



Board Informational Report

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CEO

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As a team we are very focused on the fundamentals of ever improving high quality, compassionate “sustainable” healthcare during the fastest change era in healthcare. We have tuned up our Mission, Vision and Values to be more teachable and to be more relevant to our team and to improve our focus and efficiency in all that we do as we serve our community. We have also been working on building solid foundations for service, sustainability and growth in our large OP Rehab program and in our very important Orthopedics program.

We also remain very focused on our 6 critical transformational strategies as well that I’ve shared in earlier CEO reports.

Our team is also working on a long list of business and physician contracts that need to be renewed.

We are actively engaged in our # 1 strategy which is a total makeover of physician services as no IP or OP hospital services would ever happen on an IP or OP basis without their first being a physician order for that care to be rendered. Here we are focused on moving in gradual thoughtful steps towards best practice, with a greater focus on production, quality, and upon increasing our focus on the value of the care we provide vs the volume of care provided with incentives to increase results in these areas.

As we increase the value of our physician service line, this means we are ever improving in our journey to proactive healthcare vs. the old model of reactive healthcare. This new proactive model of care seeks to keep residents in our district well or in ever improving health and to lower the frequency of ED visits or IP admits for medical issues. We as a system are committed to this journey even though the hospital portion of our system could see less ED visits or less IP admits from improvements in the value of care we provide outside of the hospital.

During this time of year we have been investing in very important team training and information sharing on our Mission, Vision, Values and our key Strategies to better serve our community and to be nimble for the rapid changes in healthcare which lie ahead. We have conducted 2 full days of training/strategy sharing and have another day of important training/strategy sharing coming up next month.

Important Update from Last Board Meeting:

We have completed additional independent confidential attorney client privileged research on our new important Orthopedics contract that was approved at our last BODs meeting and we

can say publicly that this “best practice” model contract in the healthcare industry does stay within the independently identified fair market range for orthopedics here within the District.

Core Principles I have followed since 1977:

My commitment has been from day one in my healthcare career has been and is to actively pursue all appropriate steps to deliver high quality, sustainable healthcare at the lowest possible cost for any community, region, state or group of states I have been responsible for in managing healthcare. As a team in many different locations we have been able to deliver on this core principle over and over in many locations of the US against great odds in many cases where we in fact made healthcare the least burdensome possible to all taxpayers and residents, performing well above what most observers ever thought possible.

Further when I share “healthcare change strategies” with any community over the past 39 years it is with a total unselfish intent that is focused solely on sustainable high quality healthcare for those communities even if that new strategy doesn’t preserve a job for me long term. What is most important in each community is sustainable healthcare and good access to quality healthcare. My hope is that all other individuals in our community can join me enthusiastically with this principle of unselfishness and love for our community and provide unselfish every growing community support to sustainable healthcare here in this district. The bottom line here is it’s not about me, it’s about how we can honor our residents with great sustainable care.

The challenges to sustainability will grow fiercely in the months and years ahead, so sustainability must never be taken for granted. If you research on Google, and type in 1/3rd of US hospitals will close by 2020, this should awaken every resident who desires sustainable healthcare. The goal of our team is to be among the strong and surviving healthcare systems not a part of the 33% who don’t. Other articles show that nearly 700 rural hospitals across America are at a high risk for closure.

It’s very easy to injure a healthcare system with incorrect decisions and exponentially expensive and time consuming to restore a healthcare system to health again. Some wrong decisions are fatal to healthcare systems. So we must do all in our power to avoid injury of a healthcare system.

We really value and appreciate our Private/Public Partnership with all residents as a District Hospital here in the Truckee/Tahoe region:

We really appreciate the strong community support over the approximate 65 years that Tahoe Forest has been in existence. We also remember the founding action by the Joseph family at the inception of hospital care here in the Truckee area after Mr. Joseph experienced a tragic loss in his family as they had to drive east for healthcare that wasn’t present in this community. This family and all other families who have donated land, made charitable donations, gave property taxes and who have supported Tahoe Forest as patients or in other ways, has really saved countless lives over these many years.

Today Tahoe Forest receives approximately \$4.7 M in annual property taxes to cover our general obligation bonds which were approved by a super majority 72% vote of the district back in September of 2007. We also receive approximately \$5.4 M in property taxes to support the general operations of TFHS for a grand total of approximately \$10.1 M dollars.

