

Beach Cities Health District

Evolution and Transformation

February Working Session

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February 20, 2020

Engagement Overview

1

Current State Assessment *Market & Organization*

- Complete on-site stakeholder interviews
- Evaluate current services, programs and capabilities (revenue and cost)
- Assess operating characteristics and performance metrics
- Document ambulatory market needs, trends and forecasts
- Review Health Living Campus (HLC) master plan
- Complete demand analysis for Medical Office Building
- Define payer dynamics impacting contracting and reimbursement
- Complete SWOT analysis and observations

Weeks 1-7

2

Program Prioritization and Revenue Enhancement Options

- Facilitate Visioning session with Steering Committee and stakeholders
- Evaluate new programs and define development considerations
- Develop matrix to evaluate new and existing programs against market demand and organizational capabilities
- Complete gap analysis to outline programmatic and design considerations for campus transformation
- Identify and evaluate potential partners and models to position BCHD capabilities to meet partner needs
- Develop framework to evaluate revenue options

Weeks 8-14

3

Future State Direction

- Refine strategic direction and BCHD transformation goals with Steering Committee
- Document programs and service offerings to support campus transformation
- Model projected impact of revenue enhancement efforts and fundraising approach
- Document roadmap for implementation and tactics to address gap analysis

Weeks 15-20

Phase I Summary Observations

- **Market Attractiveness:** Aging demographics, high rates of chronic disease and strong payer mix make the Beach Cities a focal area for healthcare services
- **BCHD Areas of Focus:** Current programs and services targeting health issues and disparities where reimbursement is low, provider supply is a challenge, or a both.
- **Local Healthcare Dynamics:** Healthcare systems seem to be focused on targeting the Beach Cities, are aware of shortages (Behavioral Health) and see value in maintaining a presence on campus.
- **Strategic Opportunities:** Focusing on new channels for investment and/or partnership with BCHD to leverage infrastructure and reach across the communities to include: Technology, Health Systems and Universities

Current State Review

Interviews Findings and Summary of Key Themes

Assessing the Current State...

Hope to expand upon the unique position that includes a committed workforce and ability to generate awareness to further drive change for the three communities

Desire to create partnership opportunities with local healthcare systems to include on-site services and coordination of services for individual's who are at risk for chronic disease.

Interest to become a destination center of excellence that can produce a new revenue stream

Diverse range of programs and services offered within the community to address mental health and wellness

Belief that assisted living and residential care revenue streams can help fund the campus transformation in Phase I

Real estate footprint and limited partnerships remain critical to offset operating costs and fund programs and services

Campus transformation in Phase III is less clear and will require an innovative business model to complete vision for the HLC project

Recognition that BCHD has focused on children and elderly population and needs to engage 25 – 65 age group more effectively

Phase II of the Healthy Living Campus transformation plan will require new revenue streams

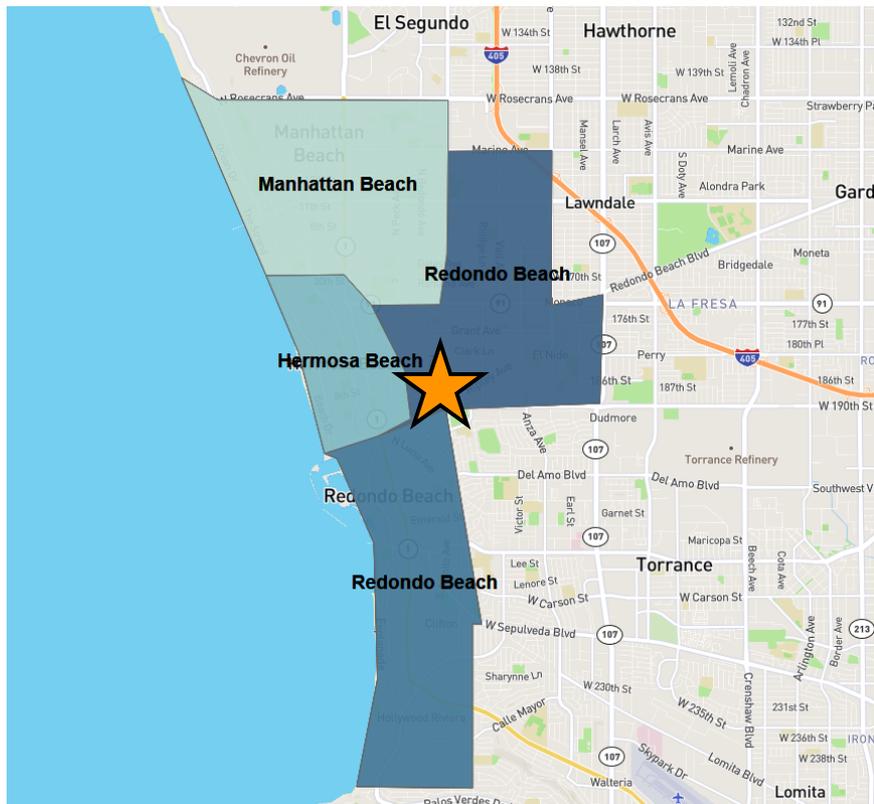
BCHD Strategic Goals:

- (1) *Summarize campus goal*
- (2) *Summarize organizational goal*

Market Overview: Population Growth

Population Growth by Zip Code

Beach Cities Health District Service Area, 2019-2024



Population Growth by Age Cohort

Beach Cities Health District Service Area, 2019-2024

Age Groups	Market 2019 Population	Market 2024 Population	Market Population % Change
00-17	25,801	25,834	0%
18-44	45,653	43,886	-4%
45-64	40,995	41,958	2%
65-UP	20,941	24,880	19%
Total	133,390	136,558	3%

Observations

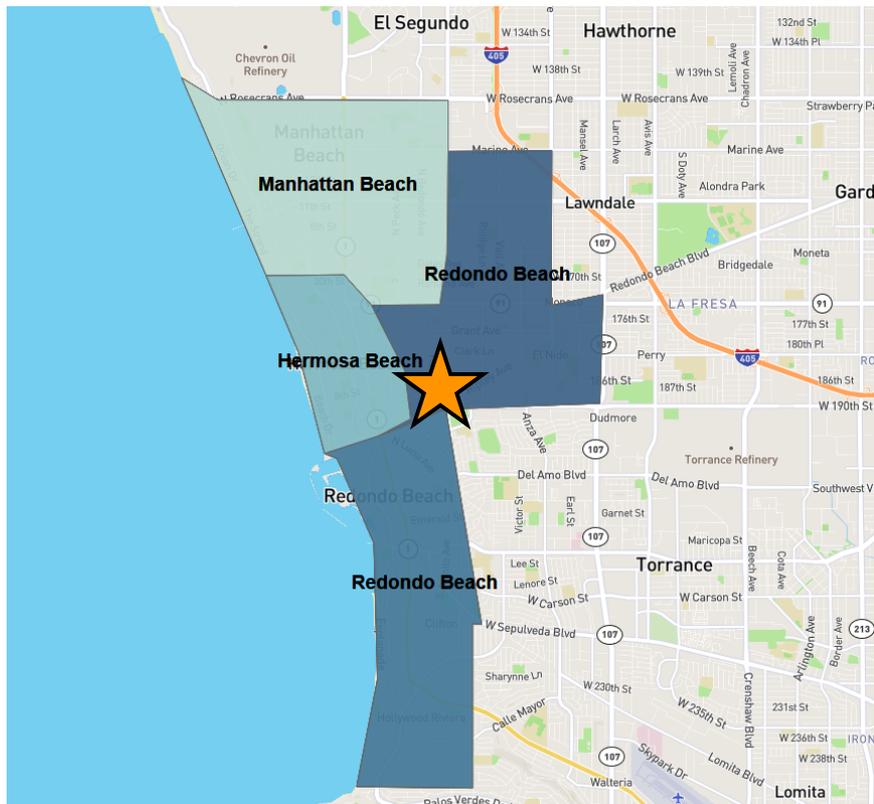
- Moderate population growth
- Aging population 45-64 and 65+ segments

Notes: Total percentages may not total to 100% due to rounding. Zip codes included in the analysis are: 90254, 90266, 90277, 90278. **Sources:** Market definitions provided by Beach Cities Health District; Claritas Pop-Facts®, 2019. Sg2 Analysis, 2020.

