



**To: Finance Committee**

**From: Michelle Donaldson, Ken Jensen**

**Date: August 23, 2014**

**Subject: West County Hand and Physical Therapy**

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**Recommendation:**

It is our recommendation that Sonoma Valley Hospital invests in the operational management of the rehabilitation services department of Palm Drive. In June 2014, a formal proposal was submitted and accepted by Palm Drive Board of Directors outlining the methods in which Sonoma Valley Hospital could enhance profitability and operationalize this department. We feel it vital to our future sustainability to invest in this venture and acknowledge Sonoma Valley Hospital is capable of capitalizing on the closure of other organization's departments.

**Background and Reasoning:**

Rehabilitation services is a strong growth area at Sonoma Valley Hospital. Dawn Kuwahara and her team has streamlined services, increased revenue and created an outstanding service oriented team that has noted an increase of approximately 5,000 Units of Service in one fiscal year relating to an approximate gross revenue of \$1.4 million (source: cost accounting dashboard reimbursement average all payers for Rehab service unit). This is a significant move to the community as well as region that we are a viable and stable organization who has the capability to invest in our growth. Attached is an updated pro forma as well as a month to month analysis over the first year of operations.

**Consequences of Negative Action/Alternative Actions:**

Working with the Palm Drive Executive Director, SVH is negotiating a strategy that the agreement be confirmed for 36 months with options for additional provided funding.

**Financial Impact:** (See attached)

The attached documents review the accrual budgeted projections as well as the cash flow statement and capital needs. It is our recommendation that the needed capital be covered utilizing our line of credit.

**Support & Approval:**

Through our due diligence we have gained support of the Foundation of Palm Drive Hospital as well as Dan Smith a prominent part of the Sebastopol community. In addition to this support, Andy Russell, the previous Director of Rehab Services has been actively volunteering his time to assist in the development of this proposal. These prominent factors as well as the support of the Palm Drive Board of Directors and Executive Director lends itself to a successful implementation.