This special Measure C ballot measure approved by approximately 72% of the voters of the district in September of 2007 says, "To maintain[sustain, this word added by me] a full service hospital in our community; expand and enhance the Emergency Room to ensure access to lifesaving care; maintain critical medical services including pediatrics, maternity, long term care for seniors and cancer; and upgrade facilities that are outdated or do not meet state-mandated earthquake safety standards, shall Tahoe Forest Hospital District issue \$98.5 million in bonds to improve healthcare facilities with an independent citizens' oversight committee and all funds being spent on local projects."

This official voice of the people with all due respect is binding on all team members at Tahoe Forest including all appointed and elected officials and upon all residents of the district until the year 2040 when the bonds are paid off, unless some person or persons step forward and pays them off earlier.

The sum of our Depreciation, Interest Expense, Principle payments on Debt and our Wellness Outreach programs total \$18.5 M per year in relation to the just mentioned total of \$10.1 M we receive from both categories of property taxes.

Stated another way, this very important and appreciated \$10.1 M in property taxes equals 7.6% of our estimated annual expenses.

So approximately 92% of our expenses have to be covered by "other" traditional healthcare sources that all not for profit or for profit hospital participate in across CA and across the US. This is why we call it a private/public partnership for sustainable healthcare. Many districts operate almost entirely upon taxpayer sourced revenues. Also many districts in other industries do not provide a service regardless of the patient's ability to pay.

I've had at least one resident say why can't we have free healthcare, or discounted healthcare after all we believe we pay for at least all of the capital costs of healthcare here at this District hospital as taxpayers?

With all due respect, it's true, we could opt out of Medicare, Medicaid and all commercial insurances and all of their accreditation and operating requirements and not bill any patients like a Shriner's Hospital or St Jude's Children's Hospital but we would need to increase property taxes approximately 14 fold from present levels.

Today on a theoretical 600K assessed value home in our district, we receive approximately \$78 dollars annually in property taxes based on County input for the general operations of the hospital. Separately we receive approximately \$160 dollars on this same 600K assessed value home prior to our shared announcement last month of \$15.8 M in property tax savings spread out over the next 24 years due to bond refinancing our team has initiated. So in total a 600K assessed home would generate approximately \$238 dollars in total property taxes annually for this district hospital for which we are very appreciative on behalf of all residents who expect sustainable healthcare here in this region. Again this \$238 dollar annual property tax amount on a 600K assessed value home will go down in future periods due to lower bond costs.

Community Education Section on How Does Healthcare Work, Why are Hospital Retail Prices so High -- Macro view – Next Month Micro view? See attachments!

This month I am providing an attachment which shows how goods or services typically purchased in other industries would have their pricing changed if all of sudden “hospital rules” were imposed on each of these industry segments and these industries had to bill retrospectively for all services, not knowing who would pay and who wouldn’t pay yet they must collect on average the current price listed. The footnotes are critical to read as well.

Next I have an attachment which shows the very large impact to high Retail Hospital Prices if we simply remove one dysfunctional element that all hospitals face across America except for Maryland, and that is the impact if we remove just the underinsured patient impact on hospital pricing. Maryland still has uninsured patients but no underinsured patients.

Next I show the “real value proposition” Tahoe Forest provides to all residents of the district from an aggregate or macro perspective vs. the CA Statewide average, the most important benchmark for any hospital in CA, in eyes of healthcare experts, and how does Tahoe Forest also compare to other local hospitals as well on a macro basis. This is irrefutable macro information that I examine on any hospital I manage from a sustainability perspective and I have had the privilege of managing more than 40 hospitals in CA and have studied the 360 or so hospitals that are available on OSHPD, a CA public data site over the years.

Next we take a look at the financial performance of County hospitals and then District hospitals in CA, both of which have elected Boards, in contrast to not for profit or for profit hospitals in the state who have skill set appointed boards. Clearly the governmental hospitals which include County and District hospitals, spoken of generically are at very high risk for non-sustainability and we want to be in the sustainability group!

Then we have slides which show the tremendous savings all inpatients and outpatients already experience at Tahoe Forest vs. all of CA and other hospital clusters in CA.

The last section is to share what is our experience on OP Medicare patients who are seen at Tahoe Forest and what percentage of these patients have any out of pocket costs and if they do, what are the stratified findings of any out of pocket costs.

