



**San Benito Healthcare District
d/b/a Hazel Hawkins Memorial Hospital**

February 2024

OUR FIRM



Has been a thought leader for more than 22 years.



Views each client as a partner.



Serves clients in all 50 states and worldwide.



Works with more than 3,700 clients nationwide.



Engages in more than 10,000 healthcare valuation and consulting projects annually.



Located across 8 offices with 85+ team members.



Drives innovation by consistently offering new services and products.

Our Team



Nicholas J. Janiga, ASA - Partner
njaniga@hcfmv.com

Nicholas J. Janiga, ASA - Partner

Mr. Janiga is a partner in HealthCare Appraisers' Denver office, where he co-leads the firm's business valuation and capital equipment valuation service lines. He has been providing his clients analysis and consultation in business valuation, litigation support, intellectual property, and healthcare provider compensation relationships since 2006. His experience includes working with healthcare organizations, attorneys, administrators, providers, developers, consultants, investment bankers, and private equity groups in connection with a broad spectrum of transactions in the healthcare industry. Many of the transactions he analyzes involve Stark, Anti-Kickback, IRC 501(c)(3), and other regulatory implications, which requires analysis of fair market value and the determination of commercial reasonableness.



Jeffrey A. Piehl, MAI - Partner
jpiehl@hcfmv.com

Jeffrey A. Piehl, MAI - Partner

Mr. Piehl, a Partner in the Denver office, leads the Real Estate Valuation Service Line at HealthCare Appraisers. A 25-year real estate veteran, he has been active in the valuation and consultation of healthcare-related real estate since 1995, including the valuation and consultation of over 5,000 medical office and healthcare-related properties on a national basis. Mr. Piehl also performs national Fair Market Value ("FMV") work for numerous national and regional healthcare systems, with facilities located in both urban and rural markets. In addition, Mr. Piehl is also active with healthcare systems and property owners regarding asset selection for acquisitions/dispositions as well as site selection for new medical office placement and rental rate disputes.

Our Team



Jeffrey Doyle, ASA - Director
jdoyle@hcfmv.com

Jeffrey Doyle, ASA - Director

Mr. Doyle is a Director in the Detroit office. Doyle has nineteen years of fixed asset valuation experience. He focuses on the valuation of equipment associated with various types of healthcare facilities including hospitals, family care, OB/GYN, endocrinology, urology, oncology, orthopedic, physical therapy, and ophthalmology physician practices, general and specialty surgical centers, laboratory, and multi-modality imaging centers.

Prior to joining HealthCare Appraisers, Doyle served as a Senior Associate at BDO USA LLP's Valuation Advisors Fixed Asset Group in Chicago, Illinois. He also has served as a Manager at KPMG LLP's Economic Valuation Services Group in Detroit, Michigan and as a Senior Associate at Duff & Phelps LLC in Novi, Michigan, where he managed and performed fixed asset valuations for financial reporting purposes, property tax, and lease transactions in a variety of different industries.



Matthew J. Muller, ASA - Director
mmuller@hcfmv.com

Matthew J. Muller, ASA – Director

Mr. Muller is a Director in HealthCare Appraisers' Denver office, where he has been providing his clients analysis and consultation in business valuation, intellectual property, litigation support, and healthcare provider compensation relationships since 2010. His experience includes working with healthcare organizations, attorneys, administrators, providers, developers, consultants, investment bankers, and private equity groups in connection with transactions in the healthcare industry.

Mr. Muller is an Accredited Senior Appraiser (ASA) in Business Valuation through the American Society of Appraisers and is a Board member and former President for Denver Chapter 12 of Region 4 of the American Society of Appraisers. In 2019 he was recognized by the American Society of Appraisers as a Rising Star in the industry, and in 2022 as Chapter Member of the Year. He holds a Bachelor of Business Administration from the Seidman College of Business at Grand Valley State University.