Market Overview: Population Growth Drill Down

Population Growth by Zip Code

Beach Cities Health District Service Area, 2019-2024



Population Growth by Specific Age Cohort

Beach Cities Health District Service Area, 2019-2024

Age Groups	Market 2019 Population	Market 2024 Population	Market Population % Change
00-04	6,916	6,728	-3%
18-24	9,038	10,012	11%

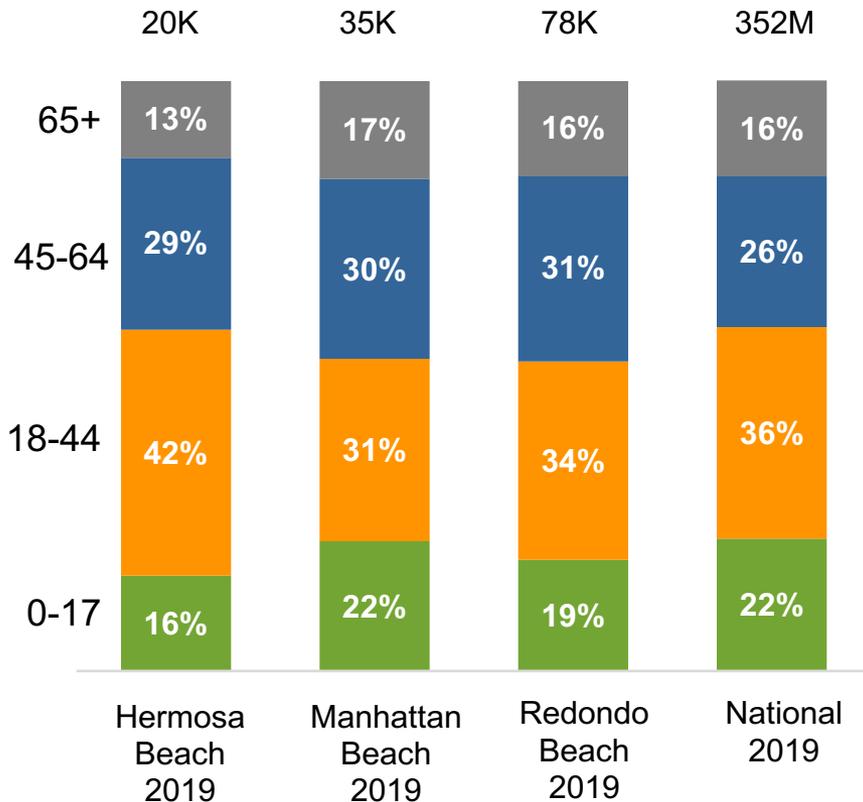
Observations:

- Population decline in the 00-04 cohort
- Population growth expected for the 18-24 cohort

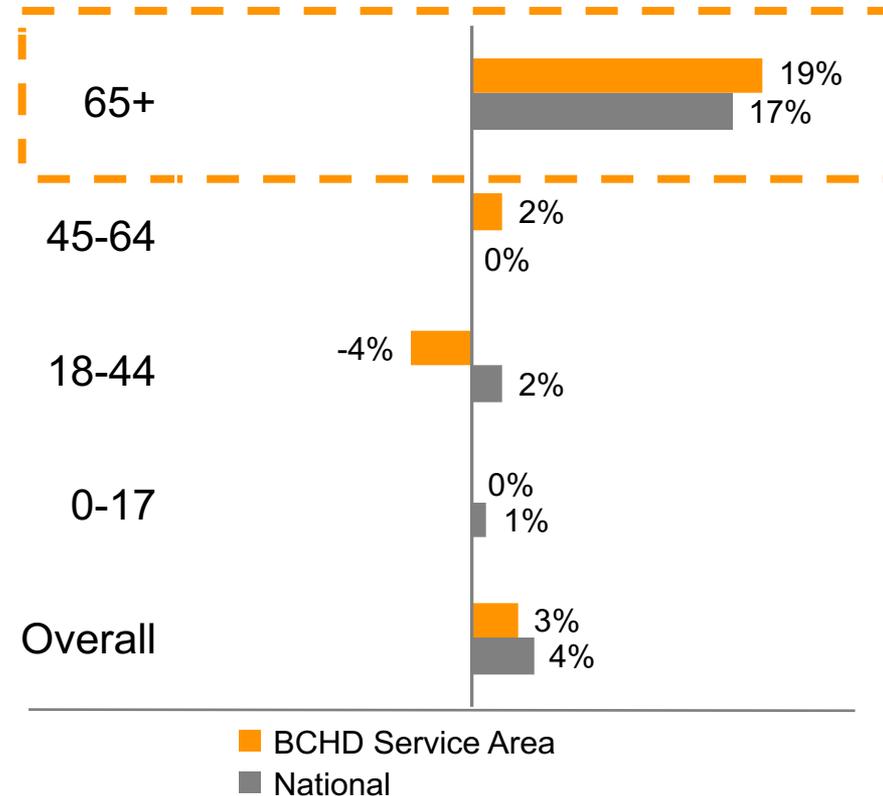
Notes: Total percentages may not total to 100% due to rounding. Zip codes included in the analysis are: 90254, 90266, 90277, 90278. **Sources:** Market definitions provided by Beach Cities Health District; Claritas Pop-Facts®, 2019. Sg2 Analysis, 2020.

Market Overview: Population Distribution by Age

Population Distribution by Age Cohort, BCHD Service Area, 2019–2024



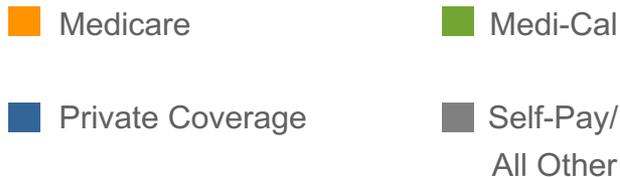
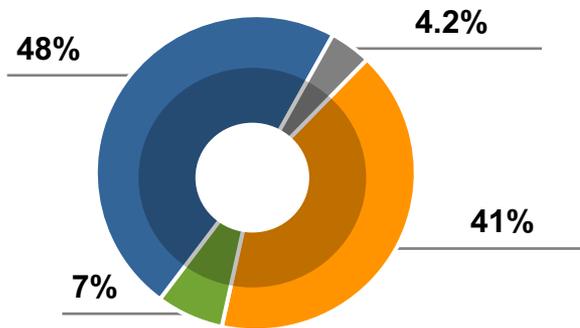
% Change In Population by Age Cohort, BCHD Service Area, 2019–2024



Notes: Total percentages may not total to 100% due to rounding. Zip codes included in the analysis are: 90254, 90266, 90277, 90278. **Sources:** Market definitions provided by Beach Cities Health District; Claritas Pop-Facts®, 2019. Sg2 Analysis, 2020.

