



DATE: June 11, 2021

TO: Honorable Members of the Board of Supervisors
Jeffrey V. Smith, M.D., J.D., County Executive

FROM: Paul E. Lorenz, Chief Executive Officer, SCVMC/Enterprise

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Paul Lorenz
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SUBJECT: Off Agenda Report on new hospital integration and financial performance

At the November 18, 2020 Board of Supervisors meeting, Chairperson Chavez, as part of Agenda Item 4a, directed Administration to provide an off-agenda report on the integration of the new hospitals and financial performance, to include an update of the acquisition pro-forma financials.

Background and Integration

The County of Santa Clara acquired two hospitals, OCH and SLRH, in March of 2019. The acquisition of these two hospitals were strategically important for a number of reasons, including a) ensuring access of essential health care services in the County, especially the South County; b) the stabilization and maintenance of hospital acute bed capacity in the County and region to ensure access to all members of community, especially individuals that are uninsured, underinsured, and on government subsidized health care, such as Medi-Cal and Medicare; c) strategically acquire needed hospital beds at a significantly lower cost than building on the VMC campus, saving and deferring hundreds of millions in cost to the County; and d) better position the County Health Care System to efficiently and geographically serve a growing number of patients in the County with comprehensive, integrated, and accessible health care.

The decision to acquire also included an extensive financial review and feasibility study to ensure the County and the Health System could financially sustain such an acquisition. The analysis, as with any Proforma, included a number of assumptions, that clearly indicated 1) that the acquisition of the two hospitals would clearly benefit and improve the financial position of the two hospitals due to the nature of Public Hospital Financing; and 2) the leveraging of SCVMC and the

integration of the two hospitals with SCVMC would provide for significant savings in leveraging leadership, system overhead, and standardization/consolidation of operational activities and service lines across the three hospital system and regionally.

While the Proforma and analysis also indicated that it could take as much as 2-3 years for the three-hospital system to stabilize, it was also indicated that it could take longer given potential changes in public and health care financing, as well as changes in market dynamics in health care and in the insurance industry.

It is widely known and understood that the pandemic over the past 16 months has had a dramatic impact on health care and has presented some challenge to the County Health Care System. However, without the additional bed capacity afforded by the acquisition, the System would have been significantly overloaded and unable to meet critical patient care needs for the entire community.

Financial Performance

There are clear indications that while the pandemic response has slowed some efforts to integrate the three-hospital system and has had some temporary financial implications, the County Health Care System is moving in a positive direction. This is indicated through the continued growth in patient volume and services (Figure 1) and the growth in patient revenue and reimbursement, along with a number of remaining opportunities to further develop and consolidate service lines, better manage costs, and improve efficiency and access. The implementation of a system-wide integrated Electronic Health Record system, and the achievement of HIMMS Stage 7 - the highest level of optimization, has accelerated improvements in both clinical and financial outcomes for the Enterprise.

Figure 1 -- Enterprise Key Performance Metrics

	Actual FY19*	Actual FY20	Annualized FY21
Inpatient Days - Total	138,906	171,679	182,321
ED Visits	111,996	153,477	139,095
Gross Patient Revenue	5,208,760,000	5,982,752,000	6,476,925,600
Medi-Cal Managed Care Covered Lives	118,864	123,172	136,015
*Includes only 4 months of OCH & SLRH post acquisition			

In summary, the integration of the hospitals and clinics continue to move in a favorable direction, even with the challenges and impact of the pandemic on patient volumes, patient revenues, and operating expenses. The system leadership is heavily focused on continuing integration of services and the consolidation of service lines to further improve quality and community access to essential health

care services, which is anticipated to result in the continued improvement of financial performance of the System.

A follow-up discussion and report will be provided to the Health and Hospital Committee at the November 2021 meeting.