Legislative Activities:

My team and I remain active monitoring all relevant state and federal legislation that could help or harm Tahoe Forest.

I would share as Tahoe Forest is licensed and accredited by the State of CA, and the federal government that all we do from a governance, management and clinical operations perspective is within the limitations of these state and federal accreditation and licensure requirements. So to really achieve healthcare reform our thoughtful efforts really need to be focused first at the state level, not at the local level and lastly at the federal level for true sustainable changes in healthcare.

Thank you.

What is the impact of "Hospital legal operating rules" being imposed on Other Industries?

Description	Estimated Private Sector Price	What would Price have to change to in CA if Hospital Rules are imposed? to collect the same monies on a weighted average basis?
Loaf of Bread in grocery store	3.00	12.00
Gallon of Milk in a grocery store	4.00	16.00
A new laptop computer	2,000.00	8,000.00
Local Attorney hourly rate	350.00	1,400.00
Paint and body shop repair on partially wrecked car	12,000.00	48,000.00
General Contractor asked to rebuild a burned down home	600,000.00	2,400,000.00

Note: Hospitals are the only private sector business in America who are required to provide a service regardless of the ability to pay! Only the State and Federal Court System and penal institutions have a similar duty! A hospital has to receive and treat all patients regardless of their ability to pay. It has to bill retrospectively for all services. If each of the above noted industries had to accept all customers and bill retrospectively, to have a math chance of collecting the average price they used to collect, their new retail pricing would have to as stated above based on the average CA hospital experience.

Are high hospital prices a root cause issue or a symptom of a very large problem in another area? Answer: They are a symptom of a very large problem elsewhere. So not solving the real root problem will never allow high retail prices for healthcare in CA and in all states except Maryland to go away. Free standing Lab, Imaging and Surgery Centers do not have to accept all customers as Hospitals do, nor are they open 24/7. These just mentioned business are highly inflationary to healthcare as supply and demand economic rules work in an opposite manner in healthcare vs any other industry due first to the obligation to provide a service regardless of the ability to pay and second due to excess capacity that existed within hospitals in the area for lab, xray and surgery services before these free-standing businesses existed.

**In Maryland for over 40 years now they have had a "Federal and State Waiver" across all Payors
What is the impact when Medicare, Medicaid and All insurances have to pay the same state prescribed rate
unique to each hospital?**

	California	Maryland
Estimated State wide IP Charges per Discharge	74,000.00	25,900.00
Estimated statewide collections per IP Discharge	18,500.00	22,792.00

