



El Camino Hospital[®]

THE HOSPITAL OF SILICON VALLEY

**Regular Meeting of the El Camino Hospital
Board of Directors**

June 8, 2016

El Camino Hospital and Affiliates
FY2017 Operating & Capital Budget
Tomi Ryba, CEO
Iftikhar Hussain, CFO

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Strategic Goal

El Camino Hospital Strategy

Strategy

El Camino Hospital will be a **locally controlled leader** in **optimizing the health and wellness** of our communities in Silicon Valley, differentiated by **innovative continuum of care** developed in partnership with physicians, businesses, and payers.

Positioning Statement

El Camino Hospital will first be a **value-based healthcare** provider offering **top decile**, acute care quality at mid-level pricing, moving toward **continuum partnerships** that integrate care coordination and delivery strategies focused on the **Triple Aim of quality, service and affordability**.

Strategic Themes - Proposed for FY17

| |
|-------------------------------|
| Quality Aim |
| Integrated Care |
| Smart Volume Growth |
| High Performance Organization |

FY 17 Strategic Priorities

| Strategic Themes | Priorities |
|------------------|---|
| Quality Aim | <ul style="list-style-type: none">• Build Patient & Family Centered Care roadmap with assistance from Planetree• Leverage iCare to improve our Pain Management, a patient centric quality driver• Begin process to improve peer review and Medical Staff quality oversight |
| Integrated Care | <ul style="list-style-type: none">• Continue participation in Bundled Payment Program• Collaborate with PAMF on quality and cost related to Medicare Advantage• Actuarial study for Medicare three-year forecast• Launch Urgent Care• Develop clinic plan with PMG• Recruit physicians to PCMH and build Palliative Care |

FY 17 Strategic Priorities

| Strategic Themes | Priorities |
|------------------|---|
| Smart Growth | <ul style="list-style-type: none">• Physician Development<ul style="list-style-type: none">○ Implement primary care center strategy (1 new center, 4 physicians)○ CIN Development○ Update physician community needs assessment○ Identify & implement new recruitment targets○ Implement Community Connect (10 physicians)• Program Service Line Development<ul style="list-style-type: none">○ OB – LG expansion○ Minimally invasive program○ Wound care○ Women's CV services○ Achieve budgeted IP & OP cases for surgeries & Procedures• Other<ul style="list-style-type: none">○ Santa Teresa development○ Market partner evaluation |

FY 17 Strategic Priorities

| Strategic Themes | Priorities |
|------------------|--|
| HPO | <ul style="list-style-type: none">• Integrated Performance Improvement (IPI) monthly process focused on the triple aim, specifically:<ul style="list-style-type: none">○ Productivity, HPPD, Labor Management○ OR, ED efficiencies○ Revenue Cycle, Clinical Documentation Improvement○ Quality, Service KPI's• Achieve LOS reduction of .23 days• Maintain FY16 Medicare readmissions rates• Achieve \$6.7M budgeted cost reductions |

Proposed Organizational Goals – FY2017

| Organizational Goals FY17: Draft | | Benchmark | 2016 ECH Baseline | Minimum | Target | Maximum | Weight | Performance Timeframe |
|---|---|---|--|---|---|---|-----------|-----------------------|
| Threshold Goals | | | | | | | | |
| Budgeted Operating Margin | | 90% threshold [Recommended by Exec Comp Consultant (FY16)] | TBD | 90% of Budgeted | | | Threshold | FY 17 |
| Quality, Patient Safety & iCare | | | | | | | | |
| Quality Pain Management | Pain Reassessment (% Pain Reassessment Documented within 60 min on RN Flowsheet) | Internal Improvement | 76.19% Nov 2015 (post iCare go-live) to Apr 2016 [6-month measurement] | 76.19% | 77.71% | 79.24% | 34% | Q4 FY 2017 |
| | Pain Patient Satisfaction (CMS HCAPHS Pain Management % Scored Top Box) | Internal Improvement | 72.9% FY 2016 Q1 - Q3 [9-month measurement] | 73% | 74% | 76% | | |
| LOS & Readmission | Achieve Medicare Length of Stay Reduction while Maintaining Current Readmission Rates for Same Population | Internal Improvement | FY16 Max Goal 4.86 LOS Readmission Target 12.39% | 4.81 .05 Day Reduction from FY16 Max, Readmission at or below FY16 Target | 4.76 .10 Day Reduction from FY16 Max, Readmission at or below FY16 Target | 4.66 .20 Day Reduction from FY16 Max, Readmission at or below FY16 Target | 33% | FY17 |
| Smart Growth | | | | | | | | |
| Achieve budgeted inpatient growth (surgical and procedural cases plus Deliveries and NICU), and budgeted outpatient growth (surgical and procedural cases plus infusion). | | Internal Documentation | TBD | 99% of Budgeted Volume | 100% of budgeted Volume | 102% of Budgeted Volume | 33% | FY 17 |

***This was revised following the Quality Committee meeting on June 1, 2016 and the ELT Retreat on June 3, 2016.**

FY2017 Operating Budget: Summary

FY2017 Budget Overview

| | FY16 Actual to FY17 Budget | Percent Change |
|-------------------|-------------------------------|-------------------|
| Total Net Revenue | Increase of \$37 M | 4.8% |
| Total Expenses | Increase of \$24 M | 3.1% |

FY2017 Budget Overview: Revenue

| Category | Budget Assumptions |
|---------------|--|
| Pricing | <p>Prices to increase 6.0%</p> <p>* Overall charges based on OSHPD charge per case review, ECH pricing remains at 35th percentile.</p> <p>* inpatient charges were at 25th percentile; and</p> <p>* outpatient charges were at 50th percentile.</p> |
| Reimbursement | <p>4.9% rate increase in commercial payers which accounts for 72% of the net revenue</p> <p>-9.4% rate decrease in Medicare accounts, which accounts for 45% of our payer mix but 23% of the net revenue</p> <p>Expecting a 22% increase in Medi-Cal (MCAL) reimbursement due to the last transition year of the APR DRG payment method. MCAL payer mix account for 7.4% of ECH patient population</p> |
| Other Payment | <p>\$2.34M Other Operating Revenue from the PRIME Project</p> <p>\$1.5M net revenue from the HPO CDI initiative</p> |
| Volume | Inpatient volume increase by 1.3% and Outpatient volume increase by 2.4% |

FY2017 Budget Overview: Revenue

Key Factors Impacting Net Revenue in FY2017

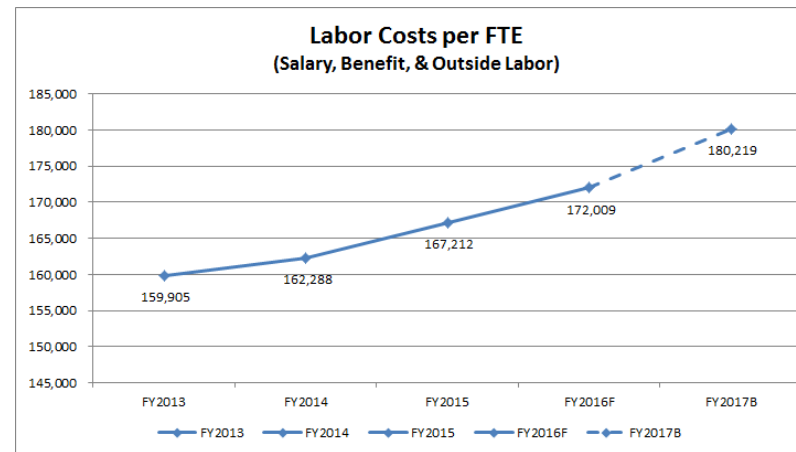
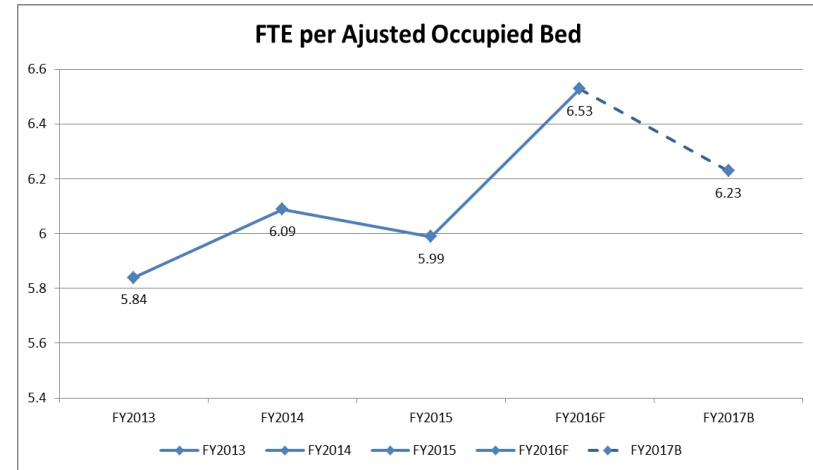
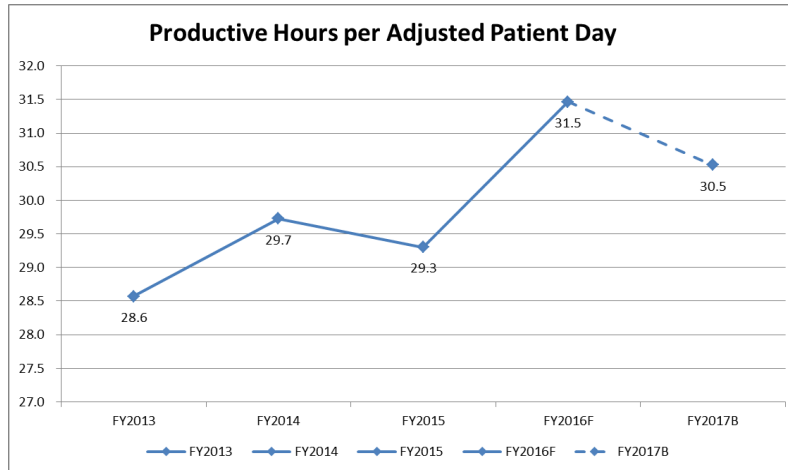
| \$ in Thousands (000s) | | | Detail |
|------------------------|--|--|--------|
| Net Revenue | | | |
| | | Revenue from Growth & Price Changes | 22,871 |
| | | New PRIME Program Participation | 2,341 |
| | | Inter-governmental Transfer | 6,317 |
| | | Medi-CAL additional revenue due to APR DRG transition | 4,848 |
| | | Other Oper Revenue (Facility Leases \$500K; \$474K Survivorship) | 974 |