BCHD market payer mix represents an attractive population for healthcare services

Beach Cities Health District Payer Mix Beach Cities Health District Service Area, 2019



Payor mix for acute healthcare services suggests strong commercial payer mix and limited Medicaid / self pay for the BCHD service area as compared most markets

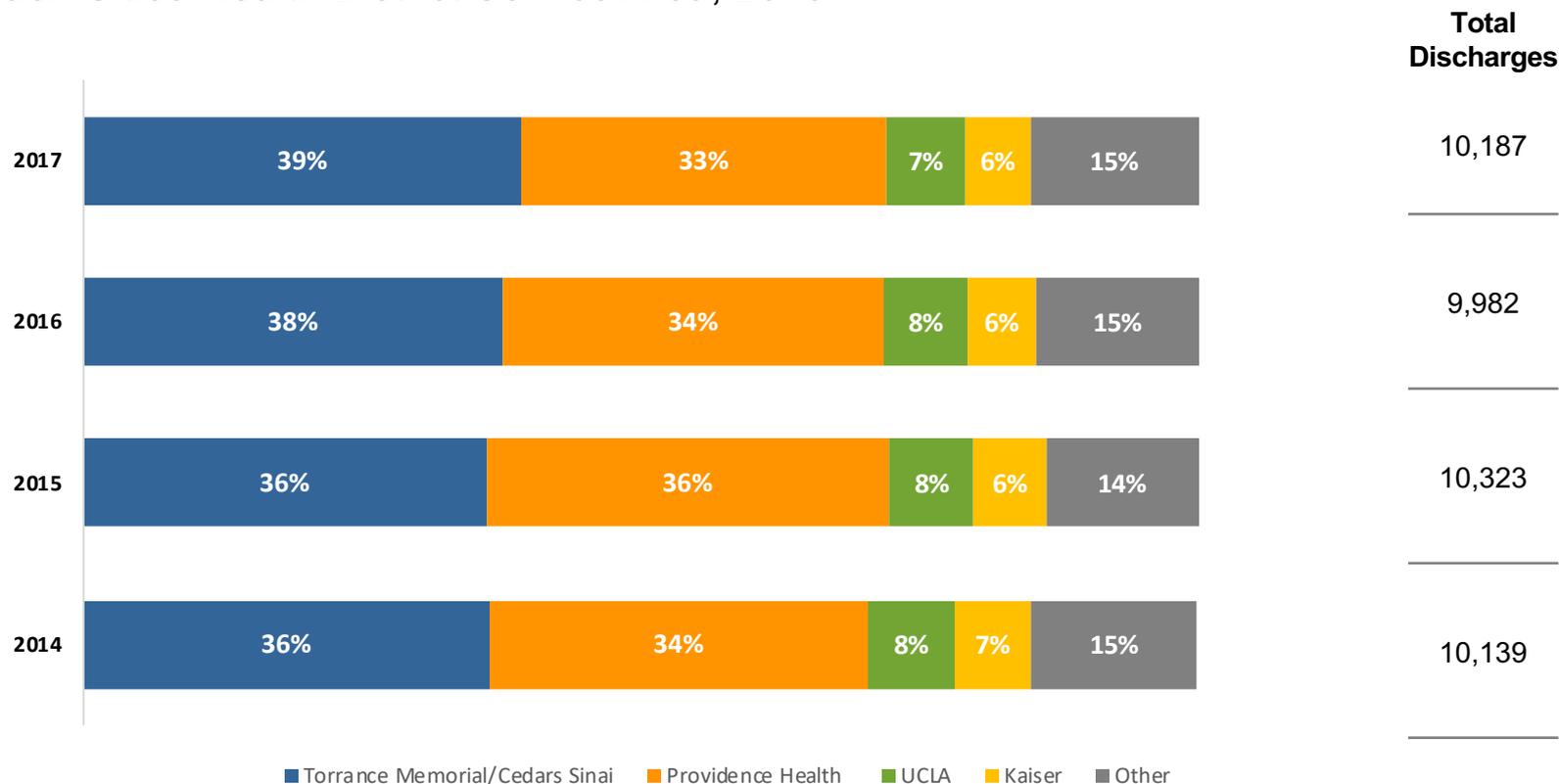
Payer	Discharges
Private Coverage	4,517
Medicare	3,891
Medi-Cal	641
Self Pay/All Other	394
Overall	9,443

Notes: Total percentages may not total to 100% due to rounding. Zip codes included in the analysis are: 90254, 90266, 90277, 90278. Sources: Market definitions provided by Beach Cities Health District; Claritas Pop-Facts®, 2019. Sg2 Analysis, 2020.

Torrance Memorial is the current market share leader within inpatient discharges

Beach Cities Health District Hospital Inpatient Market Share

Beach Cities Health District Service Area, 2019



Notes: Total percentages may not total to 100% due to rounding. Torrance Memorial includes Cedars Sinai Medical Center, Providence Health includes: Prov. Little Company of Mary, Prov. Saint John's Health Center, Prov. Little Company of Mary-San Pedro. Other includes: Del Amo Hospital, Earl and Loraine Miller Children's Hospital and Other.

Sources: Market definitions provided by Beach Cities Health District; Claritas Pop-Facts®, 2019. Sg2 Analysis, 2020.
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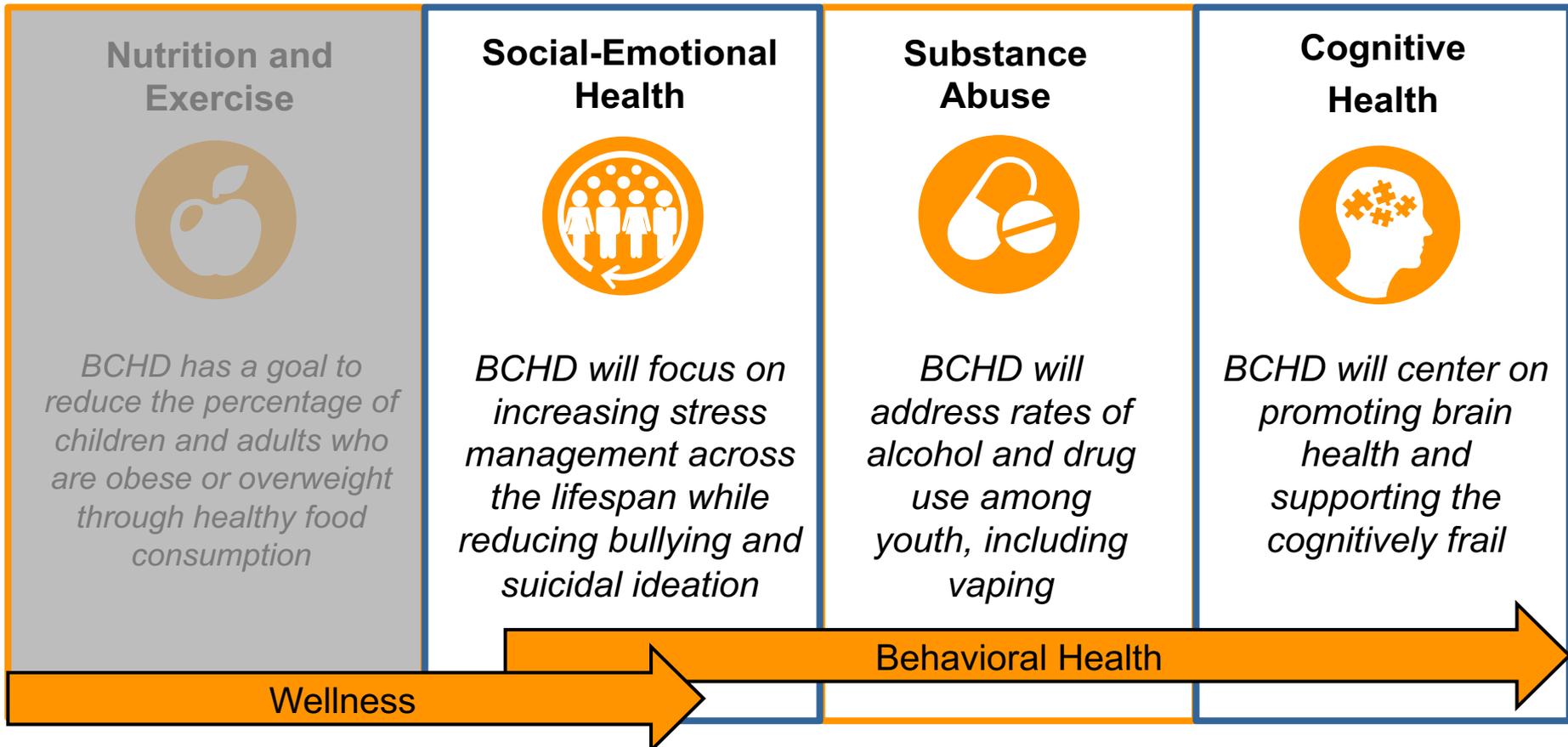
Health indicators for the service area reinforces need to focus on brain health, cancer and cardiovascular care

