This is a draft of The Telluride Hospital District’s business plan for the design, programming, funding and development of a new regional medical facility that will meet our community’s rapidly growing medical needs for the next 30+ years.

This business plan focuses on the need for a facility, additional services that may be provided in that facility, how the structure will look and function and how what financial impact this may have on the future business performance of the Telluride Medical Center.
Table of Contents

A Guide for Residents and Taxpayers
- Summary ................................................................. 3
- Scope of Services ..................................................... 4
- Functional Program and Capital Budget ....................... 6
- Funding Strategies ................................................... 9
- Process/Schedule .................................................... 9
- Risk Assessment ..................................................... 9
- Medical Helipad ...................................................... 10

Securing the Future of Healthcare in the Region
- Our Existing Medical Center ..................................... 11
- The Case for a New Medical Center ............................. 12
- Capacity and Critical Access Designation ...................... 13
- Land for a Permanent Home ...................................... 15
- Developing Conceptual Plans for a New Medical Center .... 16
- Planning for Future Growth and Expansion ................... 17

Appendices
- Regional Healthcare Needs ......................................... 20
- Primary Healthcare Service Area ................................. 21
- Healthcare Trends .................................................... 23
- TMC Healthcare Services ........................................... 26
- Public Outreach Activities .......................................... 29
- Management and Legal Structure ................................. 31
- Financial Data .......................................................... 33
- Phase One Conceptual Design ..................................... 46
After years of negotiations, vetting, evaluations, elections and occasional controversy, the Telluride Hospital District announced in November 2014 the future site for a new regional medical center will be in Mountain Village —located behind The Market at Mountain Village and Mountain Village Town Hall.

The Telluride Hospital District will require regional and community support in all phases of planning, funding and building of the facility. This business plan describes the justification, process, methods and strategies to both engage the public and see the project through to fruition.

**Why a new facility? Why now?**

With an eye on the dwindling number of suitable lots in the region, and a building lease with an expiration date, Telluride Hospital District representatives began the course of identifying a new location for the Telluride Medical Center (TMC) in 2006.

**TMC’s growth is unprecedented.** The need for a new facility is multidimensional. From 2011 - 2014, patient visits in the Emergency Department grew from 2,995 to 3,526 per year, a 17% increase (an average of 5.6% annually). During the same period, patient visits in Primary Care grew from 11,876 to 14,999 per year, an increase of 26% (an average of 8.7% annually). And the growth has not stopped. First quarter 2015 over 2014, saw the average growth for the Primary Care and the Emergency Department increase by 19%.

Additionally, outstanding medical specialists from the region visit TMC regularly to see approximately 1,800 patients per year in Telluride, an average of 150 patient visits per month.

**Bursting at the seams.** To meet growing demands while still operating within the current facility, TMC has added new staff, extended visiting hours, created a makeshift exam room out of the conference room and moved administration across town to create additional Primary Care exam rooms.

**The current facility does not meet current codes.** Since 1978, TMC’s home has been a 10,000 square foot remodeled residential building, built in the 1960s, on land Telluride Hospital District does not own. The building was not intended for use as a medical facility. The codes to which the facility was built to are outdated. To bring the building to code, the facility would require expansion to approximately 20,000 sq. ft., (according to Mahlum Architects) without adding any patient care capacity or room for future growth.

**A Critical Access Hospital for the region.** Once licensed as a Critical Access Hospital (CAH) the Telluride Hospital District will be able to offer services which can and should be provided on a locally. CAH designation will provide significant
financial advantages (larger net revenue) such as facility fees and standby fees for the ER, provider fees, reimbursement based upon costs actually incurred, swing-bed reimbursement as well as lower cost for prescription drugs under the U.S federal government’s 340B Drug Discount Program.