**Attachments:**

Attachment: Accrual Budgeted Projections Income Statement

Attachment: Cash Flow Statement

## Accrual Budgeted Projections Income Statement

estimated volume ↑ 5-7.5%/mn	Baseline visits pre-closure=1,046												Capture of 80% pre-closure volume	
PDH Physical and Occupational Therapy	FY 15 Q2			FY 15 Q3				FY 15 Q4				FY 16 Q1		Total
	October	November	December	January	February	March	April	May	June	July	August	September	Total	
<b>Physical Therapy Visits</b>	315	405	495	534	578	623	667	667	700	700	710	710	7104	
<b>Occupational Therapy Visits</b>	52	67	82	90	97	105	105	112	112	120	120	120	1182	
Gross Revenue	\$187,938	\$241,635	\$295,331	\$318,600	\$344,852	\$371,700.49	\$397,952.21	\$397,952.21	\$417,641.00	\$417,641.00	\$423,607.30	\$423,607.30	\$4,238,458	
Gross Revenue	\$38,636	\$49,781	\$60,926	\$66,870	\$72,071	\$78,015	\$78,015	\$83,216	\$83,216	\$89,160	\$89,160	\$89,160	\$878,226	
<b>Total Gross Revenue</b>	\$226,574	\$291,416	\$356,257	\$385,470	\$416,923	\$449,715	\$475,967	\$481,168	\$500,857	\$506,801	\$512,767	\$512,767	\$5,116,684	
Collection Ratio	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%		
<b>Total Net Revenue</b>	<b>\$45,314</b>	<b>\$58,283</b>	<b>\$71,251</b>	<b>\$77,094</b>	<b>\$83,384</b>	<b>\$89,943</b>	<b>\$95,193</b>	<b>\$96,233</b>	<b>\$100,171</b>	<b>\$101,360</b>	<b>\$102,553</b>	<b>\$102,553</b>	<b>\$1,023,332</b>	
<b>Expenses</b>														
Total Direct Salaries	\$44,995	\$44,995	\$44,995	\$46,794	\$48,594	\$49,494	\$49,494	\$49,494	\$53,994	\$53,994	\$53,994	\$53,994	\$53,994	
Paid Time Off	\$2,625	\$2,625	\$2,625	\$2,730	\$2,835	\$2,887	\$2,887	\$2,887	\$3,150	\$3,150	\$3,150	\$3,150	\$3,150	
Employee Benefits	\$4,500	\$4,500	\$4,500	\$4,680	\$4,860	\$4,950	\$4,950	\$4,950	\$5,400	\$5,400	\$5,400	\$5,400	\$5,400	
Rent and Utilities	\$9,000	\$9,000	\$9,000	\$9,000	\$9,000	\$9,000	\$9,000	\$9,000	\$9,000	\$9,000	\$9,000	\$9,000	\$9,000	
Insurance	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	
Supplies	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	
Equipment	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	
IT Depreciation	\$2,361	\$2,361	\$2,361	\$2,361	\$2,361	\$2,361	\$2,361	\$2,361	\$2,361	\$2,361	\$2,361	\$2,361	\$2,361	
IT Operational costs	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	\$1,200	
Leased copier	\$175	\$175	\$175	\$175	\$175	\$175	\$175	\$175	\$175	\$175	\$175	\$175	\$175	
Other/Billing etc.	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	
Total Expenses	\$67,856	\$67,856	\$67,856	\$69,940	\$72,025	\$73,067	\$73,067	\$73,067	\$78,280	\$78,280	\$78,280	\$78,280	\$877,854	
<b>Operating Income</b>	<b>(\$22,542)</b>	<b>(\$9,573)</b>	<b>\$3,395</b>	<b>\$7,154</b>	<b>\$11,359</b>	<b>\$16,876</b>	<b>\$22,126</b>	<b>\$23,166</b>	<b>\$21,891</b>	<b>\$23,080</b>	<b>\$24,273</b>	<b>\$24,052</b>	<b>\$145,257</b>	
<b>Total</b>														
PT/OT/Clerical/Admin														
Direct FTE's	5	5	5	5.2	5.4	5.5	5.5	5.5	6	6	6	6		
Visits Per FTE														
<b>Operating Margin</b>		<b>-44%</b>	<b>-12%</b>	7%	9%	15%	21%	25%	21%	24%	25%	26%		
Operating Income													\$145,257	
*Shared Lease Income with Palm Drive												20%	(\$29,051)	
Sonoma Valley Return													\$116,206	
<b>Capital Investment Required (primarily working capital)</b>													\$250,000	
<b>Capital IT infrastructure and network costs</b>													\$85,000	
<b>Total</b>													\$335,000	
<b>Estimated Return on Investment</b>													33%	
End of year one													\$111,537	
<b>Estimated Months to positive Cash Flow</b>													first 12 mns	
													\$24,000 avg income/mn x 9 mns	
													21 months	
													assuming 80% volume capture	

\*under negotiations

## PDH PT Cash Flow Statement

	October	November	December	January	February	March	April	May	June	July	August	September	Total
<b>Total Visits</b>	367	472	577	624	675	728	772	779	812	820	830	830	8286
<b>Total Gross Revenue</b>	\$226,574	\$291,416	\$356,257	\$385,470	\$416,923	\$449,715	\$475,967	\$481,168	\$500,857	\$506,801	\$512,767	\$512,767	\$5,116,684
Collection Ratio	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.00%
<b>Total Cash Receipts</b>	<b>\$0</b>	<b>\$0</b>	<b>\$45,314</b>	<b>\$58,283</b>	<b>\$71,251</b>	<b>\$77,094</b>	<b>\$83,384</b>	<b>\$89,943</b>	<b>\$95,193</b>	<b>\$96,233</b>	<b>\$100,171</b>	<b>\$101,360</b>	<b>\$102,553</b>
Total Cash Expenses	\$65,495	\$65,495	\$65,495	\$67,579	\$69,664	\$70,706	\$70,706	\$70,706	\$75,919	\$75,919	\$75,919	\$75,919	\$849,522
Net Cash Needs	(\$65,495)	(\$65,495)	(\$20,181)	(\$9,296)	\$1,587	\$6,388	\$12,678	\$19,237	\$19,274	\$20,314	\$24,252	\$25,441	\$31,296

### Start up cash needed

\$160,467	From loss of operational start up (see above)
\$50,000	working capital (signs, equipment)
\$85,000	IT integration
<b>\$295,467</b>	<b>Total</b>