Health Indicator	Redondo Beach	Manhattan Beach	Hermosa Beach	Beach Cities	LA County	United States
% of Uninsured Population	5.6%	2.3%	4.1%	4.4%	13.3%	10.5%
Birth Rate (per 1,000)	11.6	15.3	11.6	12.8	13.6	11.6
Alzheimer's Disease Specific Death Rate (per 100,000)	-	-	-	42.4	33.7	-
Percent of Adults Diagnosed with Diabetes	6%	4%	-	5%	4%	9%
Newly Diagnosed Colon Cancer Cases (per 100,000)	36%	-	-	36%	37.9%	39%
Newly Diagnosed Breast Cancer Cases Among Females (per 100,000)	187.2	213.3	-	200.3	140.5	124.7
Lung Cancer Deaths (per 100,000)	28.8	24.6	27.7	27.1	27.1	60.2
COPD Deaths (per 100,00)	26.9	28.4	28.1	27.8	27.9	-
Cardiovascular Disease Deaths (per 100,000)	178	133.2	89.3	133.5	127.5	97

Notes: Red text indicates health indicators that are greater when compared to the LA County benchmark. Sources: Beach Cities Health District Community Health Snapshot and US Census 2010. Sg2 Analysis, 2020. Confidential and Proprietary © 2020 Sg2

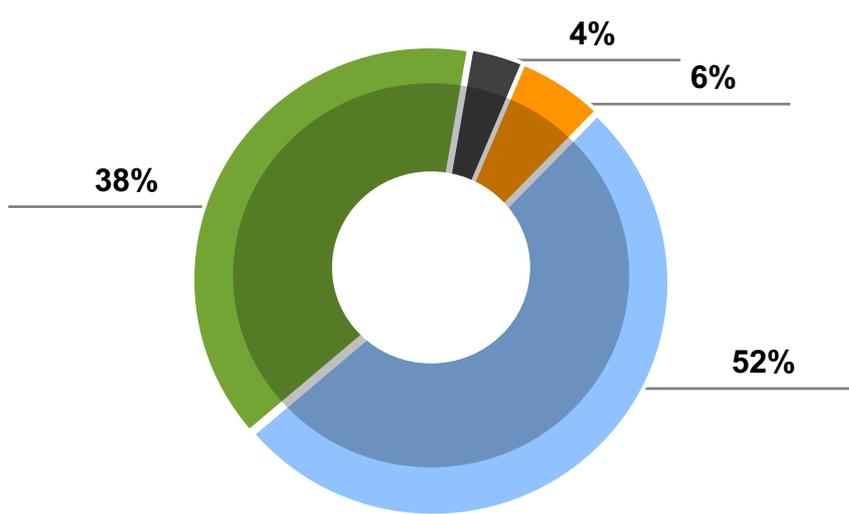
BCHD priorities are directly tied to health needs and disparities identified in the communities served

Beach Cities Health District has identified 4 health priorities for 2019-2022

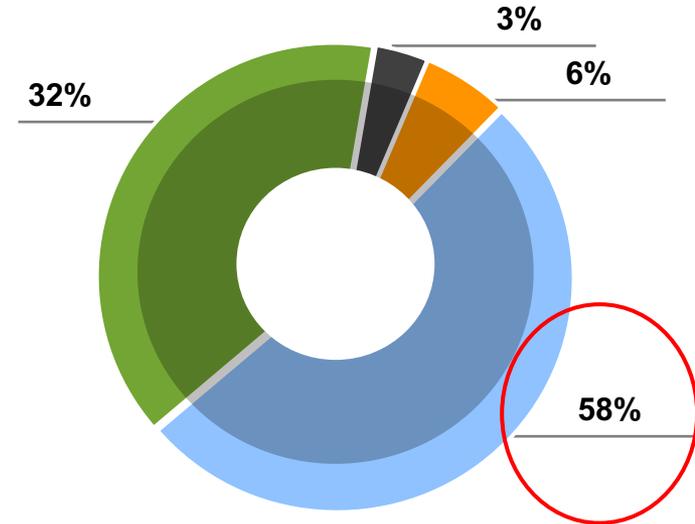


Within Behavioral Health category, Mental Health should be an area of focus due to local market demand

Behavioral Health by Select CARE Families
US Market, 2019



Behavioral Health by Select CARE Families
BCHD Service Area, 2019

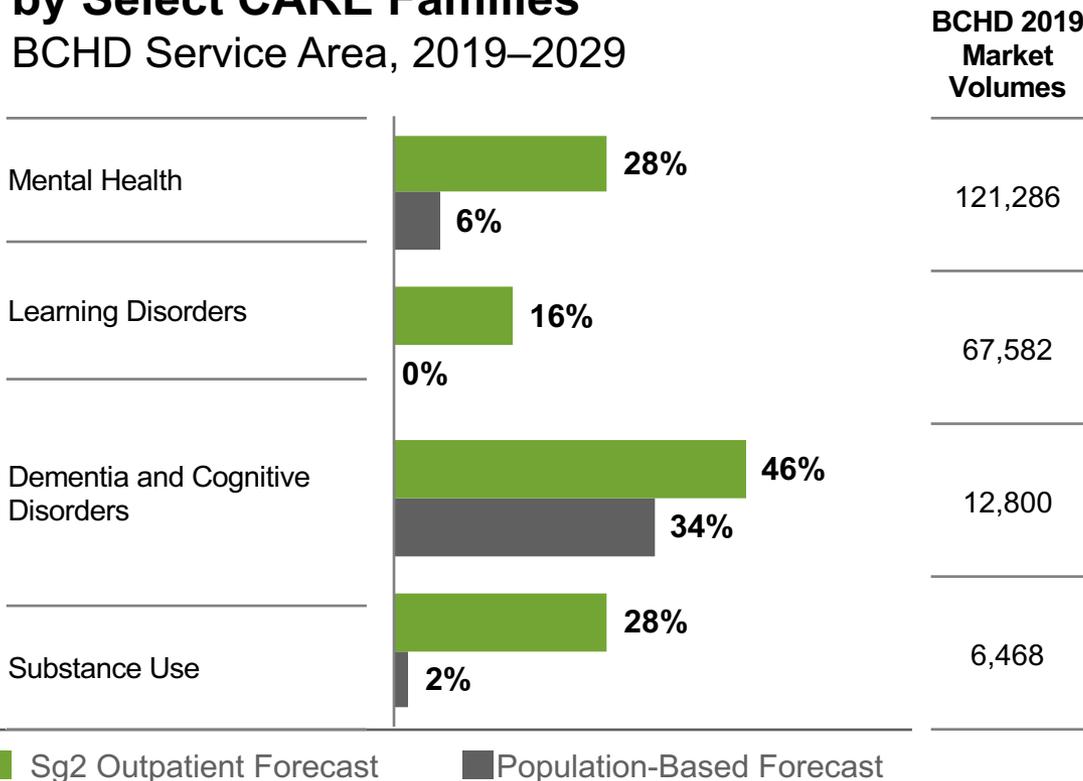


Notes: Percentages may not total to 100% due to rounding. Mental Health includes: Adjustment Disorders, Anxiety and Personality Disorders, Bipolar Disorder, Eating Disorders, Mood Disorders, Episodic and Persistent, Psychosis, and Trauma Related Disorders. Substance Use includes: Addiction/Chemical Dependency and Poisonings – Commonly Abused Drugs. Learning Disorders also include ADHD and autism. **Sources:** Impact of Change®, 2018; OptumInsight, 2016; The following 2016 CMS Limited Data Sets (LDS): Carrier, Denominator, Home Health Agency, Hospice, Outpatient, Skilled Nursing Facility; Claritas Health Insurance Estimates Derived for Sg2, 2019; Claritas Pop-Facts®, 2019; Sg2 Analysis, 2020 Service area provided by BCHD
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Strong growth across all areas within the Behavioral Health service line that interface with BCHD programs and services

