

Orientation on Transition Structures

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Background



Pajaro Valley Healthcare District Project founders had, as one of their guiding principles, an objective to make sure that the governance of the hospital was in the hands of the local community, and they felt that a Health Care District operator for WHC would achieve that goal



As the organization embarked on its effort, two firms were brought in to assist in financial modeling: - Health Management Associates (HMA), experts in government program funding; and Kaufman Hall, an industry leader in hospital financial management and business planning



HMA was specifically tasked with analyzing the impact on existing supplemental funding from the State of an acquisition by either a health care district, a not-for-profit entity, or a county



In 2021, Watsonville Community Hospital received over \$15 million in revenue from these sources





Findings

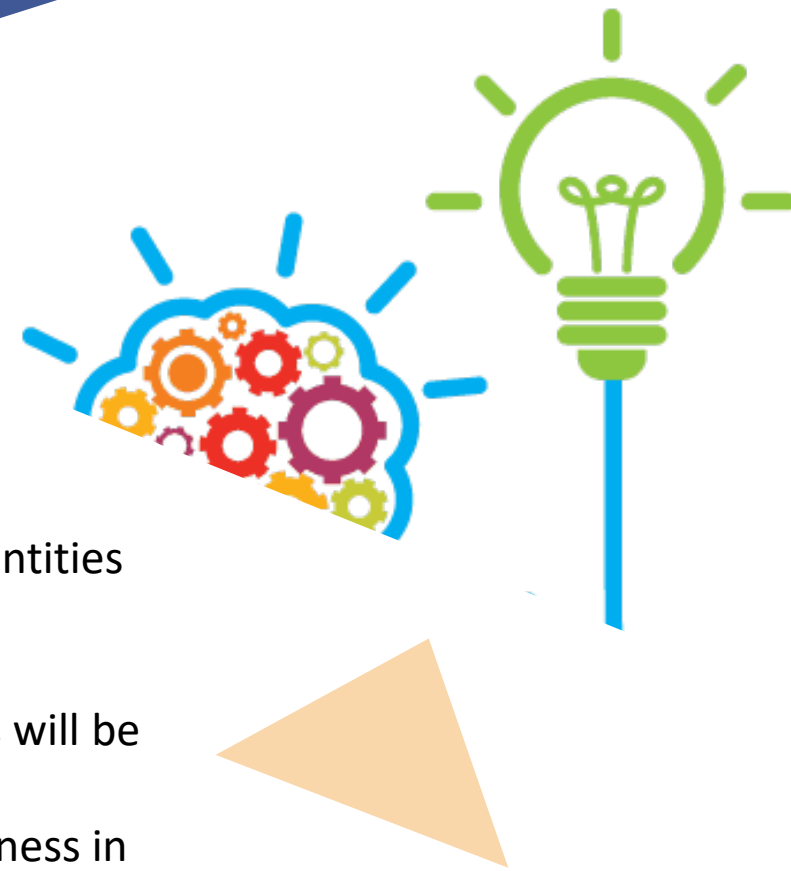


EBITDA		YTD FY21 (38,370,463)	FY22 (22,281,460)	FY23 (4,981,262)
Private	QAF Supplemental Payment and QAF Managed Care Funds	14,840,846	15,065,758	15,517,730
Private	Replacement DSH	300,000	1,301,580	1,301,580
Private	Private Hospital Supplemental Funds	-	-	-
Total Estimated Private Hospital Supplemental Payments		15,140,846	16,367,338	16,819,310
District	QAF Supplemental Payment and QAF Managed Care Funds	2,873,972	2,960,191	3,048,997
District	"Traditional" DSH	1,981,115	2,040,548	2,101,765
District	PRIME / QIP	2,584,856	2,662,401	2,742,273
District	NDPH-IGT AB-113	755,285	777,943	801,281
District	AB 915 Public Hospital Outpatient Supplemental	523,670	539,380	555,562
Total Estimated District Hospital Supplemental Payments		8,718,897	8,980,464	9,249,878
County	Global Payment Program (GPP)- DSH/Uncompensated Care	6,372,109	6,563,272	6,760,170
County	Directed Payments DPH Enhanced Payment Program (EPP)	11,173,037	11,508,228	11,853,475
County	QAF Supplemental Payment and QAF Managed Care Funds	-	-	-
County	PRIME / QIP	2,584,856	2,662,401	2,742,273
County	NDPH-IGT AB-113	755,285	777,943	801,281
County	AB 915 Public Hospital Outpatient Supplemental	523,670	539,380	555,562
Total Estimated District Hospital Supplemental Payments		21,408,957	22,051,225	22,712,762

The difference in supplemental payments between a private hospital (for-profit or not-for-profit) and a District hospital is approximately \$10 m/yr (i.e., the hospital would receive \$10 m/yr less revenue if it were operated by a District)

Proposed Solution

- California Health Care Districts are able to create fully-controlled not-for-profit entities
- SB418 was written in such a way that preserves this opportunity
- PVHCD can create a controlled not-for-profit entity (for the time being we call it “CareCo”) that is the hospital licensee and operator. The district board members will be ex officio members of CareCo’s board.
- CareCo would be considered a “Brown Act” entity (i.e., it would conduct its business in accordance with the Brown Act)
- This structure is in place in other California health care districts (e.g., Marin Health Care District and the El Camino Health Care District in Mountain View)
- The District and not-for-profit CareCo Boards have the same members
- The District and not-for-profit CareCo Boards usually hold their meetings “one after the other,” meaning the District has an agenda, meets to conduct business related to that agenda, adjourns the meeting, and then immediately calls to order the board meeting of the not-for-profit entity



Visual Depiction

“District” - Pajaro Valley Health Care District (5 Person Public Board)

“CareCo” (501(c)(3) with “mirror board”) – Created by and controlled by District – Acquires Watsonville Community Hospital

Pajaro Valley Health Care District Project (“PVHDP”)

CareCo conveys all cash and hospital assets, except for reserve operating rights (license) to District

PVHDP arranges transaction and contributes its cash (less budget for consulting fees) to CareCo



Next Steps and Why Now?



- Because CareCo would be, if approved, the entity to operate the hospital, a decision needs to be made soon to enable regulatory approvals to be obtained
- This item will be placed as an “action” item at the PVHDP board meeting on April 21, 2022
- PVHDP’s transaction counsel will be available at that time to answer any legal questions you may have
- If there are questions that you would like to be addressed at this meeting, please let us know



Contact me with questions



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