



To: ValleyCare Health System Corporate Membership

From: John Sensiba, Chair, ValleyCare Health System Board of Directors

Date: April 15, 2014

Subject: Update on ValleyCare Health System

Since our communication to you in early February, the Board and staff at ValleyCare Health System have been busy addressing the financial and operational decisions necessary to secure the future of ValleyCare.

As you know, Scott Gregerson became the Interim CEO on February 4, and on March 26 was appointed permanent CEO. Based on his performance and success in his first 45 days as Interim CEO, the Board believes that Scott is the right candidate to lead the organization through the tremendous changes occurring in health care and in our organization.

Recently, the Board, in conjunction with the CEO and the management staff, reduced our annual operating expenses significantly. This included a reduction in the work force and a substantial reduction in management compensation. All decisions were carefully made to ensure the protection of patient care, safety and quality. Although the lay-off of staff was difficult, it was necessary to improve our financial position.

With the changes occurring in health care today, financial pressures are building for every aspect of the health industry. Stories appear in the media almost daily describing the reduction in reimbursements available for health care providers including physicians and hospitals. ValleyCare, as an independent, not-for-profit, community hospital, has always operated with little or no margin between revenue and expenditures.

Due to the non-profit nature of our mission, ValleyCare provides more than the core functions of a hospital in order to support the health needs of our community. This means that excess revenue is invested back into the hospital, and ultimately the community, in the form of programs, services and facilities. As reimbursements continue to shrink, and the need for capital increases due to the demands of evolving health care technology and the requirements of the Affordable Care Act, we have had to examine every program and service to determine what is absolutely critical to our focus on patient care, safety, quality and the mission of the hospital.

During this last year, the management staff and Board have examined additional cost reductions that could be implemented, while at the same time protecting our patients. We have set a target to reduce our budget by approximately twelve million dollars, or 4%, by June 30, 2015.

In keeping with our commitment to transparency, summarized below are some of the decisions the Board and the management staff reached to reduce or eliminate programs. While difficult, these decisions represent the input and unanimous decision of the entire group to protect our core mission and eliminate those programs that do not contribute directly to patient care, safety and quality.

The Clinic at Wal-Mart in Livermore was designed to bring access to medical services to a larger portion of our community. The community response and patients accessing this location is much less than what we expected. The Clinic at Wal-Mart in Livermore will be closed as soon as we work through our contractual obligations.

When the Pleasanton school district faced budget cuts and eliminated their school nurses, ValleyCare stepped in to offer assistance. We had planned to offer this program to both the Livermore and Dublin school districts as well. Unfortunately we will no longer be able to provide assistance to any of the local school districts. However, we will continue a dialogue with our local school districts for other partnership opportunities in the future.

When the nursing shortage was at its peak in 2003, ValleyCare formed a partnership with Chabot College Nursing Program to create a nursing school at the ValleyCare campus in Livermore. Our nursing program has been very successful in training nurses who were often subsequently employed by ValleyCare. While this school served a critical need at the time, the nursing shortage no longer exists. The 2015 class will be the last class to graduate from our nursing school.

We will continue to evaluate our programs and services to ensure they are cost-effective and serve the best interest of the community. We will also look for revenue enhancement opportunities to help our fiscal position.

Finally, and perhaps most importantly, because we sit in an enviable place geographically and demographically, several major health providers are interested in partnering with us to serve the health care needs of the Tri-Valley. We are currently exploring the potential for an affiliation with a number of these providers as we believe an affiliation will be in our community's best interest. With the changes in health care, community hospitals will not survive alone. All health systems are looking to see how they can affiliate with others to create stronger organizations. ValleyCare must do the same. In our next update we will be in a position to share with you more concrete information regarding these discussions.

If you have any questions feel free to contact any Board member.

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