Outpatient Behavioral Health Forecast by Select CARE Families

BCHD Service Area, 2019–2029



Within the Beach Cities service area, each CARE family demonstrates strong growth with the greatest demand occurring with **Dementia and Cognitive Disorders, Substance Abuse and Mental Health**

E&M = evaluation and management; neuropsych = neuropsychiatric. **Note:** Analysis includes all age groups and includes the behavioral health service line. Mental Health includes: Adjustment Disorders, Anxiety and Personality Disorders, Bipolar Disorder, Eating Disorders, Mood Disorders, Episodic and Persistent, Psychosis, and Trauma Related Disorders. Substance Use includes: Addiction/Chemical Dependency and Poisonings – Commonly Abused Drugs. Learning Disorders also include ADHD and autism. Residential treatment includes psychotherapy and addiction therapy. **Sources:** Market definition provided by BCHD and includes 90277, 90278, 90266, 90254. Impact of Change®, 2019; OptumInsight, 2017; The following 2017 CMS Limited Data Sets (LDS): Carrier, Denominator, Home Health Agency, Hospice, Outpatient, Skilled Nursing Facility; Claritas Pop-Facts®, 2019; Sg2 Analysis, 2020.

Current Programs & Services with a focus on Behavioral Health

Initiatives	Operating Characteristics	Open Questions
<p>School-based programs that cover:</p> <ul style="list-style-type: none"> • Social Emotional Learning • Substance Abuse Prevention <p><u>Reach:</u> 26,150 lives reached</p> <ul style="list-style-type: none"> • Live Well Tots and Kids <p><u>Reach:</u> 6,492 (792 Tots; 5,700 kids)</p> <p>Blue Zones Project <u>Reach:</u> 25,000 completed well-being pledges 125 designated restaurants</p> <p>Healthy Living Programs (Free) to include:</p> <ul style="list-style-type: none"> • Mindfulness • Purpose <p>Healthy Minds Initiative</p>	<p>Grant Revenue: \$47,315</p> <p>Drug Free Communities Grant \$125,000 per year (4 year renewal)</p> <p>Staffing Costs: \$2,140,016</p> <p>Operating Costs: \$57,530</p> <p>Other Costs: \$2,031,369</p> <p>HMI increase: \$50,000</p> <p>Total Lifespan Spend: -\$4,306,600*</p> <p>❖ Approximately 30% (-\$1,291,980) is directly related to “behavioral health initiatives”.</p> <p><i>*includes 1 year of drug free communities grant money</i></p>	<p>Can we become a provider in areas related to social-emotional health, substance abuse and cognitive health?</p> <p>What value do we offer to health systems in this space?</p> <p>Can we become a Center of Excellence?</p>

Note: Lifespan program and services revenue and costs are included in totals. Operating costs = program costs. Other costs include: total HR expenses, total information systems expenses, total community relations expenses, total facility expenses, total professional services expenses, and total funds and grants expenses. Programs included in lives reached = LiveWell, MindUP, Walking program, bike safety education, purpose series, project alert/second step for FY2017-2018. **Source:** BCHD FY19-20 Annual Report

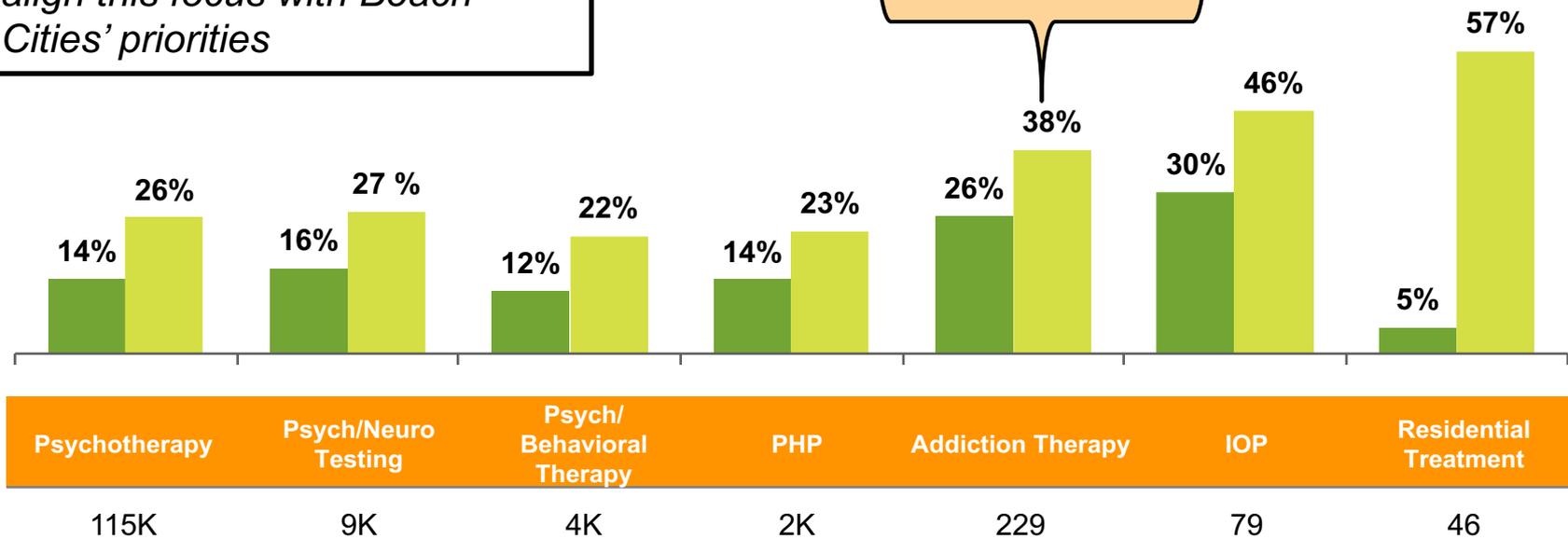
Low volume Behavioral Health visits exhibit largest growth opportunities

Behavioral Health Forecast by Procedures BCHD Service Area, 2019-2029

- 5-Year Sg2 Forecast
- 10-Year Sg2 Forecast

Behavioral Health: Expected growth in addiction therapy represents an opportunity to align this focus with Beach Cities' priorities