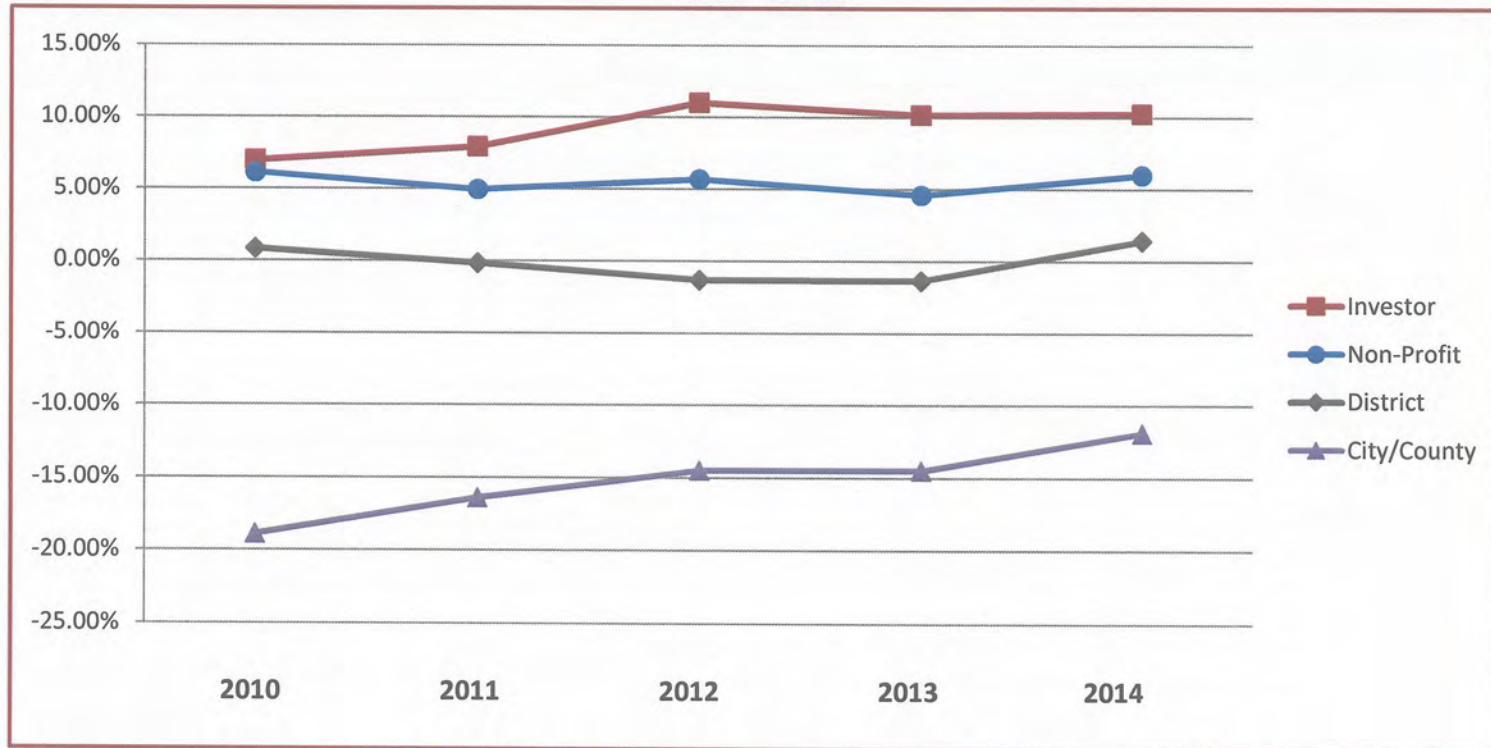
Note: Maryland has a policy for over 40 years now which states there shall not be any loss shifting on the losses of Medicare, Medicaid or any commercial insurance plan upon other commercially insured patients. So uniquely here Medicare, Medicaid and commercial insurances pay exactly the same custom built from the ground up reimbursement model for each of the 50 plus hospitals in the state. In all of the other 49 states over 80% of US hospitals lose money on Medicare and Medicaid patients plus incur the cost of care of the underinsured and from the uninsured. In Maryland there are no underinsured patients. There are uninsured but no underinsured patients. The above info is based on my actual experience working in Maryland several years ago and is intended to show how different policies can have very different results, so the amounts are for illustration purposes.

How Does Tahoe Forest Hospital Compare to Several Other Local Hospitals and the Statewide Average?

Description	CA Statewide Average	Tahoe Forest Hospital	Barton Memorial Hospital	Sierra Nevada Memorial Hospital	Sutter Auburn Faith Hospital	Marshall Medical Center	Sutter Roseville Medical Center	Southern Mono Healthcare	Renown Regional Medical Center	St. Mary's Regional Medical Center	Carson Tahoe Regional Med Ctr
Average IP Gross Revenue Per Discharge	73,875	37,668	61,204	61,011	47,944	97,581	63,275	53,331	54,672	47,541	44,977
Average OP Gross Revenue Per Visit	2,594	923	2,429	1,434	5,146	1,508	6,773	1,427	3,040	5,939	2,202
Average Gross Revenue Per ER Visit	n/a	3,780	6,852	5,236	5,117	9,121	5,982	3,082	7,502	2,872	3,436
Average Gross Revenue Per OP Surgery	n/a	6,833	9,131	10,801	12,434	7,793	11,404	15,433	20,371	23,373	10,642

Note: The CA Statewide average data comes from a 9/15/15 data extract from OSHPD Hospital Annual Disclosure Data Website: <http://oshpd.ca.gov/HID/Hospital-Financial.asp#Profile>. The Data for Tahoe Forest Hospital IP and OP Gross Revenue per Discharge or Per OP Visit comes from this just mentioned OSHPD source. Other CA or NV hospital data and other Tahoe Forest data comes from a data company in S. CA who can provide information if any person purchases work from their company. This source can be provided if a person seeks to purchase their own independent research.