FY2017 Budget Overview: Expenses

Expense Assumptions

| Category | Inflation & Other Expense Assumptions |
|------------------|---------------------------------------|
| Group Health | 6.0% increase for 2nd half of FY17 |
| Dental | 3.0% increase for 2nd half of FY17 |
| Pharmaceutical | 7.2% inflation on drug cost |
| Medical Supplies | ~3.0% overall inflation |
| Other | 3-5% inflation |
| New Land | + \$354K property tax |

FY2017 Budget Overview: Expenses



FY2017 Operating Budget Detail

Volume Assumptions

Volume Assumptions - Inpatient

Service Line Inpatient Volume Trend

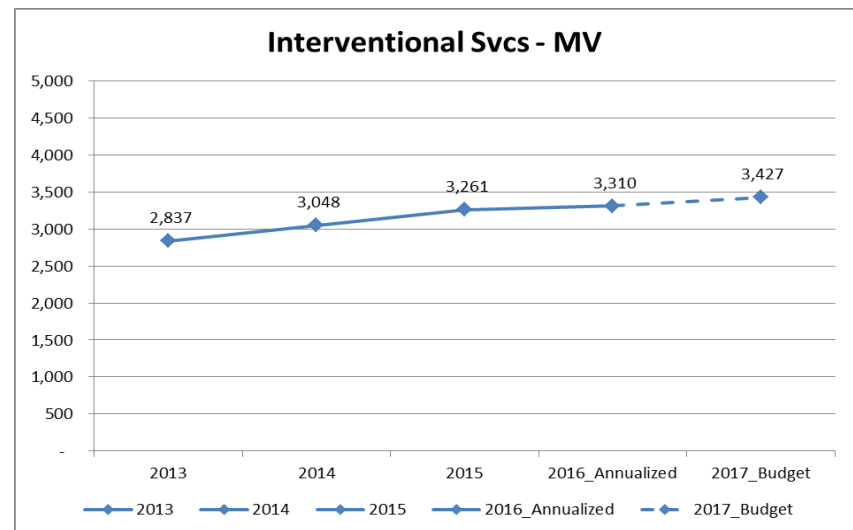
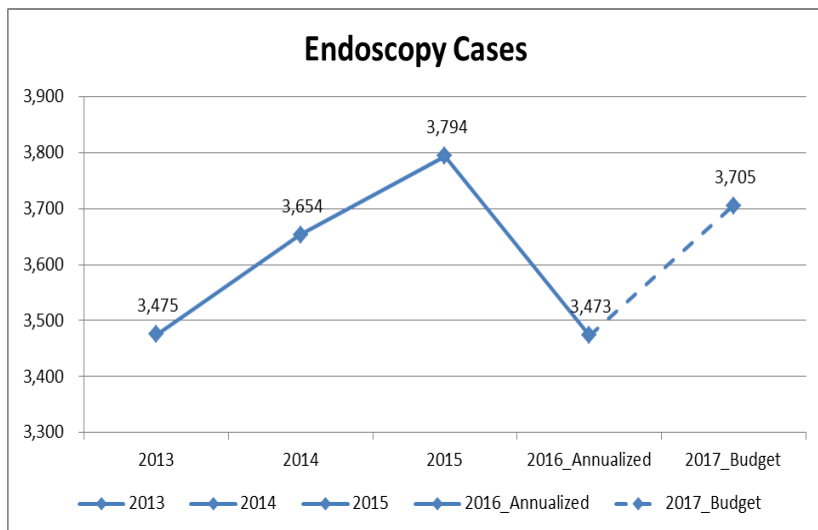
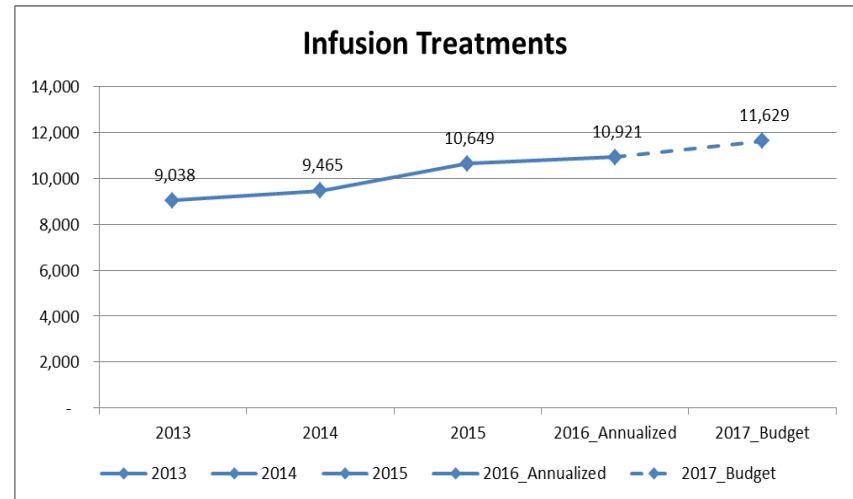
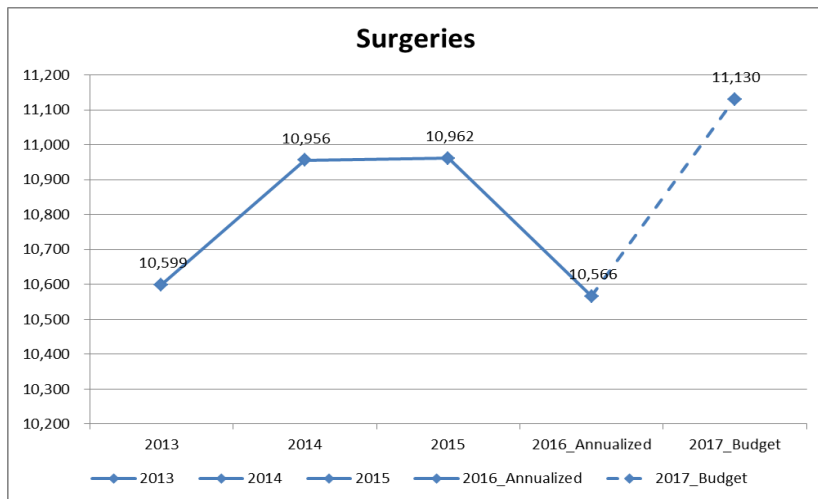
| Service Line Volume Trend & FY17 Volume Projection | | | | | | | | |
|--|--------------------|--------|--------|--------|---------|---------|----------------|---|
| PT | ServiceLine | FY2013 | FY2014 | FY2015 | FY2016P | FY2017B | FY 2017 Change | Notes |
| IP | Behavioral Health | 987 | 998 | 1,030 | 976 | 910 | -6.8% | Due to construction in FY17 and longer length of stay cases |
| IP | General Medicine | 4,383 | 4,154 | 4,581 | 4,690 | 4,751 | 1.3% | Projected 1.3% population growth in nearby county. |
| IP | General Surgery | 1,244 | 1,243 | 1,153 | 1,266 | 1,270 | 0.3% | 1.9% expected growth in robotic surgery cases |
| IP | Heart and Vascular | 2,054 | 1,859 | 1,997 | 1,948 | 2,027 | 4.1% | A 31% volume increase due to additional surgeon recruit and additional EP Ablation cases in FY17. Additional 48 Watchman cases in FY17. |
| IP | MCH | 6,723 | 6,696 | 6,380 | 6,021 | 6,119 | 1.6% | Projected a slight increase in IP Antepartum Non-Delivery cases and additional 2 % increase in Vaginal deliveries. |
| IP | Neurosciences | 606 | 669 | 672 | 687 | 694 | 1.0% | 1% growth in NICU cases with commitment from PAMF. |
| IP | Oncology | 772 | 692 | 654 | 651 | 651 | 0.0% | Extending 5 year growth trend |
| IP | Orthopedics | 1,580 | 1,696 | 1,774 | 1,803 | 1,832 | 1.6% | Continued recruitment of physician & splitters |
| IP | Other | 3 | 9 | 18 | 61 | 61 | 0.0% | |
| IP | Rehab Services | 525 | 547 | 555 | 542 | 570 | 5.2% | Rehab Unit close for 6 months in FY16; volume is expected to get back to normal run rate in FY17. |
| IP | Spine Surgery | 471 | 377 | 428 | 425 | 421 | -0.9% | |
| IP | Urology | 180 | 172 | 169 | 225 | 244 | 8.4% | Increase in Robotic Surgery from two key physicians. |
| IP | Womens Non-MCH | 444 | 320 | 240 | 236 | 238 | 0.8% | |
| Total Cases | | 19,972 | 19,432 | 19,651 | 19,531 | 19,788 | 1.3% | |
| % change from PY | | 5.1% | -2.7% | 1.1% | -0.6% | 1.3% | | |