Valuation Summary

	FMV Low	FMV High
Income Approach – Capitalization of Earnings Method	<i>Considered, but Not Relied Upon</i>	
Market Approach – Comparable Transaction Method – Irving Levin	\$50,427,000	\$57,630,000
Asset Approach – Adjusted Net Asset Method	\$55,310,000	\$61,131,000
Concluded Fair Market Value of the <u>Acquired Assets</u> of San Benito Healthcare District d/b/a Hazel Hawkins Memorial Hospital as of October 31, 2023*	\$55,310,000	\$61,131,000

**The concluded fair market value excludes the value of all cash and cash equivalents, debt liabilities, pension related assets and liabilities, and all leases. Additionally, certain working capital accounts were adjusted based upon review of the asset registry to remove non-transferable working capital. These assumptions were based upon representations from Robert Miller, of Hooper, Lundy & Bookman, P.C., counsel for the District.*

Asset Approach

	Fair Market Value - Midpoint	
Non-Cash Working Capital	\$7,442,000	
Plus: FMV of Capital Assets (Excluding SNFs)	11,550,000	Ref. Slide 13
Plus: FMV of Real Estate (Excluding SNFs)	42,425,000	Ref. Slide 8
Plus: FMV of Skilled Nursing Facilities	13,910,000	Ref. Slide 9
Plus: FMV of Intangibles (Licenses, Workforce) (Excluding SNFs)	2,300,000	Ref. Slide 15 and 16
Indicated Market Value of Invested Capital	\$77,627,000	
Less: Net Debt	\$0	
Indicated Market Value of Acquired Assets (Rounded)	\$77,627,000	Prior to Secondary Discounts
Discount for Lack of Marketability/Liquidity	25%	Ref. Slide 17
Indicated Market Value of Acquired Assets (Rounded)	\$58,220,000	After Secondary Discounts

Market Approach

Transaction Data Summary*	Beds	Revenue	Price/Revenue
10th Percentile	25	\$12,051,108	0.11x
25th Percentile	50	30,254,167	0.29x
Median	125	110,830,935	0.49x
75th Percentile	279	246,003,036	0.88x
90th Percentile	687	638,767,812	1.35x

Application to San Benito Healthcare District d/b/a Hazel Hawkins Memorial Hospital	Low	High
FY 2024 Budget Revenue	\$144,075,784	\$144,075,784
Selected Multiples	0.35x	0.40x
Indicated Value of Invested Capital (Rounded)	\$50,427,000	\$57,630,000

*Our search focused on critical access hospitals, acute care hospitals, and distressed hospitals since 2015.

Valuation Summary – Real Estate – Hospital

Property	FMV
Hospital	\$40,800,000
First Street MOB	\$825,000
San Juan Road MOB	\$800,000
Total	\$42,425,000

Valuation Summary – SNFs

Property	FMV
Mabie SNF – Overall	\$7,020,000
Real Property	\$6,090,000
FF&E	\$180,000
Business Value	\$750,000
Mabie Northside SNF - Overall	\$6,890,000
Real Property	\$5,060,000
FF&E	\$250,000
Business Value	\$1,580,000
Total SNF Value	\$13,910,000

Real Estate Considerations

Cost Approach - Hospital

- Economic Life: 50 years
- Effective Age for Subject Hospital: 31 years
 - Based on inspection
 - Document review
 - Comparison to other hospitals
 - Subject has newer ASC / ED / and Womens Center Facility (12 – 17 Yr Effective Age)
 - Older / Obsolete Hospital Physical Plant – (47 – Yr Effective Age)
 - Most Likely Demolish in short to mid-term
- ***Total Physical Depreciation 67.3%***
- Methodology
 - Replacement Cost New
 - *Less:* Physical Depreciation
 - *Plus:* Land Value
 - *Equals:* Indicated Value under the Cost Approach

Real Estate Considerations

Sales Comparison Approach

- Review Comparable Sales to which we make Transaction Related Adjustments and Property Specific Adjustments.
- **Transaction Adjustments**
 - Real Property Rights Conveyed
 - Financing Terms
 - Condition of Sale
 - Expenditures after Sale
 - Market Conditions (Time)
- **Property Adjustments**
 - Location
 - Building Size
 - Age & Condition
 - Utility (e.g., Loss factor, quality of construction, site size)
 - Economics
 - Other deal specific adjustments