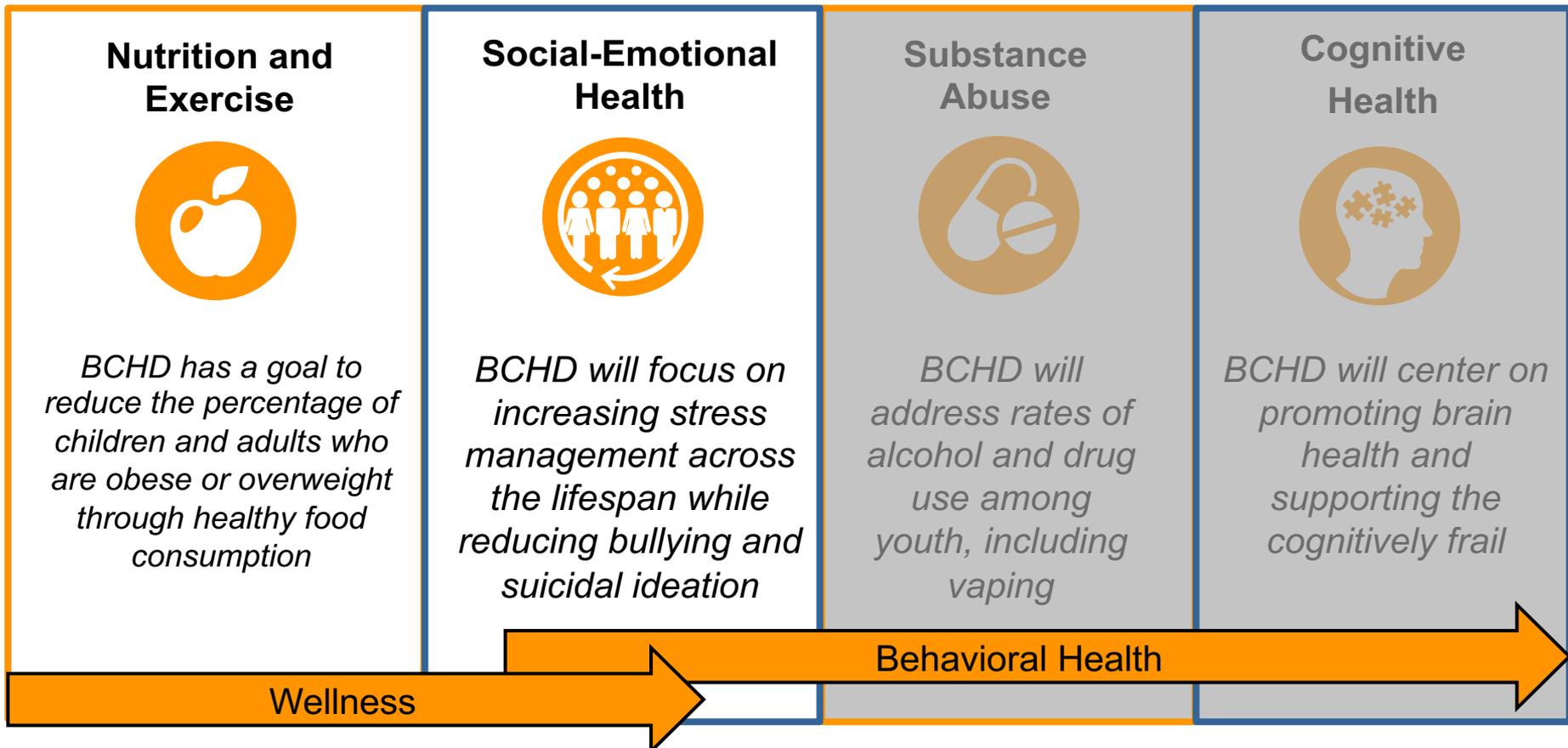
CPT Code	Reimbursement
G0396	Addiction Therapy ~\$30 per visit
G0397	
G0443	



Sources: Market definition provided by BCHD Impact of Change®, 2018; OptumInsight, 2016; The following 2016 CMS Limited Data Sets (LDS): Carrier, Denominator, Home Health Agency, Hospice, Outpatient, Skilled Nursing Facility; Claritas Health Insurance Estimates Derived for Sg2, 2018; Claritas Pop-Facts®, 2020; Sg2 Analysis, 2020. Confidential and Proprietary © 2020 Sg2

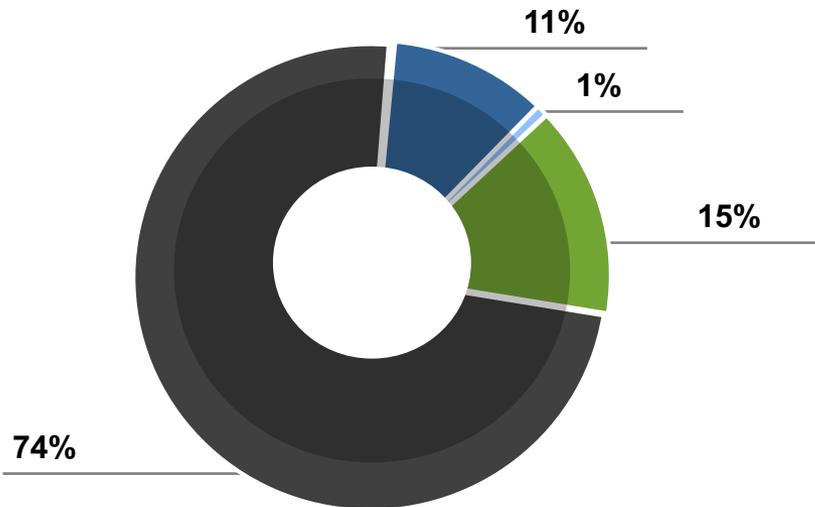
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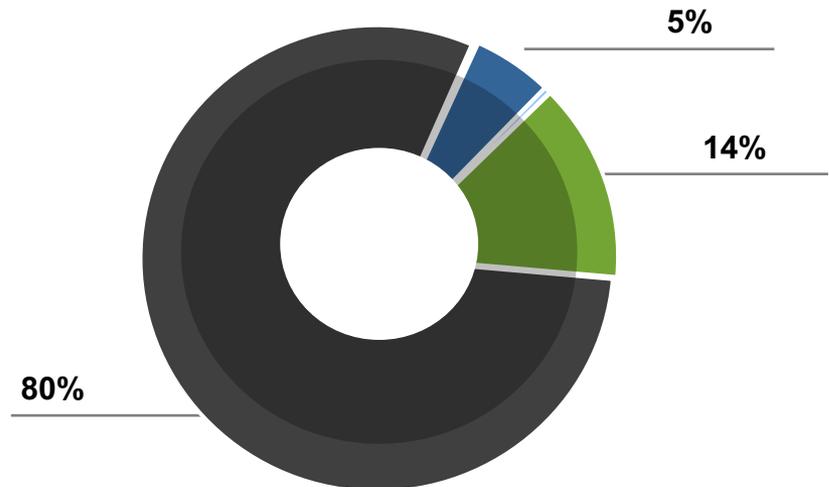


Aging population highlights volume of demand for physical and occupational therapy services for the community

Select Rehab Procedures
US Market, 2019



Select Rehab Procedures
BCHD Service Area, 2019



Notes: Percentages may not total to 100% due to rounding. All other includes: OT evaluation, PT evaluation, speech evaluation, speech/hearing therapy. **Sources:** Impact of Change®, 2018; OptumInsight, 2016; The following 2016 CMS Limited Data Sets (LDS): Carrier, Denominator, Home Health Agency, Hospice, Outpatient, Skilled Nursing Facility; Claritas Health Insurance Estimates Derived for Sg2, 2019; Claritas Pop-Facts®, 2019; Sg2 Analysis, 2020. Market definition provided by BCHD Confidential and Proprietary © 2020 Sg2

Cardiac rehabilitation and monitoring represents small overall volume but strong growth opportunity

