,749	1,101,413	840,664	322%
EXTRAORDINARY LOSS	(402,837)	0	0	0	
NET INCOME (LOSS)	(452,431)	260,749	1,101,413	840,664	322%

**Sonoma Valley Hospital
 FY'2009 Budget Cash Flow Projections**

Projected Cash Balance at July 1, 2008:		\$	1,250,000
Net Income	\$ 1,101,000		
Add: SVH Depreciation & Amortization	1,489,000		
Cash generated	<u>2,590,000</u>		
Uses			
Long term debt payments	(1,488,863)		
Proposed Capital Budget Expenditures	<u>(500,000)</u>		
Total Uses	(1,988,863)		
Net increase .	<u>\$ 601,137</u>		601,000
Huffman debt repayment			14,000
New Hospital Costs			<u>-</u>
Projected Cash Balance at June 30, 2009:			<u><u>1,865,000</u></u>

**SONOMA VALLEY HEALTH CARE DISTRICT
 FY 2009 BUDGET PROPOSAL
 ACTIVITY MEASURES**

	FY 2007 Actual	FY 2008 Budgeted	Jul-Apr FY 2008 Annualized	FY 2009 Forecast
DISCHARGES				
ACUTE	1,584	1,625	1,512	1,580
SNF	402	404	360	409
TOTAL	1,986	2,029	1,872	1,989
PATIENT DAYS				
ACUTE	5,744	6,076	5,918	6,629
SNF	6,188	6,265	6,494	6,547
TOTAL	11,932	12,341	12,413	13,176
OCCUPIED BEDS				
ACUTE	15.7	16.6	16.2	18.2
SNF	17.0	17.1	17.7	17.9
TOTAL	32.7	33.7	33.9	36.1
TOTAL FTE'S				
ACUTE	303.1	310.3	306.5	309.1
SNF	24.7	25.1	25.4	23.0
TOTAL	327.7	335.4	331.9	332.1
AVG LENGTH OF STAY				
ACUTE	3.6	3.7	3.9	4.2
SNF	15.4	15.5	18.0	16.0
OTHER STATISTICS				
SURGERY CASES	1,844	1,861	1,698	1,776
DELIVERIES	232	243	215	224
EMERGENCY ROOM VISITS	9,807	9,908	9,348	9,606
HOME CARE PATIENTS	769	748	878	850
EQUIVALENT PATIENT DAYS	26,775	27,569	27,123	28,700
CAPITATION MEMBER MONTHS				
COMMERCIAL	12,623	12,744	16,171	29,532

SONOMA VALLEY HOSPITAL
FY 2009 Capital Budget

1. Risk of imminent failure
2. Patient/staff safety
3. Revenue Earning
4. Efficiency producing
5. Regulatory

Dept. Mgr	Dept. #	Item Mfg. and Description	Qty.	Total	Priority
<u>Clinical</u>					
Richards	6010	Spacelabs: Transport monitor and roll cart	1	\$ 27,335	2
Richards	6010	Spacelabs: Ultraview SL Dual Cap. Module	2	18,428	4
Preston	6170	Welch Allyn: 2 Vital Sign Monitors	2	5,290	4
S. Tirri	6171	Stryker: Symmetry II Sleeper Chairs	2	7,780	2
S. Tirri	6171	Stryker: Maternity Birthing Bed	1	13,000	1
Kelly	7010	Stryker: 735 Transport Stretcher, M-Series Stretcher	2	7,368	2
Kalata	7420	Stryker: Transport Gurney	3	4,000	2
Kalata	7420	Stryker: Cordless Power Equipment	1	33,080	4
Kalata	7480	Hospira: Buyout of lease for PCA pumps	7	1,750	1
Valenzuela	7500	Abbott Diagnostics: Cell-DYN Ruby	1	67,500	1
Valenzuela	7500	U.S. Foods: Refrigerator	1	2,000	4
Valenzuela	7500	Ortho Clinical Diag: ID-MTS Gel	1	3,500	4
Valenzuela	7500	Ortho Clinical Diag: Vitros Suite	1	180,000	1
Valenzuela	7500	Fisher Scientific: Primar Tube Centrifuge	1	2,500	4
Cole	7590	Philips: EKG machine:	1	12,100	1
Cole	7590	Philips: EKG machine:	1	121,000	1
Valenzuela	7520	Fisher Scientific: Cryostat	1	22,000	1
Spring	7630	Stryker: transport Gurney	1	4,028	4
Spring	7630	InnerSpace: Modular Rolling Supply Cart	1	4,855	4
Spring	7670	Parks Medical: Vascular Mini Lab	1	5,315	1
Spring	7670	GE: Various Transducers	1	29,400	4
Cole	7721	Puritan Bennett: 840 Ventilator	1	23,701	1
Sipes	7770	Med Ex Supply: Parallel bars	1	1,949	1
Sipes	7770	Medline: Easy Stand	1	2,000	2
Sipes	7771	Chatanooga: DC Stimulator	1	899	4
Sipes	7771	Chatanooga: Ultrasound E-Stim Combo	1	1,031	1
Sipes	7771	American AED: HeartStart Online	1	1,225	2
Sipes	7775	Intoximeters: Breath Alcohol Testing	1	700	1
Subtotal Clinical				603,735	
<u>Facilities</u>					
Matilda	8440	Unisource: Allstar Carpet Extractor	1	2,798	4
Hinse	8440	Unisource: Allstar Dual Speed Floor Machine	1	1,432	4
Wilburn	8450	Kenwood Fence: Replace fence 02 tank	1	30,000	5
Wilburn	8450	Blakslee Electric: Replace 106each FPE panels	106	100,000	1
Wilburn	8450	Steris: Hi Vac Sterilizer Central Sterile	1	90,000	1
Wilburn	8450	Advance Engineering: Nitrious Oxide Lox Pad	1	70,000	1
Wilburn	8450	Peterson Mechanical: East Wing 7 heating and Coolin	7	313,332	1
Wilburn	8450	SafeMart: Recorder for CCTV for L&D	1	2,099	2
Wilburn	8450	Spytown: 2 Security Cameras, 2 Optic Lens	2	378	2
Wilburn	8450	Automatic Door System: Automatic Door for Cardio	1	12,000	2
Wilburn	8450	Blakeslee Electric: 2 Fire System for IT	2	15,000	2
Wilburn	8450	Abbey Carpet: Replace Vinyl Carpet in Nuc Med	1	13,983	4
Wilburn	8450	Peterson Mechanical: Water Valve-Pipes	1	28,000	1
Subtotal Facilities				679,022	
<u>Information Systems</u>					
Fe	8480	Various vendors: Upgrade IT infrastructure/systems	1	1,800,000	1
Subtotal Information Systems				1,800,000	
Total Budget Requests				\$ 3,082,757	