Volume Assumptions - Outpatient

Service Line Outpatient Volume Trend

| Service Line Volume Trend & FY17 Volume Projection | | | | | | | | |
|--|---------------------|---------|---------|---------|---------|---------|----------------|---|
| PT | ServiceLine | FY2013 | FY2014 | FY2015 | FY2016P | FY2017B | FY 2017 Change | Notes |
| OP | Behavioral Health | 14,697 | 14,866 | 16,218 | 17,451 | 19,817 | 13.6% | 800 additional OP Adolescent Behavioral Health cases from the new APSIRE program. |
| OP | Dialysis | 2,006 | 1,059 | 154 | - | - | | |
| OP | Emergency | 45,490 | 46,025 | 49,106 | 49,516 | 50,044 | 1.1% | Projected 1.3% population growth in nearby county. |
| OP | General Medicine | 5,921 | 6,684 | 6,734 | 6,768 | 6,807 | 0.6% | Additional 60 cases (2.5% increase) of OP ENDO procedure at MV and 66 cases (42% increase) at LG due to new physician recruit and the effort of Minimally Invasive Program. |
| OP | General Surgery | 1,317 | 1,464 | 1,359 | 1,342 | 1,351 | 0.7% | |
| OP | Heart and Vascular | 8,973 | 10,427 | 10,890 | 11,648 | 11,715 | 0.6% | Additional 60 cases of OP EP cases due to the effort of Minimally Invasive Program. |
| OP | Imaging Services | 17,794 | 19,025 | 19,480 | 18,730 | 18,964 | 1.2% | 3% growth in Pulmonary & Interventional Bronchoscopy cases - effort of the Minimally Invasive Program; |
| OP | Laboratory Services | 30,857 | 30,411 | 29,482 | 29,541 | 29,541 | 0.0% | 5% growth in OP CT Guided procedures |
| OP | MCH | 4,137 | 5,042 | 4,831 | 5,469 | 5,436 | -0.6% | Based on feedback from PAMF & Independent physicians |
| OP | Neurosciences | 116 | 131 | 130 | 156 | 156 | 0.0% | |
| OP | Oncology | 12,729 | 21,248 | 23,153 | 23,386 | 24,191 | 3.4% | 2% increase in Cancer Center cases and 4% increase in Infusion Center volume |
| OP | Orthopedics | 806 | 863 | 791 | 729 | 729 | 0.0% | |
| OP | Other | 467 | 656 | 632 | 640 | 640 | 0.0% | |
| OP | Outpatient Clinics | | 1,198 | 1,706 | 1,749 | 1,749 | 0.0% | |
| OP | Rehab Services | 12,006 | 12,684 | 13,800 | 13,626 | 13,787 | 1.2% | Additional 410 new OP Rehab visits as a result of the new NICU Therapy program |
| OP | Sleep Center | 132 | 160 | 223 | 377 | 500 | 32.6% | Additional room for Sleep Study; expect volume to increase with OSA Perioperative & Employers cases in FY17 |
| OP | Spine Surgery | 261 | 283 | 330 | 307 | 307 | 0.0% | |
| OP | Urology | 1,821 | 1,867 | 1,860 | 1,907 | 1,930 | 1.2% | |
| OP | Womens Non-MCH | 1,327 | 1,551 | 1,739 | 1,656 | 1,698 | 2.5% | Commitment from surgeons to bring Robotic Surgery cases back close of FY15 level. |
| Total OP Cases | | 160,857 | 175,644 | 182,618 | 184,998 | 189,362 | 2.4% | |
| % change from PY | | 4.5% | 9.2% | 4.0% | 1.3% | 2.4% | | |

Volume Assumptions – Ancillary & Procedural



FY2017 Operating Budget Detail

Revenue Assumptions

Revenue Assumptions

| Category | Budget Assumptions |
|---------------|--|
| Pricing | <p>Prices to increase 6.0%</p> <p>* Overall charges based on OSHPD charge per case review, ECH pricing remains at 35th percentile.</p> <p>* inpatient charges were at 25th percentile; and</p> <p>* outpatient charges were at 50th percentile.</p> |
| Reimbursement | <p>4.9% rate increase in commercial payers which accounts for 72% of the net revenue</p> <p>-9.4% rate decrease in Medicare accounts, which accounts for 45% of our payer mix but 23% of the net revenue</p> <p>Expecting a 22% increase in Medi-Cal (MCAL) reimbursement due to the last transition year of the APR DRG payment method. MCAL payer mix account for 7.4% of ECH patient population</p> |
| Other Payment | <p>\$2.34M Other Operating Revenue from the PRIME Project</p> <p>\$1.5M net revenue from the HPO CDI initiative</p> |
| Volume | Inpatient volume increase by 1.3% and Outpatient volume increase by 2.4% |

Pricing Changes with Benchmark Data

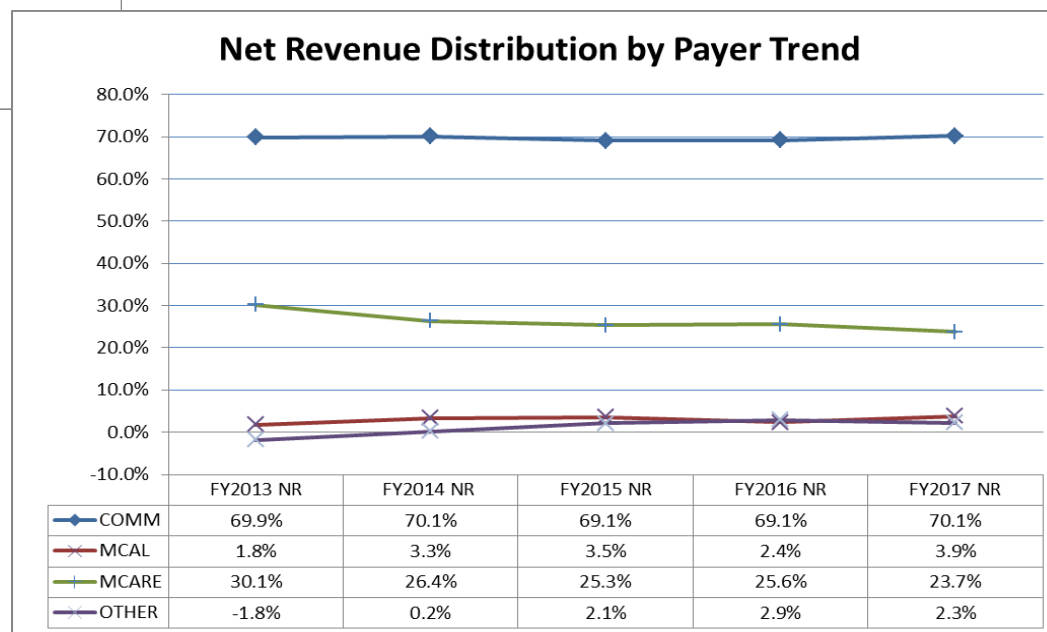
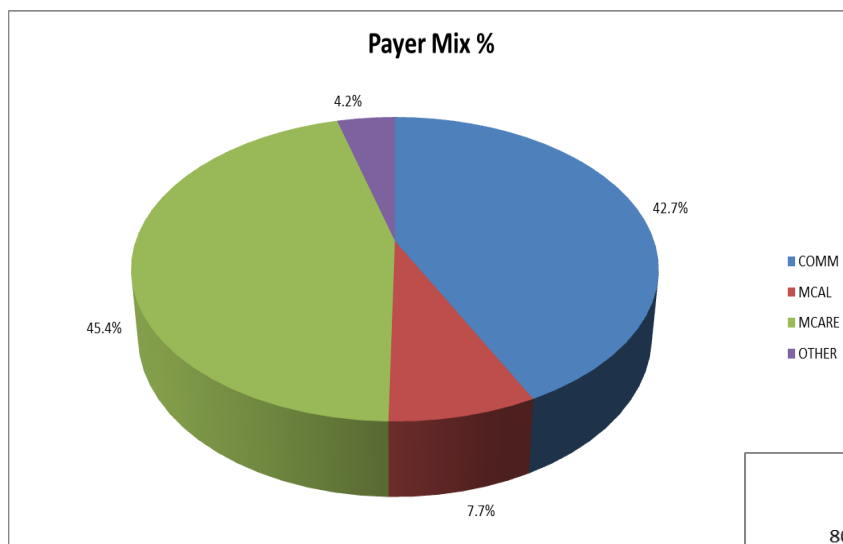
- CMS/OSHPD claim level data shows El Camino Hospital prices below mid-market level compared to the local peer group including Good Samaritan Hospital, Regional Medical Center, O'Connor Hospital, Stanford Hospital, Sequoia Hospital and Washington Hospital.
- Even with the 5% price increase in FY16, our overall charges remain at the 35th percentile based on OSHPD charge per caser review (inpatient @ 25th percentile / outpatient @ 50th percentile)
- To catch up with the market pricing, a 6% charge increase is proposed in the FY17 budget

| Hospital | 2012 | 2013 | 2014 | 2015 | 4 Yr Average |
|-------------------------------------|--------|--------|-------|--------|--------------|
| EL CAMINO HOSPITAL | 0.89% | 0.06% | 0.90% | 5.00% | 1.71% |
| STANFORD UNIVERSITY HOSPITAL | 9.60% | 7.20% | 6.90% | 6.90% | 7.65% |
| REGIONAL MEDICAL CENTER OF SAN JOSE | 10.60% | 1.36% | 5.28% | -1.32% | 3.98% |
| SEQUOIA HOSPITAL | 5.40% | 3.10% | 0.00% | 2.70% | 2.80% |
| WASHINGTON HOSPITAL - FREMONT | 0.56% | 9.71% | 0.97% | 2.12% | 3.34% |
| GOOD SAMARITAN HOSPITAL- SAN JOSE | 9.90% | 12.80% | 7.10% | 4.70% | 8.63% |
| O'CONNOR HOSPITAL ** | 0.20% | 0.13% | 1.02% | NA | 0.45% |
| * Data Source: OSHPD | | | | | |