5B: Trends in California Hospital* Operating Margins by Type of Ownership 2010 -2014

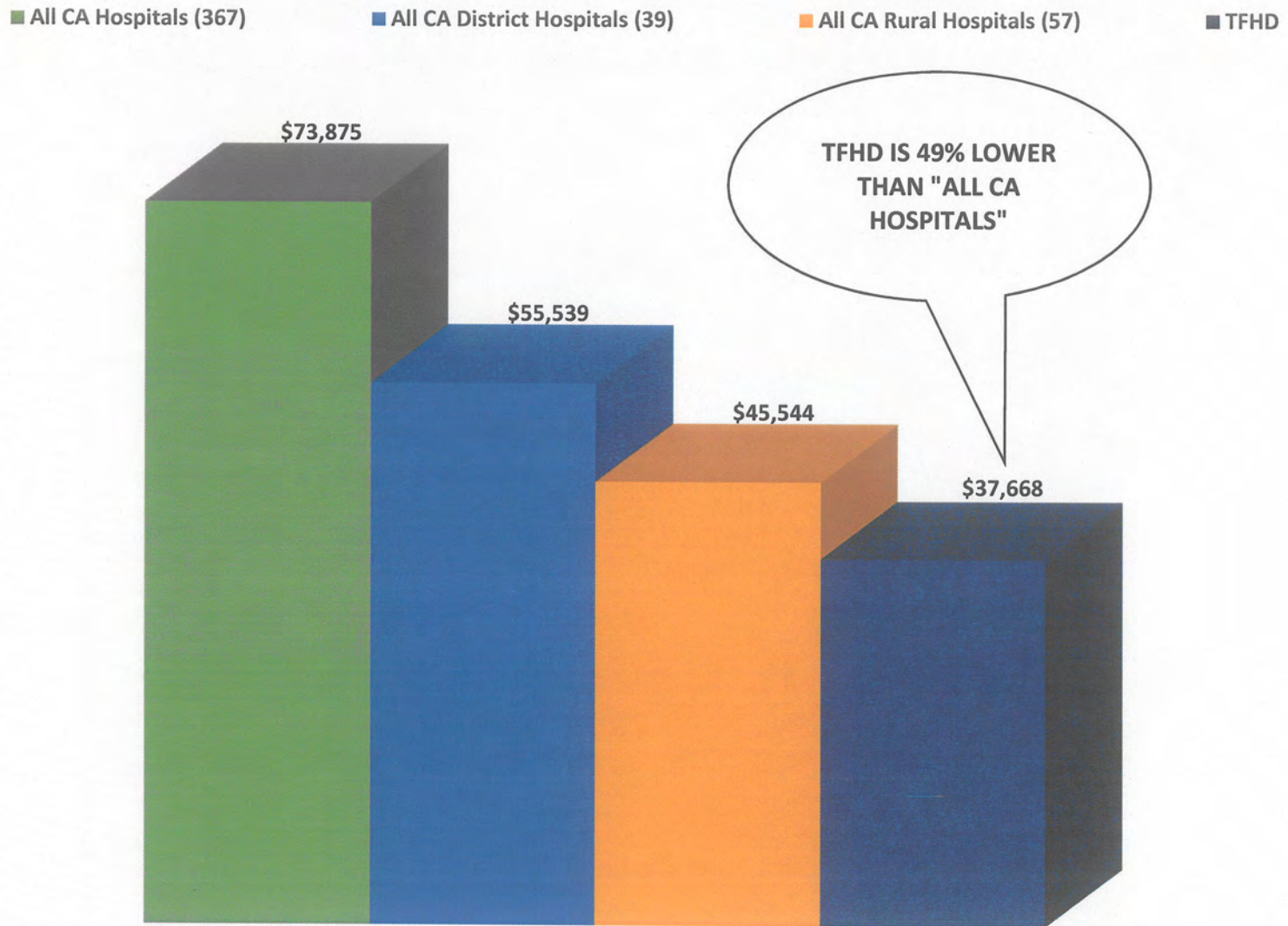


*Excludes Kaiser, Shriners, state hospitals, psychiatric health facilities, and hospitals with long-term care emphasis.