Currently at TMC, Emergency Services are reimbursed at urgent care rates, by some insurers, because TMC is not recognized as a CAH. The current facility CANNOT be licensed as a CAH due to code limitations. We believe this to be critical in justifying the community’s need for a new medical facility. Without CAH designation, TMC is at risk for continually degrading financial performance in the future.

**Future Service Delivery.** The new regional medical center will provide space that can be modified to accommodate additional medical services in the future, as well as shelled space for planned growth. It’s expected the region’s home for health care will provide more than Emergency, Primary Care, and Specialty services.

**TMC is Financially Fit.** Renowned for an trusted medical staff and state-of-the-art medical equipment, TMC boasts a well-earned reputation for high quality medical care. Aside from the limitations of the current facility, TMC is in an excellent position to continue meeting the primary care and emergency needs of the community. As such, TMC is a financially viable operation with financial reserves.

**Scope of Services**
- The ability for Primary Care, Emergency Services and visiting specialists to see more patients as growth demands.
- Expanded outpatient services, offered in a new procedure room that can be used by visiting specialists and emergency physicians for minor surgery and colonoscopies.
- Procedure room can be upgraded to accommodate full surgical operating suite in the future.
- Two overnight hospital rooms for patients who either do not need to be transferred to regional hospitals or desire a Telluride recovery option after a hospital stay elsewhere. These rooms can also be utilized during peak demand periods.
- Additional imaging and laboratory equipment to enhance on site diagnostic capability. This may include equipment for MRI, mammography and bone density scans.
- A helipad adjacent to the emergency room will allow patients to be more quickly and safely transported to regional medical centers with greater capacity to deal with medical crises.

**Functional Program and Capital Budget**
Telluride Hospital District architects and clinical staff have generated a functional plan outlining the necessary programs and square footage of a new facility. This
The plan outlines the necessary square footage for the growth in current services as well as anticipated expansion of services.

<table>
<thead>
<tr>
<th></th>
<th>Current Facility</th>
<th>Expanded Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated Square Feet</td>
<td>10,000 SF</td>
<td>29,000 - 40,000 SF. (Includes shelled space)</td>
</tr>
<tr>
<td>Shelled space for future expansion or other uses</td>
<td>0</td>
<td>4,700 – 8,800 SF</td>
</tr>
<tr>
<td>Primary Care examination rooms</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>Visiting Specialist examination rooms</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Primary Care treatment Room</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Emergency beds</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>ER Trauma rooms</td>
<td>1 (2 beds)</td>
<td>1 (2 beds)</td>
</tr>
<tr>
<td>Lab</td>
<td>Basic</td>
<td>Expanded for CAH</td>
</tr>
<tr>
<td>Hospital beds</td>
<td>Not code compliant</td>
<td>2</td>
</tr>
<tr>
<td>X-ray room</td>
<td>1 plus 1 Mobile Unit</td>
<td>1 plus 1 Mobile Unit</td>
</tr>
<tr>
<td>CT room</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Urgent Care examination rooms</td>
<td>No</td>
<td>2 Rooms</td>
</tr>
<tr>
<td>Surgical procedure room</td>
<td>No, not code compliant</td>
<td>Yes, can be upgraded to a full Operating Room</td>
</tr>
<tr>
<td>MRI Room</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Mammography Room</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Bone Densitometry Room</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Expansion space on grade for additional building</td>
<td>No</td>
<td>Yes (10k SF)</td>
</tr>
</tbody>
</table>

The capital budget is included in Appendix 7.

The Telluride Hospital District Board has approved the Expanded Services plan of 40,000 SF citing its ability to position the Hospital District to provide for the community’s medical needs for generations to come.
The approved plan includes the “maximum shelled” space for future development. A possible General Obligation Bond of “up to” $19.6 million will need to be augmented with other funds to pay for the building. As funds become available, new services can be added to the existing building base cost as shown below.

Projected base cost for the new facility built with the maximum-shelled space (40,000 SF) for future growth and additional services is estimated at $21.4M.