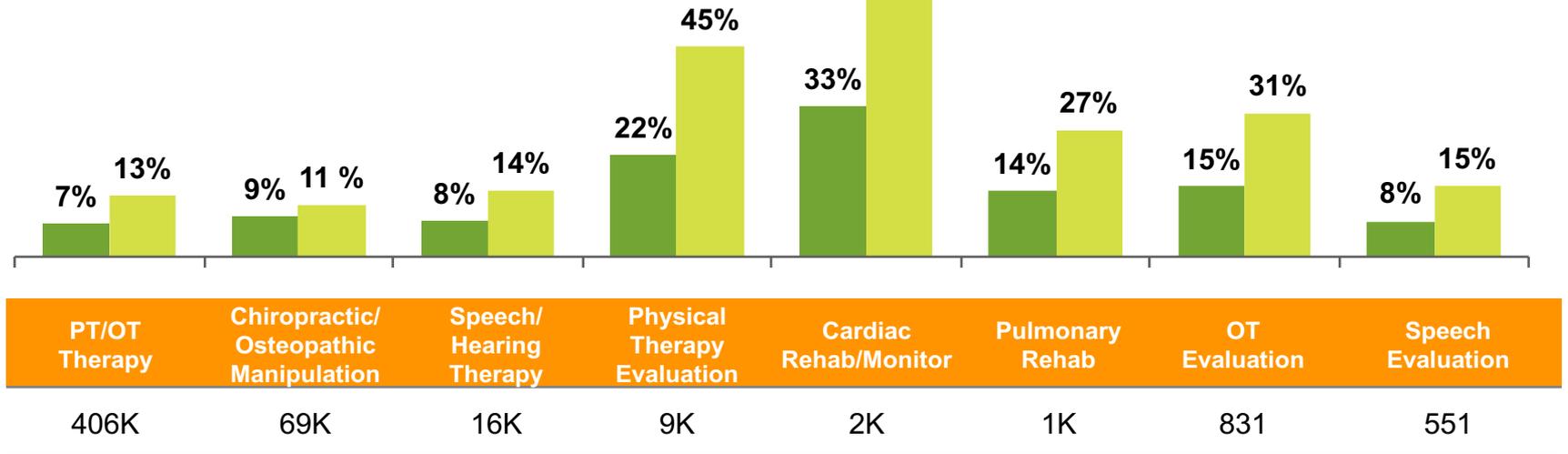
Outpatient Rehab Forecast by Procedures

BCHD Service Area, 2019-2029

■ 5-Year Sg2 Forecast
■ 10-Year Sg2 Forecast

Cardiac Rehab: Low volume and low margin business opportunity, but high impact and value for employers / payers if patient engages with healthcare provider

CPT Code	Reimbursement
93797	Level II Cardiac Rehab/Monitoring ~\$55 per visit
93798	
G0422	
G0423	



Sources: Market definition provided by BCHD Impact of Change®, 2018; OptumInsight, 2016; The following 2016 CMS Limited Data Sets (LDS): Carrier, Denominator, Home Health Agency, Hospice, Outpatient, Skilled Nursing Facility; Claritas Health Insurance Estimates Derived for Sg2, 2019; Claritas Pop-Facts®, 2019; Sg2 Analysis, 2020.

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Current Programs & Services with a focus on Wellness

Differentiated Program and Service	Operating Characteristics		Open Questions
<p>Center for Health and Fitness <u>Reach:</u> 17,814 lives</p> <p>Adventureplex Classes and Camps <u>Reach:</u> 37,601</p>	<p>Revenue:</p> <p>Staffing Costs:</p> <p>Operating Costs:</p> <p>Other Costs:</p> <p>Net Financial Impact:</p>	<p>\$2,994,398</p> <p>\$2,240,381</p> <p>\$158,656</p> <p>\$799,983</p> <p>-\$204,623</p>	<p>Can we become a platform to engage other partners with our reach in the community?</p> <p>Can we link outcomes attributed to our lives to cost savings?</p>

Note: Programs included in AdventurePlex reach includes: drop in play, class participants, birthday parties, and campers. Operating costs exclude administrative overhead allocation and direct marketing spend (approximately \$50). **Source:** BCHD FY19-20 Annual Report. Sg2 Analysis, 2020
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Market drivers impacting Healthy Living Campus transformation

Sg2 evaluated **medical office space** and **senior living** for growth and demand within the market

BCHD must earn profits from HLC lease rates and structure a capital partnership model to attract physician, health system and senior living organizations that view this campus as strategic or complementary to their business model objectives.

Current State

32% of BCHD revenues is attributed to lease arrangements at the current campus



Future State

Partnerships (including capital partner) and Lease arrangements to cover \$447M in costs for Phases 1-3

The current state demand for medical office space is high and supply is limited across the market



Total square footage for 19
MOB's=532,454 sq/ft



Total square footage of
vacancies =23,568 sq/ft



96% occupancy in the
BCHD service area

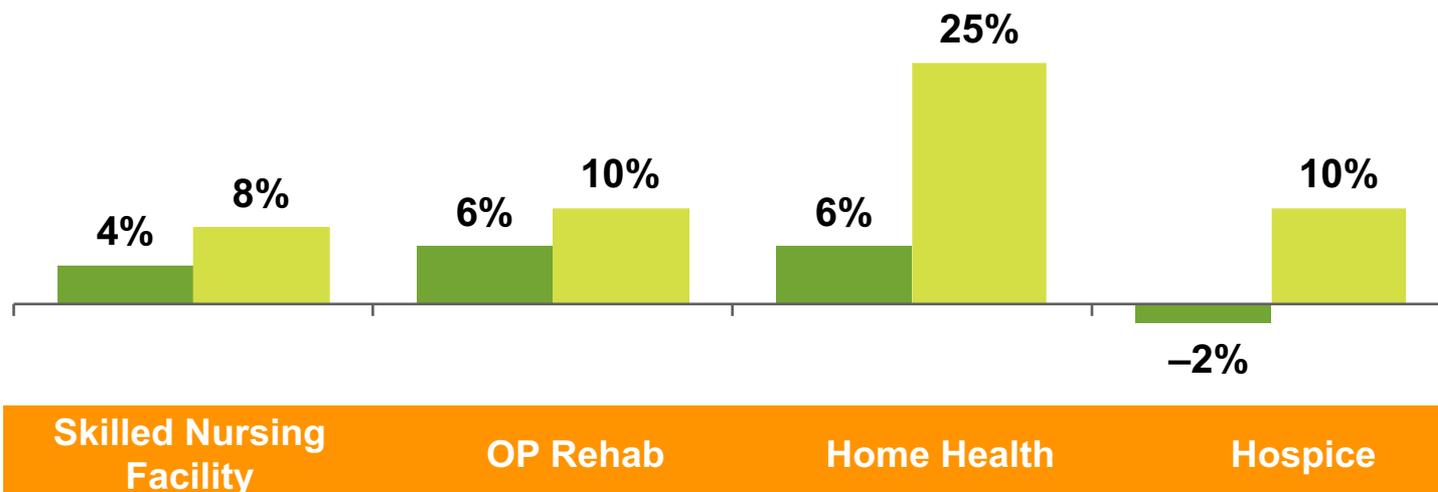
Sg2 Observation: Nationally physicians are increasingly employed by health systems, which have been consolidating ultimately narrowing the potential number of buyers for office space in the future