Key Factors impacting Net Revenue in FY17

| \$ in Thousands (000s) | | | Detail |
|------------------------|--|---|--------|
| Net Revenue | | | |
| | | Revenue from Growth & Price Changes | 22,871 |
| | | New PRIME Program Participation | 2,341 |
| | | Inter-governmental Transfer | 6,317 |
| | | Medi-CAL additional revenue due to APR DRG transition | 4,848 |
| | | Other Oper Revenue (Facility Leases \$500K; \$474K Survivorship | 974 |

Payer Mix and Net Revenue Distribution by Payer



FY2017 Operating Budget Detail

Expense Assumptions

Operating Expense - Assumptions

| Category | Inflation & Other Expense Assumptions |
|------------------|---------------------------------------|
| Group Health | 6.0% increase for 2nd half of FY17 |
| Dental | 3.0% increase for 2nd half of FY17 |
| Pharmaceutical | 7.2% inflation on drug cost |
| Medical Supplies | ~3.0% overall inflation |
| Other | 3-5% inflation |
| New Land | + \$354K property tax |

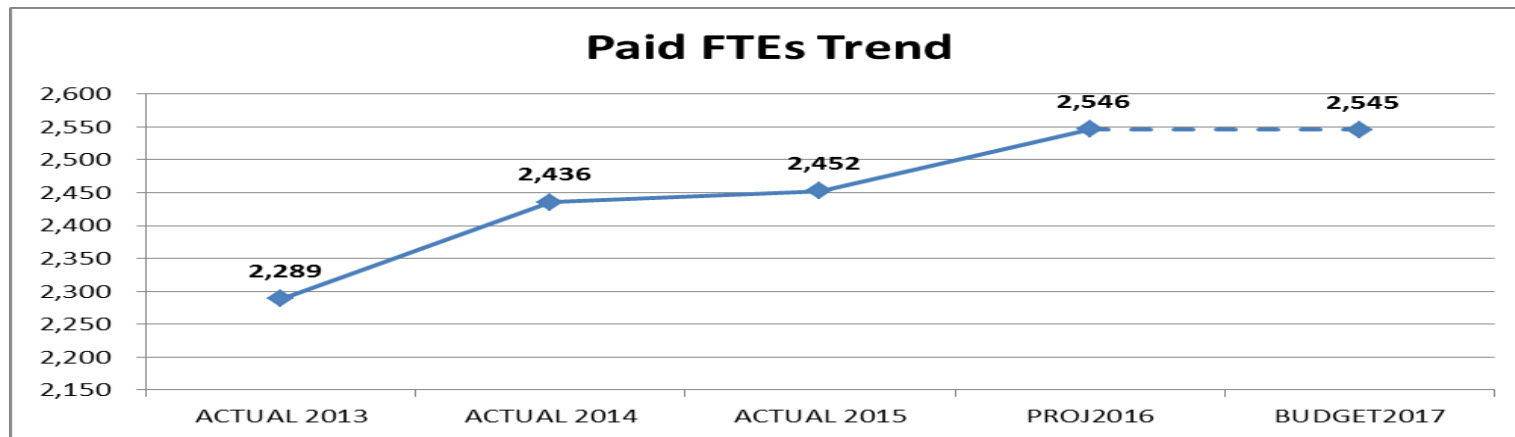
Key Drivers of FY17 Budget Operating Margin

| \$ in Thousands (000s) | | Detail | Net Income Impact | % Net Revenue |
|---|---|---------|----------------------|------------------|
| Expected Hospital Operations FY2016 | | | 42,120 | 5.4% |
| Net Revenue | | | 37,351 | 4.6% |
| Labor Expense Change | | | (27,074) | -3.3% |
| | * Salary, Wage Expense Increase (incl HPO reduction) | (7,122) | | |
| | * 1.6% volume increase | (3,476) | | |
| | * Salary rate increase | (9,493) | | |
| | * Post EPIC FTE Increase | (1,973) | | |
| | * Benefit Expense Increase | (9,363) | | |
| | * Workers Compensation | (3,280) | | |
| | * Outside Labor Reduction | 7,634 | | |
| Professional Fees & Purchased Services | | | 5,394 | 0.7% |
| | * Physician Fees: Increase in fees; New Medical Directors | (1,064) | | |
| | * Marketing | 1,611 | | |
| | * Medical Outside Services | 454 | | |
| | * Administrative Savings (Premier + Valence) | 903 | | |
| | * iCare EPIC Backfill | 1,806 | | |
| | * IT Security | 993 | | |
| | * Other | 691 | | |
| Supplies | | | (3,191) | -0.4% |
| | * Central Supply - volumes & Inflation | (3,380) | | |
| | * New Programs: Minimally Invasive/Wound Care | (823) | | |
| | * Drugs & Endo Mechanical HPO Reduction | 1,012 | | |
| Other Expenses | | | 7,061 | 0.9% |
| | * ICARE EPIC Training | 8,133 | | |
| | * Coding Support Project | 308 | | |
| | * Utilities/Leases | (349) | | |
| | * Leadership Education/Recognition | (296) | | |
| | * Insurance/Bond | (502) | | |
| | * Other | (233) | | |
| Depreciation & Interest | | | (5,824) | -0.7% |
| | * Interest Expense, full year | (1,371) | | |
| | * EPIC (CC 8486) | (3,143) | | |
| | * Facilities completed projects | (1,310) | | |
| Expected Hospital Operations FY2017 | | | 55,837 | 6.9% |

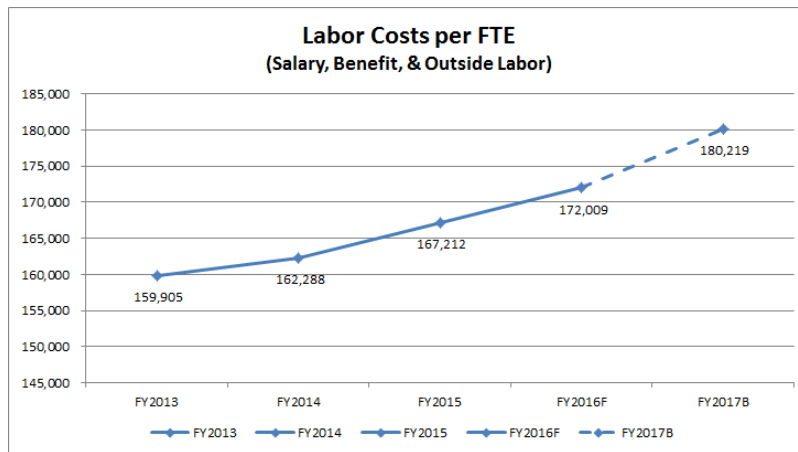
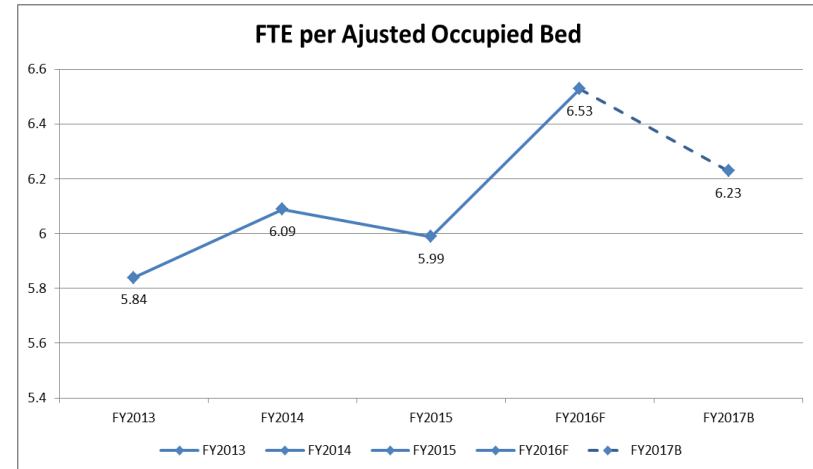
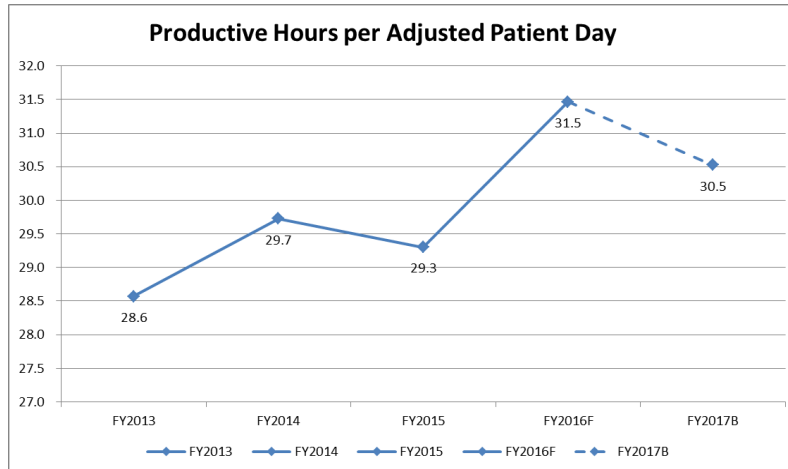