Additional services including MRI, Dexa, Mammo, Urgent Care can be added for an additional 4.3M.

Financial Implications Of New Services
Securing the financial viability of TMC is one aim of the new facility. While the capital to design and construct the new facility will be substantial, the operating income improvements are commensurate and justify the investment. Moreover, the new facility and expanded services sets the stage for a financially healthy medical facility for the foreseeable future.

The most significant financial impact comes with qualifying as a Critical Access Hospital, which changes the federal reimbursement mechanisms for services provided; ensuring costs are covered by Medicare and Medicaid and creating a stable financial base for the addition of new services.

Proposed new services and their financial impact are as follows:

<table>
<thead>
<tr>
<th>New Service</th>
<th>Projected annual average improvement to operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base improvement from achieving CAH designation and increased capacity resulting from a more efficient facility</td>
<td>$335,000</td>
</tr>
<tr>
<td>Addition of MRI scanner</td>
<td>$275,000</td>
</tr>
<tr>
<td>Addition of bone densitometry imaging, mammography, and Urgent Care services</td>
<td>$190,000</td>
</tr>
<tr>
<td>Improvement from adding all the above</td>
<td>$800,000</td>
</tr>
</tbody>
</table>

Funding Strategies
Initial cost estimates for the new facility range between $20-$25M. The Telluride Hospital District is currently examining several different options for funding the new facility, furniture, fixtures and equipment including general obligation bonds, revenue bonds, Certificates of Participation, federal grants, USDA loans, private equity and philanthropy. The Telluride Hospital District Board will look to a combination of these instruments, and will continue to explore the most viable funding options. While Telluride Hospital District Board has not decided on exactly
which funding mechanisms will be used, one thing is certain: philanthropic support will play a significant role in the funding model for the new facility. The effort to greatly improve health care delivery for our region for generations to come will rely heavily on generous philanthropic investments from the local community.

Process & Schedule

**May 2015:** Conceptual design, Helipad permit and business model

**June 2015:** Funding model and delivery method completed

**June 2015:** Architectural firm, owner’s representative and underwriter selected

**October 2105:** Philanthropy feasibility study and wetlands mitigation plan approval

**April 2016 or 2017:** Detailed design, specific costing and selection of contractor completed

**April 2016 or 2017 through September 2017 or 2018:** Construction of new facility begins

**October 2017 or 2018:** Opening Date

Risk Assessment
The following represents the Telluride Hospital District Board’s initial risk assessment in this endeavor, along with our proposed mitigation of those risks:

1. **Critical Access Hospital Qualification** Designation as a Critical Access Hospital (CAH) is important in terms of financial health as well as expanding services. The facility will be designed to qualify for CAH designation with minimal capital investment. The risk is that the Telluride Hospital District may not receive approval as a CAH, or even if it does, the federal program may change in ways that make the financial benefits less compelling.

2. **Fluctuations in Patient Needs** The estimated primary care patient visits for the new facility are very conservative. If for some reason the patient visit forecast is not realized at the pace expected, the operating staff can be flexed to respond to those fluctuations, much like it currently does for low season trends.

3. **Vacant Space** The design of the new medical center will include risk for “shelled space” other than small areas for planned growth. The facility’s shelled space will only be developed under a “developer” or “partner” model, leaving the risk of unused finished space with that developer or partner, not the Telluride Hospital District.

4. **Health Reform Impacts** The projected impacts of health reform and changes in the healthcare industry are actually easier to accommodate with
a new facility, as there will be an increased emphasis on operating efficiency, preventive care, primary care, and health-based initiatives.

5. **Funding** The cost of a new modern regional medical center is modest when compared to other communities. The success depends on voter approval of public funds, community philanthropy as well as grants.

**Medical Heliport** At the current facility, where there is no heliport on site, when it’s determined that a critically ill patient needs to be transferred to another facility, the patient in TMC care must be transferred from TMC’s Emergency Department to Emergency Medical Services only to be transferred once again from an ambulance to a helicopter.