Policy Will Alter Mix of Post-Acute Care Sites

Growth by Post-Acute Sites of Care US Market, 2019–2029

■ 5-Year Sg2 Forecast
■ 10-Year Sg2 Forecast



**2019
Volumes**

**Skilled Nursing
Facility**

3.6M

OP Rehab

836M

Home Health

143M

Hospice

94K

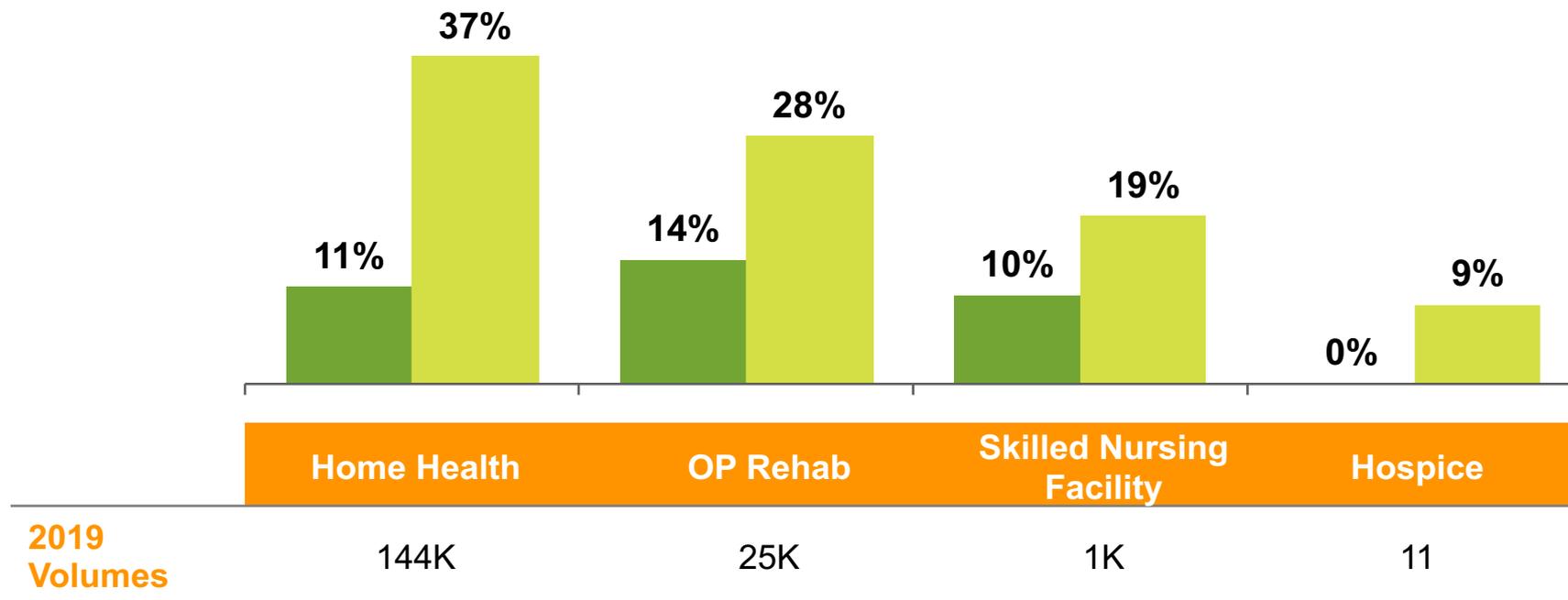
Note: Analysis excludes 0–17 age group. **Sources:** Impact of Change®, 2019; HCUP National Inpatient Sample (NIS). Healthcare Cost and Utilization Project (HCUP) 2016. Agency for Healthcare Research and Quality, Rockville, MD; OptumInsight, 2016; The following 2016 CMS Limited Data Sets (LDS): Carrier, Denominator, Home Health Agency, Hospice, Outpatient, Skilled Nursing Facility; Claritas Pop-Facts®, 2019; Sg2 Analysis, 2020.
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Compared to other Post-Acute Sites of Care, Home Health is expected to experience the greatest growth in the next 10 years

Growth by Post-Acute Sites of Care BCHD Service Area, 2019–2029

■ 5-Year Sg2 Forecast
■ 10-Year Sg2 Forecast



Note: Analysis excludes 0–17 age group. **Sources:** Impact of Change®, 2019; HCUP National Inpatient Sample (NIS), Healthcare Cost and Utilization Project (HCUP) 2016. Agency for Healthcare Research and Quality, Rockville, MD; OptumInsight, 2016; The following 2016 CMS Limited Data Sets (LDS): Carrier, Denominator, Home Health Agency, Hospice, Outpatient, Skilled Nursing Facility; Claritas Pop-Facts®, 2019; Sg2 Analysis, 2020.

Partnership opportunities with healthcare systems represent an opportunity for BCHD

Sg2 discussed partnership options with the following healthcare systems:

1. Providence

- Brad Byars, Chief Operating Officer
- Key takeaways: Interested in partnering with BCHD for future aging in place center and interested partnering to utilize BCHD's behavioral health network

2. Torrance Memorial

- Sally Eberhard, VP Planning & BD; Moe Gelbart, PhD, Executive Director, Thelma McMillen Recovery Center
- Key takeaways: Main opportunities are to preserve rental space at main campus and dialogue with Hospital and McMillen Center leadership around mental health services.

3. Kaiser Permanente

- Key takeaways: Interested in partnering with BCHD in various areas such as mental health and geriatrics

Providence/St. Joseph Health System

- Very engaged and interested in partnership with BCHD.
- Potential areas of collaboration include:
 - Center for Aging – education, nutrition, rehabilitation services, gerontology
 - Medical office space (additional)
 - ASC partnership
 - Wellness programs – TJR, post therapy, health/fitness
 - Bariatrics
 - Working directly with employers – large companies, schools, others
 - Population health management

Torrance Memorial Medical Center

- Status quo from a partnership standpoint, want to maintain current presence on campus but Cedars is viewed as the partner in strategy, physician deployment and population health management.
- Considerations for partnership discussions:
 - Expanding north of Manhattan Beach, new facility in El Segundo
 - BCHD location is not ideally accessible given traffic/travel time to Torrance (ex. relocation of the cancer center)
 - Mental health has a service gap in the South Bay. Private sector has been “sluggish” to meet the need and access is suboptimal
 - McMillen Center could be a partnership opportunity and the foundation may be open to funding a specific service offering addressing Mental Health
 - Bariatrics is a small opportunity and would be a self pay service

Kaiser Permanente

- 250K members in the region and BCHD represents 12% of service their service area.
- Have had high level discussions with BCHD recently. KP is positive and optimistic about the relationship and is interested in partnering further.
- Not likely that KP would participate as part of the master campus redevelopment (as a partner nor anchor tenant). Have MOB in Manhattan Beach and see developing sites on their own.
- Potential areas of collaboration include:
 - Mental Health – broadly for adults and teens (e.g. interventions).
 - Geriatrics (have had some collaboration to date)
 - Shared IT linkages to enhance referral opportunities (struggles to share information)
 - Collaborate on health offerings
 - Developing community-based models that could be rolled out to other communities/markets

Model to offset BCHD operating costs would require directly impacting cost per patient per year metrics

- Accountable Care Organizations are a way for healthcare providers to decrease costs for patients, share risk and provide better coordinated care
- At the center, the patient seeks out care from his primary care provider
- If other health services are needed, then care is coordinated between the other providers / locations
- At the end of a demonstration year, measures and outcomes are tracked to see where savings occurred, and each stakeholder receives a certain amount of the shared savings amount



Opportunity: BCHD could earn shared savings or PMPM fees attributed to participation in ACOs with health systems

Navigating The Health Ecosystem



SWOT Analysis Considering BCHD Programs and Services

Strengths

- Center of Excellence programs in place (e.g. LiveWell Kids)
- Community awareness and engagement
- Blue Zones project demonstrates ability to create measurable results
- Willingness to embrace change and innovation across Board, Leadership and Staff
- Culture and passion of staff and volunteers
- Assets (Land) contributing to strong balance sheet, investment income and sources of revenue

Weaknesses

- Operating income from core-services after tax revenue to fund complete campus transformation
- Behavioral health and wellness services do not represent attractive fee for service offerings
- Align BCHD master plan future phases (II and III) with existing or new revenue streams.
- IT – unsophisticated and fragmented systems

Opportunities

- Attract new sources of funding (fundraising and grants)
- Contract with health systems for measurable community health improvement to generate incremental revenue
- Engage insurance companies, businesses and government to fund activities that impact residents and cost of care
- Position BCHD as Community “Health Navigator” – resource, access to technology, bridge to services, chronic condition management
- Consulting – “scalable solutions” for other communities
- Possible re-purposing or re-allocation of assets (e.g. Adventure Plex)
- IT partnerships

Threats

- To utilize most valuable assets (land) for sub-optimal purposes, threatening long-term financial position of BCHD
- Reliance on grants and government programs (stroke of pen risk)
- Disruptors
- Ability to “replace” existing revenue (e.g. 514 Building) as needed
- Balancing Mission with need for revenue growth (“We are not a for-profit”)

Phase 1 to Phase 2 Transition



*Areas of investment that will be necessary to support strategic direction include:
HLC planning, technology and partnerships*

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