FY17 Budgeted Hospital FTE

| Hospital Paid FTE | | | | | | |
|--|-----------------|----------------|--------------|-------------|-----------------|-------------|
| | | | New Program | EPIC | Volume Increase | Other |
| Starting FTE based on FY2016 YTD April Actual | 2,546 | Productivity | | | | |
| Improved Productivity in Operational Department after EPIC go-live | (44.49) | (44.49) | | | | |
| ASPIRE Adolescent Psych Program | 2.03 | | 2.03 | | | |
| Wound Care Clinic | 5.00 | | 5.00 | | | |
| Minimally Invasive Program | 2.50 | | 2.50 | | | |
| PRIME Program | 2.30 | | 2.30 | | | |
| CDI | 3.00 | | 3.00 | | | |
| HPO Resources Utilization Management | 1.29 | | | | | 1.29 |
| Projected Volume Increase | 16.35 | | | | 16.35 | |
| EPIC Training | (75.11) | | | (75.11) | | |
| ISD after EPIC go-live | 77.00 | | | 77.00 | | |
| Budgeted Vacant Position | 9.24 | 9.24 | | | | |
| Ending Budget FY17 Paid FTE | 2,545.28 | (35.25) | 14.83 | 1.89 | 16.35 | 1.29 |



Key Operational Metrics



- Productivity improvement in Productive hours per Adjusted Patient Day & FTE per Adjusted Occupied Bed
- Due to operationalized IT EPIC FTE and investment in new programs, higher cost professional staff (ENDO tech, Respiratory tech, RN, PT, OT), total labor cost is budgeted to increase by 4.7% from YTD FY16 actual

High Performance Organization (HPO) Initiatives

| Work Stream | FY2017 Budget |
|--------------------------------------|---------------------|
| Patient Flow and Capacity Management | \$ 1,665,628 |
| Variation | \$ 2,637,667 |
| Workflow and Workforce Optimization | \$ 1,123,160 |
| Revenue Cycle Enhancement | \$ 308,000 |
| Supply Chain | \$ 1,012,000 |
| Total | \$ 6,746,455 |

Impact of iCare (EPIC) FY16 to FY17

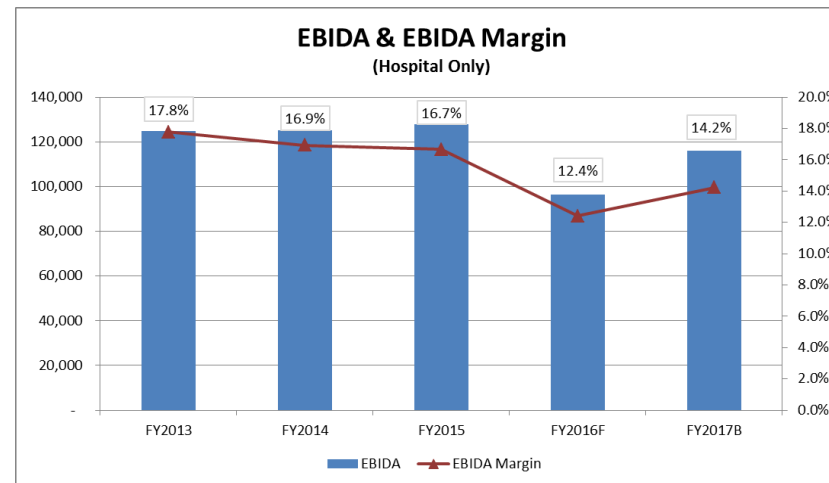
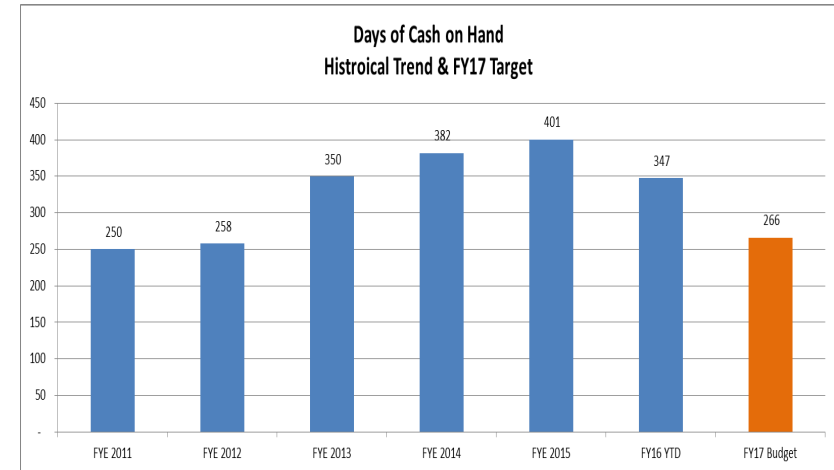
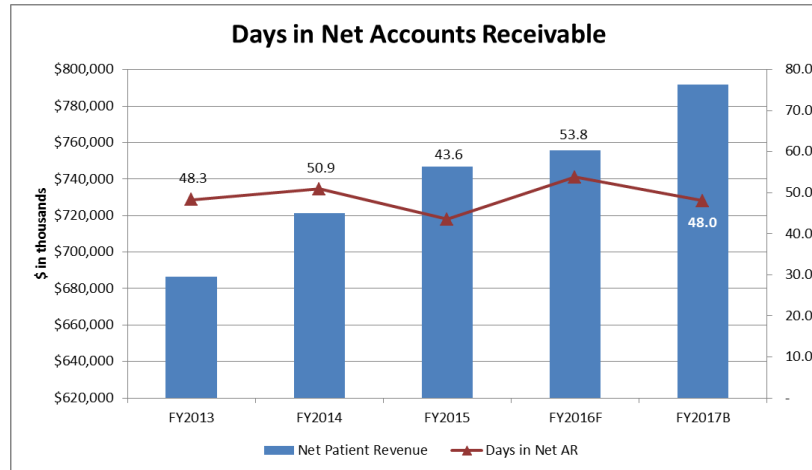
New iCare operational expenses for FY17

| Category | Description | Incremental Change |
|--------------|---------------------------------------|--------------------|
| Labor | Capital to Operating expense: ongoing | 1,973,039 |
| Depreciation | Depreciation expense: ongoing | 1,150,335 |
| | Increased Ongoing Expenses | 3,123,374 |

One time expenses incurred in FY16

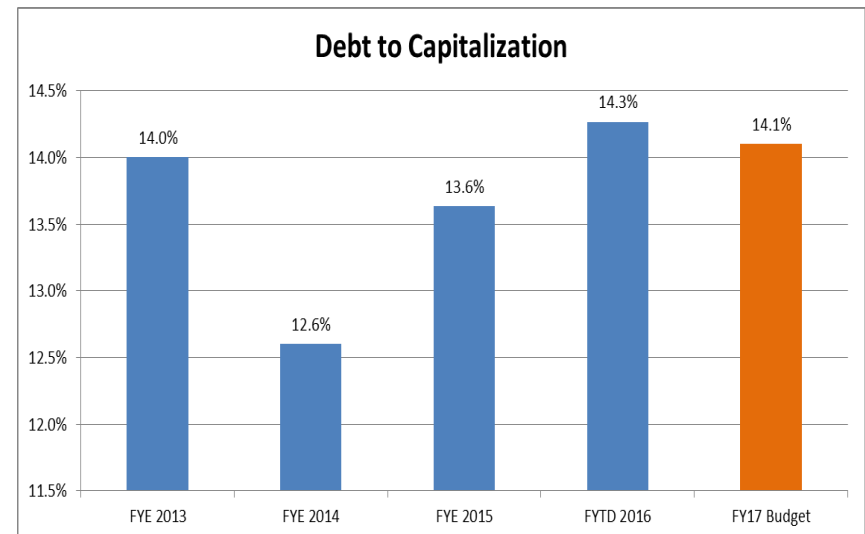
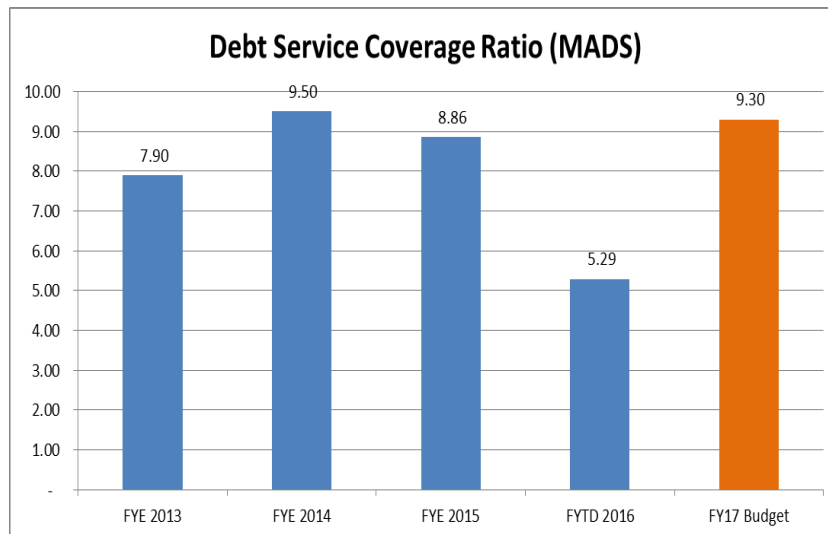
| Category | Description | Incremental Change |
|---------------|---|--------------------|
| Consulting | Eliminate one-time consulting expense | 3,423,297 |
| EPIC Training | Eliminate one-time training to staff and physicians | 8,132,701 |
| | One-Time Expense Reduction | 11,555,998 |