Each transfer takes between 5-15 minutes and the ride to the airport can take up to 18 minutes.

The patient being transferred is likely connected to any number of IV lines, nasal gastric tubes, cardiac monitors, chest tubes, medication drips, endotracheal tubes (when machines are required for breathing), urinary catheters, cervical collars, etc. and must be converted from TMC equipment to EMS equipment before the trek to the airport.

Once at the Telluride Regional Airport, the patient then undergoes another transfer to the flight crew’s stretcher and equipment.

With each transfer from one stretcher to another there is an increased possibility of dislodging one of the life-saving components. Each transfer also heightens the risk of negatively affecting the patient’s condition, as in the case of a broken neck or fractured limbs.

After the initial transfer from TMC the patient loses the benefit of the Emergency Department doctors, nurses and equipment and instead receives critical care in an ambulance or on an airport tarmac, sometimes at night.

A medical heliport adjacent to the new regional medical center means critically ill patients would remain in Emergency Department care continuously. Once a helicopter has landed on the medical heliport the flight crew would bring their stretcher to the ER and the patient would be transferred once, under the watchful eye of Emergency Department staff, in a controlled setting, before being rolled on a stretcher directly to the awaiting aircraft.

When minutes matter, a medical heliport will save lives.

The new facility’s medical helipad will be located on a portion of the top level of the Gondola Parking Garage, within a perpetual easement granted to the Telluride Hospital District by the Town of Mountain Village.
Securing the Future of Healthcare in the Region

Existing Medical Center
The current medical facility encompasses approximately 10,000 SF and is centrally located in the Town of Telluride. Access to the medical facility is via town bus, free gondola service, motor vehicle and by walking. There is no medical heliport for critical emergencies and the TMC has limited room for emergency vehicles and parking.

During 2013 and 2014, both primary care and emergency care rooms were completely full on numerous occasions and Primary Care was forced to turn away or transfer patients to the Emergency Department.

TMC does not own the building or the land. The land is owned by the Idarado Mining Company and leased for a nominal sum.

TMC subleases the building from the Town of Telluride at no additional cost although TMC must pay property taxes. The lease on the land and building expires in 2032. As a condition of maintaining the facility lease, TMC is required to provide both primary care and emergency services concurrently at the current site.

While the low financial cost of TMC’s facility has been an advantage, the antiquated functional space has now become a major constraint to effectively serving the community’s and region’s healthcare needs.

The facility was originally built as a private residence in the 1960’s. Over the years, several additions were made to try to accommodate the growth in the region. By 2007, the combination of growth in patient volume at TMC, the aging and poorly built existing structure, the inadequate facility size, and the booming local economy led the Telluride Hospital District Board to pursue a strategy to build a new facility in the Town of Telluride. However, the economy collapsed before voters were able to decide on the bond issue in November 2008, and as a result, TMC was left without either the land in the Town of Telluride or funding to build a new facility.
Despite the depressed economy, the overcrowded situation in TMC’s emergency room did not cease. The Telluride Hospital District Board concluded that the only feasible option was to remodel the emergency department to make better use of existing space. This project was extremely successful. It was completed on schedule and below budget before the start of the 2010/2011 ski season.

**The Case For A New Medical Center**

A steady growth in the number of primary care and emergency room visits catalyzed a need to expand clinical space in the Telluride Medical Center. [See Exhibit on Patient Visit Growth] As a result, planning for a new facility has become the key strategic challenge for the Telluride Hospital District Board to continue to provide quality and timely medical care for its patient population.

The number of patient visits grew steadily during the last decade, flattened after the economic downturn in 2008, and has started climbing again and accelerating in 2012 after TMC became the only primary care provider in Telluride.