**SONOMA VALLEY HOSPITAL
FY 2010 Capital Budget**

- | |
|-----------------------------|
| 1. Risk of imminent failure |
| 2. Patient/staff safety |
| 3. Revenue Earning |
| 4. Efficiency producing |
| 5. Regulatory |

Dept. Mgr	Dept. #	Item Mfg. and Description	Qty.	Total	Priority
		<u>Clinical</u>			
Richards	6010	Encompass: 2 Mattresses Air Tube	2	\$ 2,154	2
Richards	6010	Spacelabs: 1700 model beside monitors (2)	2	81,301	4
S. Tirri	6171	Centralized Monitoring System	1	45,000	2
S. Tirri	6171	Daytex-Ohmeda: Infant Warming Table	1	12,000	2
S. Tirri	6171	Medline: Adult Digital Scale	1	1,100	1
Kalata	7420	Stryker: Neptune Waste Mgt System	1	9,604	4
Lois	7500	Siemens Diagnostics: 2 Blood Gas Instruments	2	40,000	4
Lois	7500	U.S. Foods: Refrigerator	1	2,000	1
Lois	7520	Olympus: Microscope	1	12,000	4
Lois	7520	Fisher Scientific: Cytocentrifuge	1	10,000	4
Lois	7540	Helmer: Blood Bank Refrigerator	1	7,000	4
Springs	7630	GE: Portable X-Ray Machine	1	200,000	2
Springs	7680	EZ-EM: Insuffiator / Rolling Cart	1	12,000	4
Sipes	7770	Invacare: Wheelchair	1	1,225	2
Sipes	7771	Rajala: Treadmill	1	1,899	3
		Subtotal Clinical		437,283	
		<u>Facilities</u>			
Willburn	8450	Peterson Mechanical: Negative Air Room for E.R	1	40,000	2
Willburn	8450	American Chiller: Carrier Chiller 180 ton	1	318,000	1
Willburn	8450	Peterson Mechanical: HVAC Heat and Cool sys for Cen	9	232,886	4
Willburn	8450	Abbey Carpet: Replace Vinyl Floor for Med Imaging	1	12,178	4
		Subtotal Facilities		603,064	
		<u>Information Systems</u>			
Fe	8480	Various Vendors: IT infrastructure/systems	1	500,000	4
		Subtotal Information Systems		500,000	
		Total Budget Requests		\$ 1,540,347	

**SONOMA VALLEY HOSPITAL
FY 2011 Capital Budget**

- | |
|-----------------------------|
| 1. Risk of imminent failure |
| 2. Patient/staff safety |
| 3. Revenue Earning |
| 4. Efficiency producing |
| 5. Regulatory |

Dept. Mgr	Dept. #	Item Mfg. and Description	Qty.	Total	Priority
<u>Clinical</u>					
Richards	6010	Stryker: ICU Bed	4	\$ 37,133	4
S. Tirri	6171	Steris: OR Surgical Table	1	24,000	2
Kelly	7010	Datascope: 4 monitors and central station	1	56,690	4
Lois	7500	Olympus: Microscope, Double Headed	1	14,000	1
Lois	7500	Fisher Scientific: Verifynow	1	9,500	4
Lois	7500	Fisher Scientific: Incubator	1	10,000	1
Lois	7500	Fisher Scientific: Centrifuge	1	9,000	4
Jessica	7630	Siemens: Radiographic Room Replacement	1	418,054	4
Subtotal Clinical				578,378	
<u>Facilities</u>					
Willburn	8450	R.F. MacDonald: Replace Hot Water tank	1	40,000	1
Willburn	8450	Holt Bros. : Replace 250 KV Generator	1	200,000	4
Willburn	8450	American Chiller Service: 3 Dolfin Tower systems	3	120,000	4
Willburn	8450	R.F. MacDonald: Replaceboiler Brooks #2	1	200,000	4
Willburn	8450	Abbey Carpet: Remove and Replace Carpet for Lab	1	17,724	4
Subtotal Facilities				577,724	
<u>Information Systems</u>					
Fe	8480	Various vendors: Upgrade IT infrastructure/systems	1	1,000,000	2
Subtotal Information Systems				1,000,000	
Total Budget Requests				\$ 2,156,102	