Type of Ownership	2010	2011	2012	2013	2014
Investor	6.95%	7.89%	10.99%	10.16%	10.25%
Non-Profit	6.12%	4.94%	5.67%	4.58%	5.98%
District	0.84%	-0.17%	-1.31%	-1.35%	1.42%
City/County	-18.92%	-16.41%	-14.53%	-14.52%	-11.93%

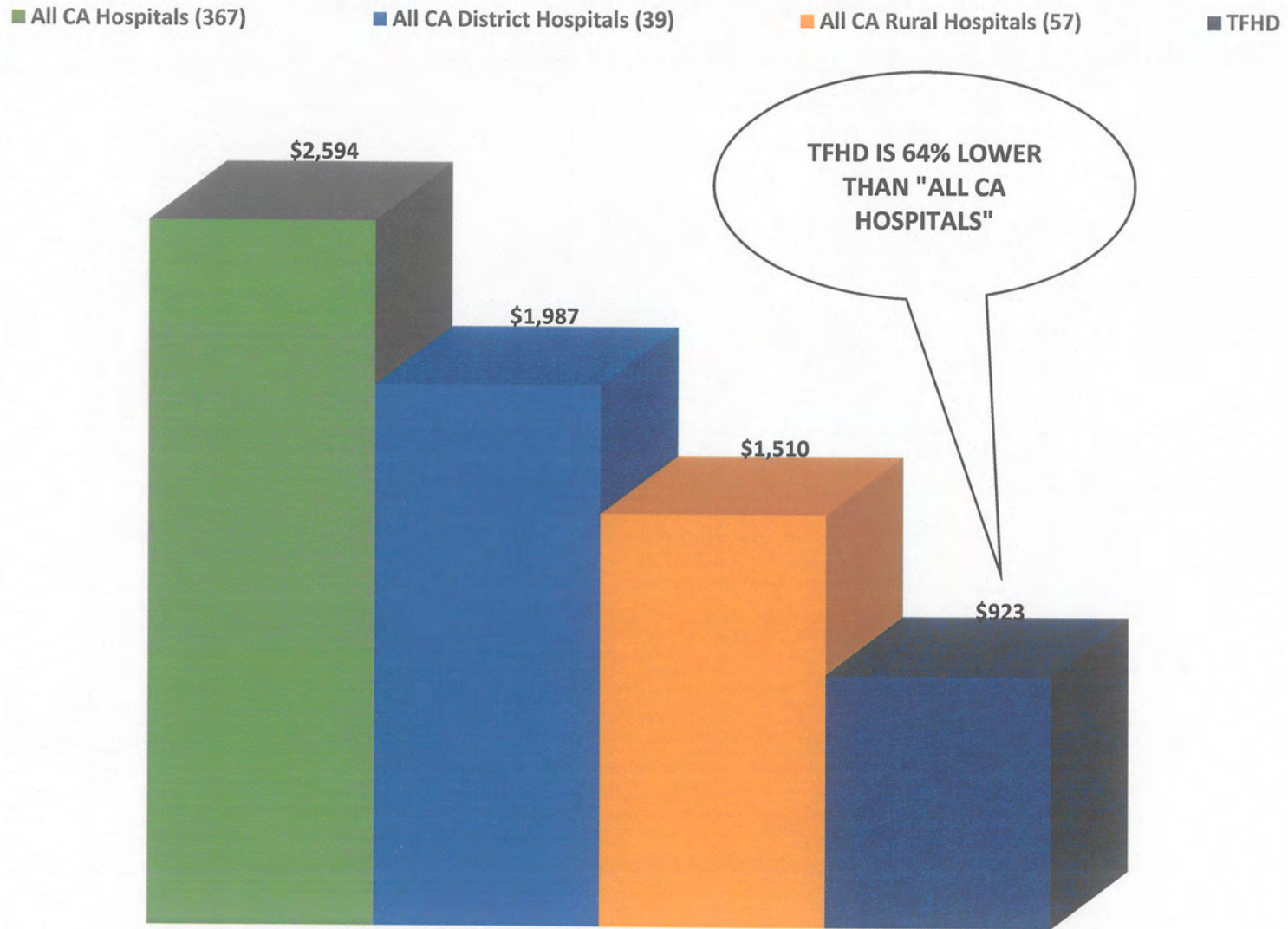
SOURCE: Office of Statewide Health Planning and Development, Hospital Quarterly Financial and Utilization Reports, 2010, 2011, 2012, 2013, and 2014 (April 24, 2015).