Although the emergency room remodel briefly took some pressure off the need for expansion, the lack of clinical space remains. During 2013 and 2014, both primary care and emergency care rooms were completely full on numerous occasions and primary care was forced to turn away or transfer patients to the Emergency Department.

**Capacity And Critical Access Designation**

- Current capacity of 220 primary care visits per week approximates 11,500 per year. 2014 annual patient visits for primary care are 11,077. This represents over 96% utilization of current capacity. 100% is not achievable due to a number of variables.

- A short-term increase in capacity is being created by displacing administrative staff to office space on the east end of Telluride, adding 18% more capacity for primary care. This will help TMC bridge the gap between now and the opening of the new facility, but the Telluride Hospital District will bear the cost of additional office space.
• TMC has two exam rooms per provider in primary care; national standards are 2.5 - 3.0 exam rooms per provider.

• Patients currently occupy exam rooms longer than national standards due to a lack of dedicated space, which results in patients occupying exam rooms longer than necessary, creating backlogs and bottlenecks. Dedicated space is non existent for
  o Medical interpretation
  o Imaging waiting
  o Behavioral health consultations

• Projected capacity for primary care in the new facility is approximately 20% higher in terms of primary/urgent care rooms, plus improved throughput by eliminating bottlenecks in imaging and behavioral health. In all, this should improve capacity by approximately 30%.

The Impacts
• Current inefficient workflows result in providers routinely working 4-5 hours beyond their shift to meet demand.

• Primary care refers up to four patients a day to the Emergency Room for primary services due to inability to see them in a timely manner.

The need for the Telluride Hospital District to gain designation as a Critical Access Hospital cannot be understated. TMC has seen one major insurance carrier “downgrade” payment for emergency services because the carrier does not deem TMC to be a “hospital.” The possibility of this being repeated by other carriers is real and devastating to TMC’s financial health.

In order to gain status as a Critical Access Hospital, TMC must have a facility that meets the standards of a Critical Access Hospital. This includes overnight beds as well as 8-foot corridors and enhanced fire/life safety systems among other requirements. The current facility is unable to fulfill that role, and cannot be modified to meet those standards.

Community Benefits of New Facility
• Medical heliport access for critically ill or severely injured patients who require immediate transfer to a major tertiary hospital

• Additional clinical space to accommodate more visiting specialists

• Additional space and technology for telemedicine services

• Additional emergency care and primary care examination rooms (including urgent care) to accommodate growth in both patient visits and additional care providers
- Expanded imaging capability with room for an MRI, mammography and bone density scanning

- A new procedure room which would allow the emergency physicians or visiting specialists to do minor surgery, such as hand surgery, colonoscopy, dermatology, plastic surgery and possibly cataract surgery.

- Two hospital rooms for patients who require 24-hour monitoring

- Direct convenient Ski Patrol access to the Emergency Room

- Additional space for providers, patient care coordinators, a mental health counselor and possibly the County Nursing operation

- Compliance with current medical facilities building standards and requirements

- Convenient patient access via Gondola, bus or automobile with ample parking

- More urgent care and regular patients to be seen in Primary Care within 24 to 48 Hours

Over the years, residents and visitors have expressed a desire to have a hospital in Telluride. Previous studies (see Appendix 2 for 2006 Stroudwater study) have shown that our average inpatient census would be less than two patients. With numbers that low, TMC would not be able to provide the best possible care with an appropriate number of staff cost-effectively.

A viable and desirable alternative is to provide two hospital rooms that can be used for observing patients who need care for a longer period of time than a typical emergency room visit warrants or for recovery stays (known as “swing beds”) in Telluride following regional hospitalizations. This capability, along with other requirements, is critical to becoming licensed as a Critical Access Hospital.

By placing observation beds in a new facility, Telluride Hospital District will be able to save the cost and stress of a 65-mile trip to the nearest hospital for several hundred residents and visitors.

