

Dedicated to the Health
of the Whole Community



Santa Clara Valley
Health & Hospital System
**Ambulatory & Community
Health Services**

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To: Liz Kniss, Supervisor District 5
Attn: Mike Carlson

From: Robin K. Roche, Director ACHS

Date: June 6, 2002

Subj: VSC financial analysis

As requested, attached is the financial analysis performed for Valley Specialty Center.

The methodology for this analysis was described in the report back. However there are many elements that require some familiarization with health care financing. To help you in reviewing this material Kim Roberts and I would be happy to conduct a meeting to assist you and other aides interested in reviewing the attached information.

If you and other Board Aides are interested, please contact my office and we will schedule a meeting to review the material.

c Board of Supervisors
Robert Sillen
Hope Ryan

JUN 6 2002



ASSUMPTIONS for VSC Financial Analysis

Visits

- *Defined by the different scenarios. FY01 is the base year.
- *Inpatient days are driven by outpatient visits and will vary by payer mix. Therefore, as the payer mix for outpatient changes, so will those for inpatient.
- Furthermore, inpatient days also vary by payer mix resulting in a different ratio of outpatient visit to inpatient day under the various scenarios.

Payer Mix

- *FY01 is the base.
- *Using the past 5 years' experience, incremental specialty visits will be 38% Medicare; 4% Medi-Cal; 21% MCMC; 37% Insurance; and 0% for Un-sponsored and VHP. This assumption is applied to FY 06 Scenario Bs. Therefore, incremental outpatient visit mix will show a growth in all payer source except un-sponsored and VHP. Furthermore, since inpatient days are driven by outpatient visits, the inpatient payer mix will also change.
- *The payer mix in FY01 is applied to all visits in FY 06 Scenario A.

Expenses

- *Direct expenses increase by 6% each year. Indirect by 3% each year. 70% of indirect expenses are fixed, 30% variable.
- *Capital, debt service, construction and building costs are excluded.

Revenue

- *Medi-Cal increase 20% for FY02 (as result of lawsuit, the increase was 30% but 20% was used), then 3% thereafter.
- *Medicare, MCMC, insurance and VHP (Cap or DOR) increase by 3% annually.
- *Un-sponsored has no increase.
- *Rate per visit or day is based on FY01 experience by payer mix.
- *DSH does not increase with volume. FY01 amount is used for all projections.
- *The Contribution Margin (IP and OP) differs from those in the FGOC submitted table because we decided to eliminate VHP from the analysis. VHP had a minimal amount of revenue for IP, about \$3,400. OP analysis remains constant as VHP had 0 revenue.