GROSS INPATIENT REVENUE PER DISCHARGE



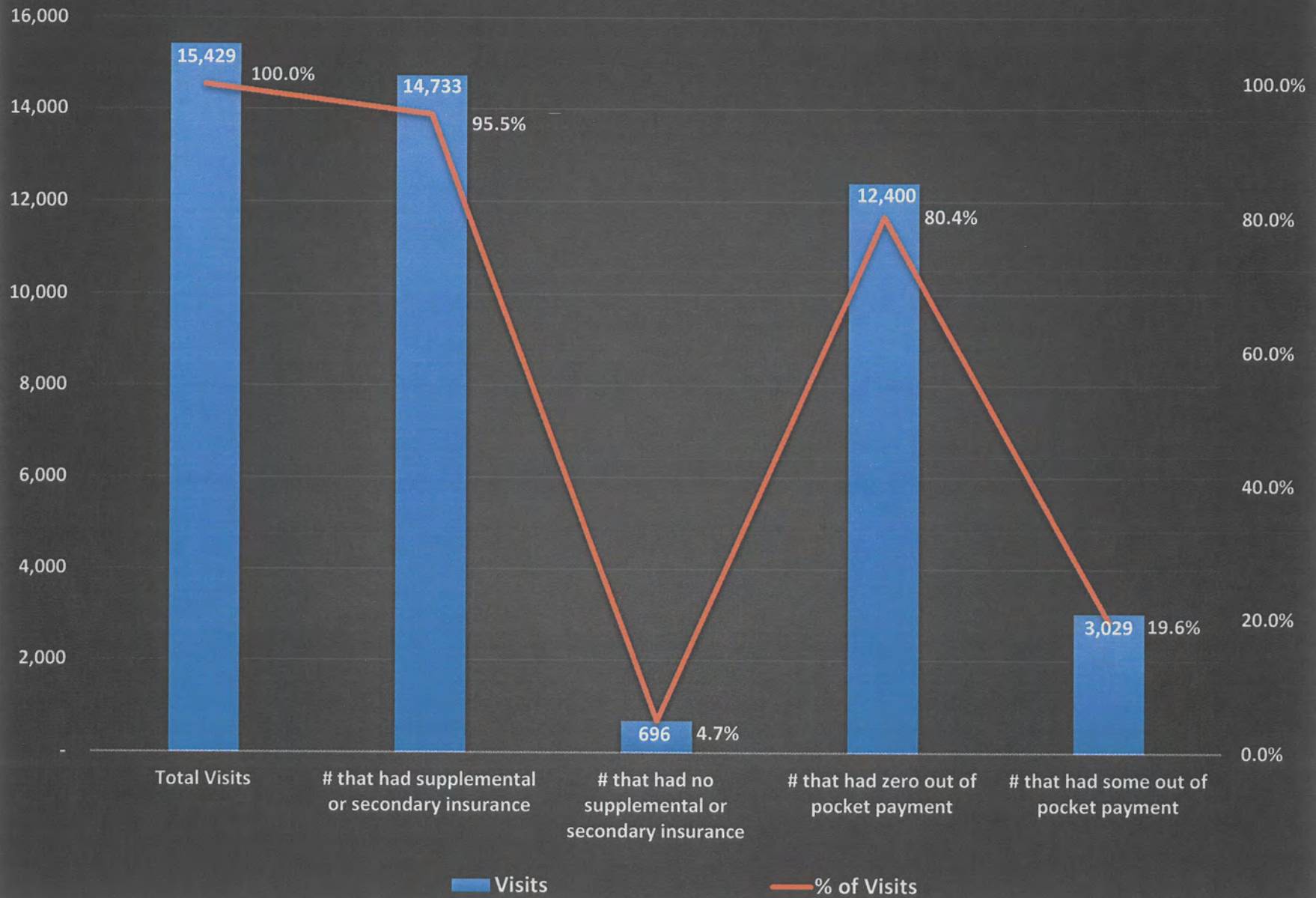
SOURCE: 2014 OSHPD Hospital Annual Financial Data Profile - Based on 9-15-15 Data Extract from OSHPD Hospital Annual Disclosure Data Website: <http://oshpd.ca.gov/HID/Hospital-Financial.asp#Profile>