Key Financial Metrics



Target source: S&P 2014 A Rated Stand-Alone Hospital Median Ratio (last published 9/1/2015)

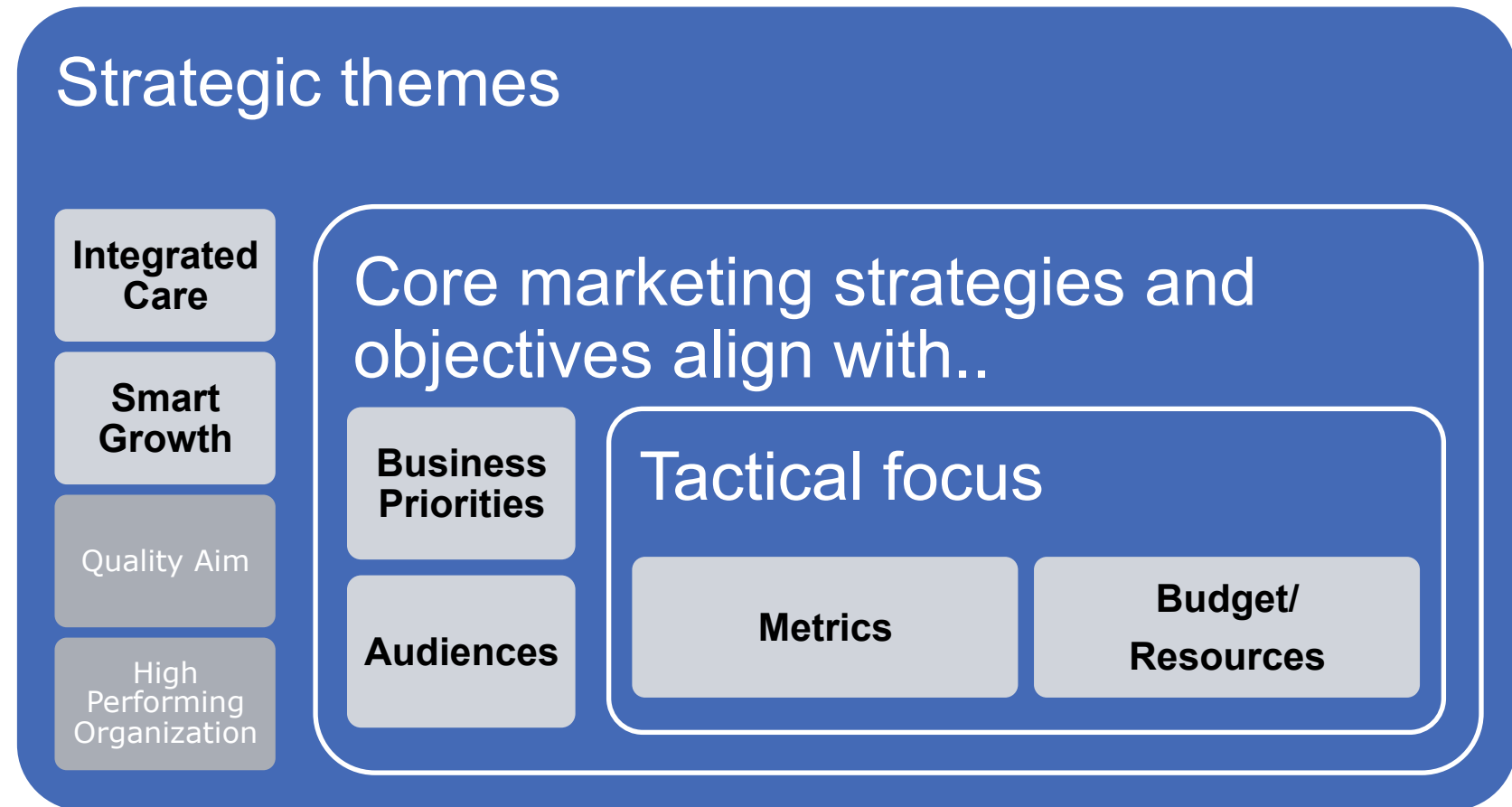
Key Financial Metrics



FY2017 Operating Budget Detail

Alignment with Marketing

FY17 Marketing & Communications Plan: Strategic Alignment



FY17 Marketing & Communications Plan: Major Marketing Priorities

| FY17 SMART GROWTH (<u>N</u> EW) | FY17 SMART GROWTH (<u>M</u>) | FY17 INTEGRATED CARE |
|---|--------------------------------|--------------------------------|
| BHS – ADDICTION, SENIORS, PERINATAL, YOUTH/YA | MEN'S HEALTH & UROLOGY | URGENT & PRIMARY CARE* |
| URGENT & PRIMARY CARE | SLEEP DISORDERS | WOUND CARE* |
| ONCOLOGY | ORTHOPEDICS | REHABILITATION (M) |
| OUTPATIENT SERVICES | EP & WOMEN'S HEART | OUTPATIENT SERVICES* |
| WOUND CARE | BREAST HEALTH | |
| MOTHER-BABY | LUNG | |
| COMPREHENSIVE SPINE | SAHC/CHI | PATIENT – FAMILY CENTERED CARE |

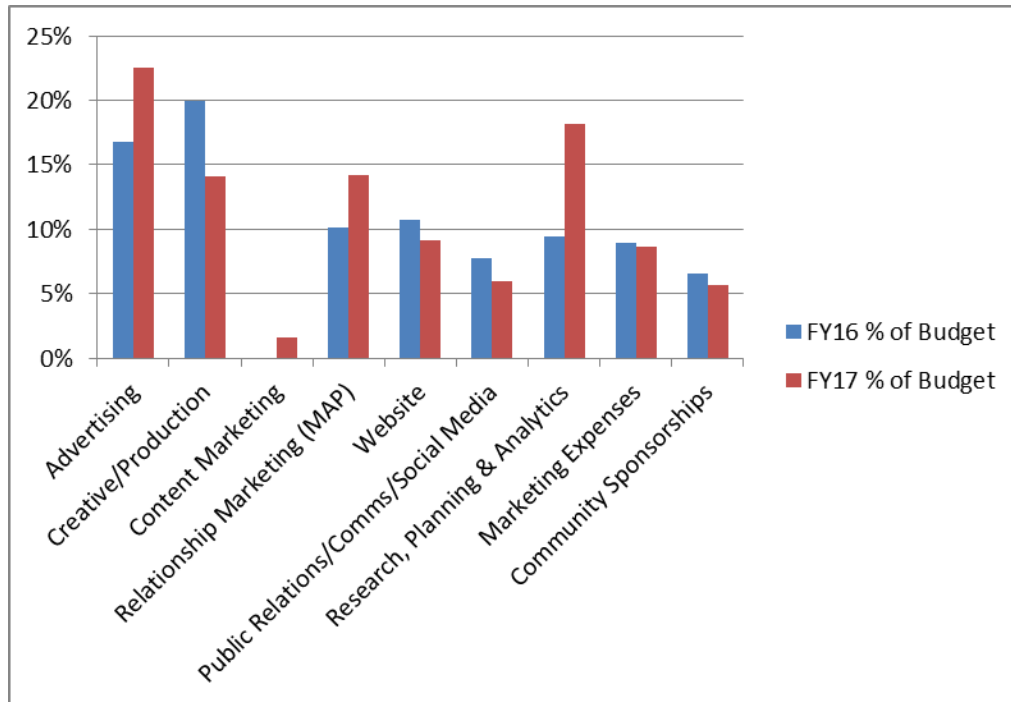
**Denotes supports of smart growth and integrated care strategic themes; N = new, M = maintenance
Source: ECH strategic planning*

FY17 Marketing & Communications Plan: Major Marketing Priorities Funding

| Core Marketing Strategies | Allocation | Strategic Themes | | |
|---|------------|------------------|-----------------|-------------|
| | | Smart Growth | Integrated Care | Quality Aim |
| POSITIONING + DIFFERENTIATION: Increase awareness and understanding of uniqueness of El Camino Hospital among target audiences across the region | \$2.44M | X | | |
| ELEVATE COMMUNITY PURPOSE & ENGAGEMENT: Engage targets to create loyalty, affinity and relationships that drive positive behaviors | \$1.33M | X | X | |
| PERSONALIZED MARKETING: Provide value to consumer audiences by maximizing relevant messaging and content across interactions | \$720k | X | | X |
| FACILITATE POSITIVE CULTURE: Increase employee and physician engagement through community building | \$148K | X | | X |

**Does not include Labor Costs*

FY17 Marketing & Communications Plan: Budget Assumptions & Trends



- Budget aligned with recommendations and efforts are tiered to support “new” versus “maintenance” initiatives
- FY17 budget reduced from FY16 to support reduction in use of outside purchased services
- Increased allocation for content marketing and relationship marketing to support online healthcare consumer experience and personalized communications
- Increased allocation for research, analytics and planning for more consistent tracking and reporting of metrics
- Integrated advertising efforts with increased efficiency through capability to target audiences via digital channels
- Reduced PR social media expenses as tactical work is brought in-house
- Maintain level of community sponsorship spend and refine alignment with clinical and community health priorities
- Digital strategy no longer separate as digital thinking is integrated across marketing efforts

Board Designated Community Benefit Endowment

Board Designated Community Benefit Endowment Fund

- In FY 2016 the Board established an endowment to provide investment income to fund community benefit.
- We agreed to evaluate whether the fund should be increased during the annual budget cycle.
- Recommendation
 - No increase in endowment fund at this time, due to market losses.
 - Despite market losses, \$3.4 million (\$500k > than FY16) budgeted for Community Benefit Plan for FY17 due to community benefit planning cycle.
 - Evaluate funding from endowment fund earnings in Q2 2017 to coincide with community benefit planning cycle.