Real Estate Considerations

Income Capitalization Approach

- Rental Rate and Capitalization Rates implicitly factor in the condition of a property.
 - Market data comes from:
 - Discussions with leasing/sales brokers
 - Comparable leases in the area
 - First Street & San Juan MOBs - Central Valley / North Central Coast Data
 - Hospital / ASC / ED - National Data
 - Administrative/Support Services Facility – Local Data
 - Capitalization rates utilized in our analysis range from 8.00% to 9.00%

Valuation Summary – Capital Assets - Hospital

Asset Classification	Fair Market Value Installed
Medical Equipment	\$8,019,080
Computer Equipment	469,940
Furniture and Fixtures	879,940
Office Equipment	457,875
Software	575,580
Kitchen Equipment	65,600
Leasehold Improvements	1,069,930
Vehicles	9,910
Grand Total (Rounded)	\$11,550,000

*For purposes of this analysis, we relied on the Cost and Market Approach to value the Subject Assets.

Capital Asset Considerations

- HAI used the fixed asset depreciation schedule as of the Valuation Date, as the starting point for the Capital Asset appraisal.
- HAI recorded make and model for major assets during the site inspection.
- HAI identified ghost assets and excluded them from the analysis during the site inspection.

Valuation Summary – Hospital’s License*

- Utilized the With and Without Method to value HHMH’s license
 - Scenario 1 – “With License”
 - No cost to obtain a new license
 - Time saving associated with being able to operate immediately, without having to go through the license approval process.
 - Scenario 2 – “Without License”
 - Estimate total costs to obtain a new license
 - Factor in the higher risk associated with these cash flows given the uncertainty of a potential licensee being approved
 - Greater discounting periods given the delay of cash flows for the license approval process
- The difference in the present value of cash flows under the two scenarios establishes the value of the license.

*HHMH’s license value excludes the value of the SNF licenses, which were incorporated into the overall SNF value.

Valuation Summary - Workforce

- Workforce valuation is based on the premise that for a potential buyer to re-create the business it must hire and train a similar workforce and the hiring/training process has identifiable costs – recruitment, training, orientation, lost salary
- Determination of workforce value was estimated using average costs for recruiting and training based upon wages and benefits of current employees
 - Considered potential for ongoing turnover so an obsolescence factor was applied
- An adjustment was performed to remove the value attributable to the skilled nursing staff
 - The SNF workforce was valued in the overall SNF valuation

Discount for Lack of Marketability/Liquidity

- Marketability is the degree to which an asset, business, business ownership interest, or security can be quickly converted into cash at minimal cost.
- Therefore, a discount for lack of marketability is applied given the inability of an owner of an entire business enterprise to convert their investment into cash quickly and at a reasonably low and predictable cost.
- Risk consideration includes uncertain outlook of the financial condition of the operating business and capacity for distributions to owners.
- Transactional considerations include:
 - Uncertain time horizon to complete the offering or sale, Cost to prepare for and execute the offering or sale, Risk concerning eventual sale price

Disclaimers

Our report is based on historical and prospective financial information which we have been provided in good faith during the course of our engagement. We have not audited or otherwise reviewed this information for accuracy. Had we done so, matters may have come to our attention which could have materially affected our analysis. Accordingly, we hereby disclaim responsibility for the underlying data presented in this report.

None of the partners or employees of HealthCare Appraisers, Inc. have a present or contemplated financial interest in any of the parties referenced herein, or any other interest that might prevent us from arriving at a fair and unbiased opinion of value. Our fees for this valuation are based upon our normal hourly billing rates, and are in no way contingent upon the results of our findings.

This report is based upon information that was available as of the date of the appraisal. We have no responsibility to update this report for events and circumstances occurring subsequent to the date of this report. Furthermore, business valuations are based on estimated future earnings that may or may not materialize. The actual results achieved during the projection period will likely vary from the projections used in this valuation, and the variations may be material.



Thank You