GROSS OUTPATIENT REVENUE PER VISIT

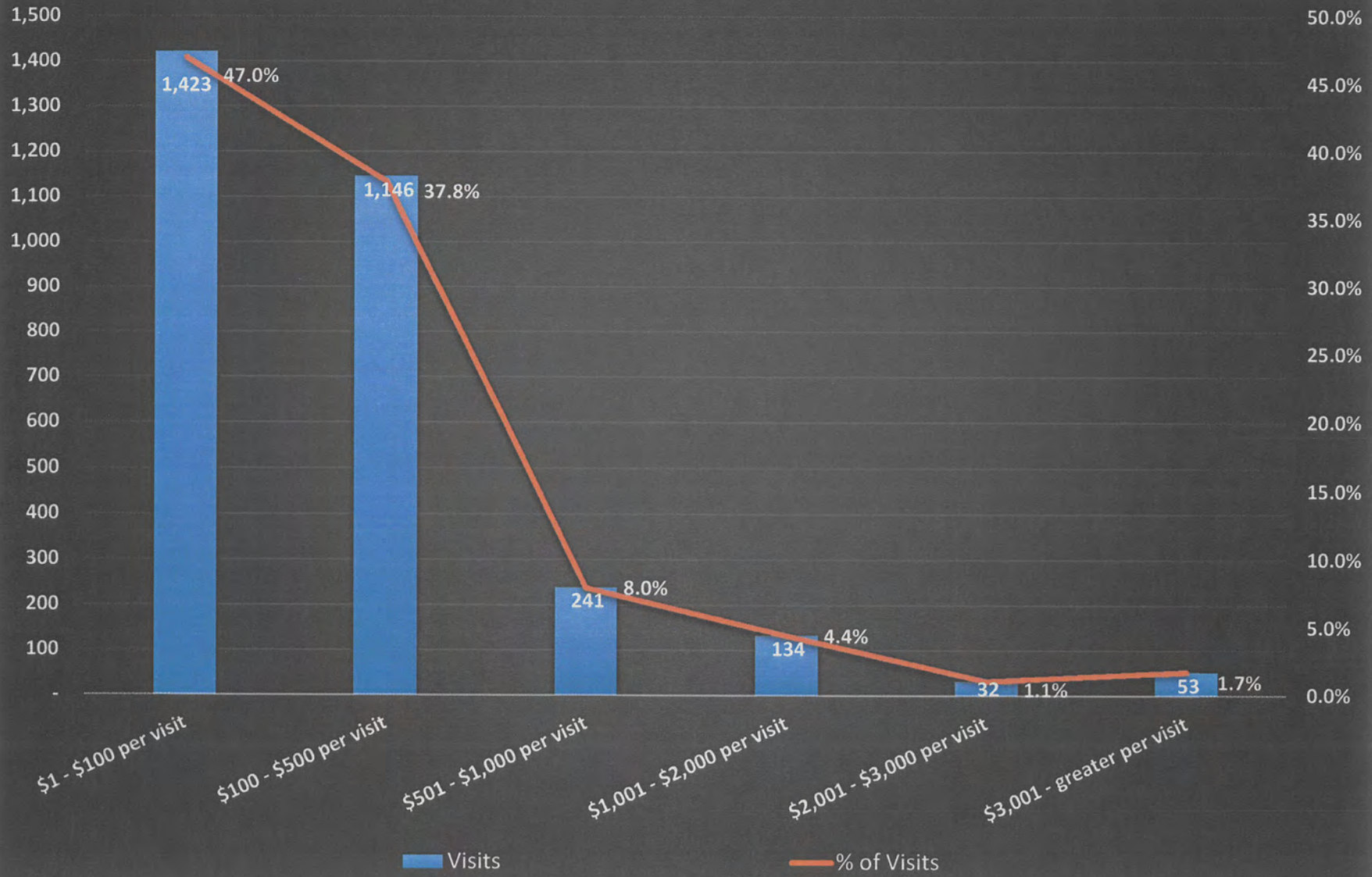


SOURCE: 2014 OSHPD Hospital Annual Financial Data Profile - Based on 9-15-15 Data Extract from OSHPD Hospital Annual Disclosure Data Website: <http://oshpd.ca.gov/HID/Hospital-Financial.asp#Profile>

OUTPATIENT MEDICARE VISITS FOR CALENDAR YEAR 2015



OUTPATIENT MEDICARE VISITS THAT HAD SOME OUT OF POCKET PAYMENT FOR CALENDAR YEAR 2015 (3,029 VISITS - 19.6%)



AVERAGE OUT OF POCKET PAYMENT PER OUTPATIENT MEDICARE VISITS FOR CALENDAR YEAR 2015 (3,029 VISITS)