El Camino Hospital & Affiliates

El Camino Hospital & Affiliates FY17 Budget

| Consolidated Revenue and Expense Budget (\$ in thousands) | | | | | |
|---|-----------------------|----------------|------------------|------------------|-----------------|
| | El Camino Hospital | Concern | Foundation | SVMD | Total |
| REVENUES | | | | | |
| Net Patient Service Revenue | \$789,585 | \$0 | \$0 | \$2,871 | \$792,457 |
| Other Operating Revenue | 25,059 | 17,077 | 0 | 0 | 42,136 |
| Total Net Revenue | 814,645 | 17,077 | 0 | 2,871 | 834,593 |
| EXPENSES | | | | | |
| Salaries & Benefits | 458,713 | 5,474 | 1,553 | 1,066 | 466,805 |
| Supplies & Other Expenses | 240,022 | 9,466 | 1,660 | 3,451 | 254,599 |
| Interest | 7,225 | 0 | 0 | 0 | 7,225 |
| Depreciation/Amortization | 52,848 | 29 | 13 | 0 | 52,890 |
| TOTAL EXPENSES | 758,807 | 14,969 | 3,227 | 4,516 | 781,520 |
| OPERATING INCOME | \$55,837 | \$2,108 | (\$3,227) | (\$1,645) | \$53,073 |
| Non Operating Income | 11,194 | 497 | 2,777 | 1,645 | 16,113 |
| NET INCOME | \$67,032 | \$2,604 | (\$450) | (\$0) | \$69,186 |
| Operating EBIDA | \$115,910 | \$2,137 | (\$3,214) | (\$1,645) | \$113,188 |
| Operating Margin Percentage | 6.9% | 12.3% | 0.0% | -57.3% | 6.4% |

El Camino Hospital & Affiliates

| El Camino Hospital & Affiliates (\$ in thousands) | | | | | |
|---|------------------|----------------------|------------------|---------------------------------------|---------------|
| | FY2015 Actual | FY2016 Projection | FY2017 Budget | Change Favorable/ (Unfavorable) | % Change |
| REVENUES | | | | | |
| Net Patient Service Revenue | \$746,645 | \$755,550 | \$792,457 | \$36,906 | 4.9% |
| Other Operating Revenue | 34,805 | 37,450 | 42,136 | 4,686 | 12.5% |
| Total Net Revenue | 781,451 | 793,001 | 834,593 | 41,592 | 5.2% |
| EXPENSES | | | | | |
| Salaries & Benefits | 417,058 | 439,003 | 466,805 | (27,802) | -6.0% |
| Supplies & Other Expenses | 238,649 | 258,657 | 254,599 | 4,058 | 1.6% |
| Interest | 5,256 | 5,855 | 7,225 | (1,371) | -19.0% |
| Depreciation/Amortization | 44,707 | 48,451 | 52,890 | (4,439) | -8.4% |
| TOTAL EXPENSES | 705,670 | 751,966 | 781,520 | (29,554) | -3.8% |
| OPERATING INCOME | \$75,780 | \$41,035 | \$53,073 | \$12,038 | -22.7% |
| Non Operating Income | 20,984 | (15,109) | 16,113 | (31,223) | |
| NET INCOME | \$96,764 | \$25,926 | \$69,186 | \$43,261 | 166.9% |
| Operating EBIDA | \$125,743 | \$95,341 | \$113,188 | \$17,848 | 18.7% |
| Operating Margin Percentage | 9.7% | 5.2% | 6.4% | | |

Prior years includes El Camino Surgery Center (ECSC)

Capital Budget

FY 2017 Capital Spending Trend

| | Actual | Actual | Actual | Proj | Budget |
|--------------------------------|-----------------|-----------------|-----------------|------------------|------------------|
| Capital Spending | FY2013 | FY2014 | FY2015 | FY2016 | FY2017 |
| EPIC | | | \$36,187 | \$23,743 | \$6,137 |
| IT Hardware/Software Equipment | \$8,019 | \$2,788 | \$4,660 | \$6,850 | \$5,391 |
| Medical/Non Medical Equipment | \$10,284 | \$12,891 | \$13,340 | \$14,700 | \$10,254 |
| Facilities | \$9,294 | \$36,045 | \$38,940 | \$66,543 | \$204,477 |
| Grand Total | \$27,597 | \$51,724 | \$93,127 | \$111,836 | \$226,259 |

FY17 Facility Project Request with Details

(in 000s)

| | | Budgeted Commitment | Budgeted Spend |
|---|----|------------------------|-------------------|
| Mountain View Campus Master Plan Projects | | | |
| BHS Replacement | MV | \$55,500 ** | \$30,000 |
| North Dr Parking Structure Expansion | MV | \$0 * | \$20,500 |
| Integrated Medical Office Building | MV | \$220,500 ** | \$101,500 |
| CUP Upgrades | MV | \$7,000 ** | \$5,000 |
| Womens Hosp Expansion | MV | \$10,000 | \$5,500 |
| Sub-Total Mountain View Campus Master Plan | | \$293,000 | \$162,500 |
| Mountain View Capital Projects | | | |
| Womens Hosp NPC Closeout | MV | \$0 * | \$327 |
| IMOB Preparation Project - Old Main | MV | \$0 * | \$1,000 |
| Cabling and Wireless upgrades | MV | \$0 * | \$400 |
| Histology Fume Hood Upgrades | MV | \$1,200 | \$1,200 |
| ED Remodel Triage / Psych Observation | MV | \$1,600 | \$1,400 |
| Signage & Wayfinding | MV | \$0 * | \$300 |
| Breast Imaging Tomography | MV | \$0 * | \$300 |
| Willow Pavilion FA Sys and Equip Upgrades | MV | \$800 | \$800 |
| Furniture Systems Inventory | MV | \$500 | \$250 |
| Site Signage & Other Improvements | MV | \$1,000 | \$200 |
| MV Equipment & Infrastructure Upgrades | MV | \$600 | \$300 |
| IR Room #6 Development | MV | \$2,600 | \$500 |
| JW House (Patient Family Residence) | MV | \$2,500 | \$500 |
| Facilities Planning Allowance | MV | \$600 | \$300 |
| Sub-Total Mountain View Projects | | \$11,400 | \$7,777 |

*Board approved from prior years

**Board approved; partially funded from prior years

FY17 Facility Project Request with Details

(in 000s)

| | | Budgeted Commitment | Budgeted Spend |
|---|----|------------------------|-------------------|
| Los Gatos Capital Projects | | | |
| LG Spine Room Expansion - OR 4 | LG | \$0 * | \$3,100 |
| LG Rehab HVAC Upgrades | LG | \$0 * | \$400 |
| LG Imaging Phase II (CT & Gen Rad) | LG | \$0 * | \$7,250 |
| LG Upgrades - Major | LG | \$0 * | \$7,300 |
| LG Rehab Building Upgrades | LG | \$600 | \$500 |
| LG IR Upgrades | LG | \$1,100 | \$800 |
| LG NICU 4 Bed Expansion | LG | \$6,500 | \$5,000 |
| LG Building Infrastructure Improvements | LG | \$1,500 | \$1,200 |
| LG MOB Improvements (17) | LG | \$5,000 | \$4,000 |
| LG Facilities Planning | LG | \$800 | \$500 |
| LG MOB Improvements | LG | \$0 * | \$150 |
| Sub-Total Los Gatos Projects | | \$15,500 | \$30,200 |
| Other Strategic Capital Projects | | | |
| Primary Care Clinic (TI's Only) | | \$1,600 | \$1,600 |
| Urgent Care Clinics (Tis Only) | | \$2,400 | \$2,400 |
| Sub-Total Other Strategic Capital Projects | | \$4,000 | \$4,000 |
| Grand Total Facilities Projects | | \$323,900 | \$204,477 |

*Board approved from prior years

**Board approved; partially funded from prior years

FY 2017 IT Capital Request

(in 000s)

| Capital Project Description | Budgeted Commitment | Budgeted Spend |
|---|---------------------|----------------|
| iCare Program/Annual Upgrade | \$8,016 | \$6,137 |
| EPIC Total | \$8,016 | \$6,137 |
| | | |
| RSA 2-Factor Authentication | \$1,250 | \$1,250 |
| IS Baseline-Storage Primary/Backup | \$790 | \$790 |
| IS Baseline-Server Replacement/Maint | \$706 | \$706 |
| IS Baseline-Network Replacement/Maint | \$675 | \$675 |
| Secure Texting Solution | \$400 | \$400 |
| Soft Bank Software | \$300 | \$300 |
| IS Baseline-Devices Cart Replacement/Growth | \$250 | \$250 |
| IS Baseline-Software Upgrades | \$250 | \$250 |
| All Other* | \$770 | \$770 |
| IT Hardware/Software Equipment | \$5,391 | \$5,391 |

Capital over \$250k itemized

*All Other includes all items less than \$250k

FY17 Equipment Capital Request

(in 000s)

| FY17 Equipment Requested Capital | | Budgeted Spend |
|--|--|-----------------|
| PB840 Ventilators - 28 | | \$1,394 |
| IR Room Replacement (LG) | | \$1,250 |
| Stryker 1588 AIM CCU and Laparoscopes | | \$871 |
| Intra-Vascular Ultrasound Replacement (Cath Lab) | | \$700 |
| C-Arm Replacement (2 at LG) | | \$531 |
| Electrosurgical Units Forcetriad 2/FT10 | | \$460 |
| OH6 Microscope (Spine, LG) | | \$427 |
| Bed Mattresses | | \$380 |
| Alaris Infusion Pump/Modules (MV) | | \$250 |
| Alaris Infusion Pump/Modules (LG) | | \$250 |
| All Other* | | \$3,741 |
| Total | | \$10,254 |

Capital over \$250k itemized

*All Other includes all items less than \$250k

Appendix

El Camino Hospital – FY17 Budget Financial

| El Camino Hospital (\$ in thousands) | | | | | |
|---|------------------|----------------------|------------------|---------------------------------------|---------------|
| | FY2015 Actual | FY2016 Projection | FY2017 Budget | Change Favorable/ (Unfavorable) | % Change |
| REVENUES | | | | | |
| Net Patient Service Revenue | \$746,645 | \$755,550 | \$789,585 | \$34,035 | 4.5% |
| Other Operating Revenue | 21,105 | 21,743 | 25,059 | 3,316 | 15.3% |
| Total Net Revenue | 767,751 | 777,294 | 814,645 | 37,351 | 4.8% |
| EXPENSES | | | | | |
| Salaries & Benefits | 410,072 | 431,639 | 458,713 | (27,074) | -5.9% |
| Supplies & Other Expenses | 229,677 | 249,286 | 240,022 | 9,264 | 3.9% |
| Interest | 5,256 | 5,855 | 7,225 | (1,371) | -19.0% |
| Depreciation/Amortization | 44,627 | 48,395 | 52,848 | (4,453) | -8.4% |
| TOTAL EXPENSES | 689,631 | 735,174 | 758,807 | (23,634) | -3.1% |
| OPERATING INCOME | \$78,120 | \$42,120 | \$55,837 | \$13,717 | -24.6% |
| Non Operating Income | 16,668 | (18,836) | 11,194 | (30,030) | |
| NET INCOME | \$94,787 | \$23,284 | \$67,032 | \$43,748 | 187.9% |
| Operating EBIDA | \$128,002 | \$96,369 | \$115,910 | \$19,541 | 20.3% |
| Operating Margin Percentage | 10.2% | 5.4% | 6.9% | | |
| KEY HOSPITAL INDICATORS | | | | | |
| Hospital Discharges, excl normal newborns | 19,081 | 18,608 | 19,271 | 663 | 3.6% |
| Total Hospital Patient Days | 89,787 | 87,985 | 89,574 | 1,589 | 1.8% |
| Acute Length of Stay | 4.71 | 4.73 | 4.65 | (0.08) | -1.7% |
| Hospital Average Daily Census | 246 | 240 | 245 | 5 | 2.1% |

Non-Operating Revenue Detail

| Non-Operating Revenue/<Expense> Detail (\$ in thousands) | | | | | |
|--|------------------|----------------------|------------------|---------------------------------------|----------------|
| | FY2015 Actual | FY2016 Projection | FY2017 Budget | Change Favorable/ (Unfavorable) | % Change |
| Non Operating Revenue Detail | | | | | |
| Investments | \$17,955 | (\$10,785) | \$18,100 | \$28,885 | -267.8% |
| Swap Adjustments | (1,009) | (2,550) | 0 | 2,550 | -100.0% |
| Bond Amortization | 360 | 1,604 | 1,871 | 266 | 16.6% |
| Community Benefit | (2,397) | (3,104) | (3,400) | (296) | 9.5% |
| Support for Foundation | (1,783) | (1,783) | (1,783) | 0 | 0.0% |
| Support for SVMD | (286) | (25) | (1,645) | (1,620) | 6475.9% |
| Investment in Satellite Dialysis | 4,809 | (457) | 152 | 609 | -133.2% |
| Gain/<Loss> on Pathways | 2,513 | (191) | 500 | 691 | -361.2% |
| Other | (3,493) | (1,545) | (2,599) | (1,055) | 68.3% |
| | | | | | |
| | \$16,668 | (\$18,836) | \$11,194 | \$30,030 | -159.4% |
| | | | | | |

CONCERN – FY17 Budget Financial

| CONCERN (\$ in thousands) | | | | | |
|-----------------------------|------------------|----------------------|------------------|---------------------------------------|---------------|
| | FY2015 Actual | FY2016 Projection | FY2017 Budget | Change Favorable/ (Unfavorable) | % Change |
| REVENUES | | | | | |
| Other Operating Revenue | \$13,690 | \$15,689 | \$17,077 | \$1,387 | 8.8% |
| Total Net Revenue | 13,690 | 15,689 | 17,077 | 1,387 | 8.8% |
| EXPENSES | | | | | |
| Salaries & Benefits | 5,336 | 5,884 | 5,474 | 410 | 7.5% |
| Supplies & Other Expenses | 7,332 | 8,057 | 9,466 | (1,409) | -14.9% |
| Interest | 0 | 0 | 0 | 0 | 0.0% |
| Depreciation/Amortization | 67 | 43 | 29 | 14 | 48.7% |
| TOTAL EXPENSES | 12,735 | 13,984 | 14,969 | (985) | -6.6% |
| OPERATING INCOME | \$955 | \$1,706 | \$2,108 | \$402 | -19.1% |
| Non Operating Income | 247 | 463 | 497 | (33) | |
| NET INCOME | \$1,202 | \$2,169 | \$2,604 | \$435 | 20.1% |
| Operating EBIDA | \$1,022 | \$1,749 | \$2,137 | \$388 | 22.2% |
| Operating Margin Percentage | 7.0% | 10.9% | 12.3% | | |

Foundation - FY17 Budget Financial

| FOUNDATION (\$ in thousands) | | | | | |
|------------------------------|------------------|----------------------|------------------|---------------------------------------|--------------|
| | FY2015 Actual | FY2016 Projection | FY2017 Budget | Change Favorable/ (Unfavorable) | % Change |
| REVENUES | | | | | |
| Other Operating Revenue | \$0 | \$0 | \$0 | \$0 | \$0 |
| Total Net Revenue | 0 | 0 | 0 | 0 | 0% |
| EXPENSES | | | | | |
| Salaries & Benefits | 1,418 | 1,453 | 1,553 | (100) | -6% |
| Supplies & Other Expenses | 1,508 | 1,216 | 1,660 | (445) | -27% |
| Interest | 0 | 0 | 0 | 0 | 0% |
| Depreciation/Amortization | 13 | 13 | 13 | (0) | 0% |
| TOTAL EXPENSES | 2,939 | 2,682 | 3,227 | (545) | -17% |
| OPERATING INCOME | (\$2,939) | (\$2,682) | (\$3,227) | (\$545) | -17% |
| Non Operating Income | 3,650 | 3,319 | 2,777 | 541 | |
| NET INCOME | \$710 | \$636 | (\$450) | (\$1,086) | -171% |
| Operating EBIDA | (\$2,926) | (\$2,669) | (\$3,214) | (\$545) | 20% |

SVMD – FY17 Budget Financial

| SVMD (\$ in thousands) | | | | | |
|-----------------------------|------------------|----------------------|------------------|---------------------------------------|--------------|
| | FY2015 Actual | FY2016 Projection | FY2017 Budget | Change Favorable/ (Unfavorable) | % Change |
| REVENUES | | | | | |
| Net Patient Service Revenue | \$0 | \$0 | \$2,871 | \$2,871 | 100% |
| Total Net Revenue | 0 | 0 | 2,871 | 2,871 | 0% |
| EXPENSES | | | | | |
| Salaries & Benefits | 227 | 27 | 1,066 | (1,039) | -97% |
| Supplies & Other Expenses | 67 | 69 | 3,451 | (3,382) | -98% |
| Interest | 0 | 0 | 0 | 0 | 0% |
| Depreciation/Amortization | 0 | 0 | 0 | 0 | 0% |
| TOTAL EXPENSES | 294 | 95 | 4,516 | (4,421) | -98% |
| OPERATING INCOME | (\$294) | (\$95) | (\$1,645) | (\$1,550) | -94% |
| Non Operating Income | 400 | 300 | 1,645 | (1,345) | |
| NET INCOME | \$106 | \$205 | (\$0) | (\$205) | -100% |
| Operating EBIDA | (\$294) | (\$95) | (\$1,645) | (\$1,550) | 1624% |
| Operating Margin Percentage | 0.0% | 0.0% | -57.3% | | |

FY2016 & on reflects new programs: Urgent Care & Primary Care Clinics

SVMD New Programs

| New Program | Description |
|---|---|
| 1. Primary Care Clinic | - Recruit 4 primary care physicians for the first year of operations |
| 2. Urgent Care Clinic | - Target to have ~10,000 visits in the first year of operation. |
| 3. Women's Cardiovascular Health Clinic | <ul style="list-style-type: none">- Clinic will begin operation 2.5 days/week: 1 day a week operation at LG and 1.5 days a week at MV.- It is budgeted with ~1300 visits in first year of operation. |
| | |