Professional nursing care, with physician oversight, will be provided for patients who need intravenous fluids, cardiac monitoring, and other types of observation for select conditions. Most will be able to avoid an inpatient stay in a distant hospital. By expanding our care options, Telluride Hospital District will provide much-needed additional services to the community.

In addition, a new facility will give the Telluride Hospital District the opportunity to include a designated room for minor surgical procedures. This
new convenience will save patients from traveling to another medical facility for treatment.

**Land For A Permanent Home**
The Telluride Hospital District Board had been actively searching for a site since 2006 and through a series of steps they have identified a site in the Town of Mountain Village suitable to build a new facility of up to 50,000 square feet, with adequate space to expand. Planning for the new facility will stretch into 2016 with a community advisory group assisting the Telluride Hospital District Board on design, planning, construction and funding.

**Site Selection Process**
The formal site selection process began in February 2014 involving a series of meetings with owners of properties suitable for a medical center. The Telluride Hospital District Board held three Public Forums to address concerns of the community about the site selection process. The Board’s goal was to conduct an open, fair and transparent site selection process.

A Request for Information (RFI) was released in March, 2014 and designed to collect information from which to evaluate the relative merits of the parcels. Three property owners responded to the RFI—two in Lawson Hill and one in Mountain Village. The Town of Telluride did not respond to the RFI but instead later held a referendum asking the town’s electorate if they would approve the building of a new medical center on the RV Lot on the west side of town. The November 2014 referendum received only 32% support and thus the opportunity for the medical center to remain in the Town of Telluride was closed.

**Criteria to evaluate potential facility sites:**
- Sufficient lot size with room for future expansion, a 50 year vision
- Onsite Emergency Vehicle Access, including ambulance and helicopter
- Ease of Patient Access by Residents and Visitors (transportation)
- Cost of land and construction cost implications
- Adequate parking

A site selection consultant, Frauenshuh, was engaged to help prepare the RFI and evaluate the responses. In addition, Telluride Hospital District formed a Citizens Advisory Committee to assist the board in evaluating the proposed alternative sites for a new medical center. The Citizens Advisory Committee included Ron Allred, Bill Atwell, Erik Dalton, Bunny Freidus, Bill Hoins, Don Kramer, Johnnie Stevens, Dan Tishman and Jodie Wright.
As part of the site selection process, the Telluride Hospital District gathered information to determine the geographic location of potential patients both now and in the future. The chart below indicates the percentage dispersion of housing units (the best measure we have of where full-time and part-time residents and visitors are now and will be located) currently and at “build out” of the Telluride Region. It is important to note that a regional medical center located near a Gondola station would allow 70% of potential patients to travel to the medical center on free public transportation.

Other patient information revealed how current patients transport themselves to TMC. Approximately 62% of TMC’s summer patients arrive by vehicle, a trend that may vary during ski seasons.

Using the criteria above to evaluate the sites vis-a-vis the needs of a new regional medical center, the Citizens Advisory Committee, Frausnshuh and the Telluride Hospital District Board determined that the Mountain Village site best fit the goals for a new regional medical center. The site, which is located between the Mountain Village Town Hall and the Gondola Parking Garage, will accommodate a single story structure with up to 25,000 sq. ft., or a two-story building with up to 50,000 SF. The conceptual designs show a two-story building of 40,000 SF, which includes 8,800 SF for expansion (or other uses), plus a site location for an additional two-story for future development of another 10,000 SF.

An Agreement to acquire the Mountain Village property at zero cost was approved by the Telluride Hospital District Board in December 2014 and by the Mountain Village Town Council on January 15, 2015.

**Developing Conceptual Plans For A New Medical Center**

Beginning in January 2015, Telluride Hospital District formed a Facility Advisory Committee to assist with the design and funding of a new regional medical center located in Mountain Village. The Facility Advisory Committee included Ron Allred (Chair), Davis Fansler, Jim Wells, Paul Major, Dan Tishman, as well as Larry Mallard and Dan Garner representing the Telluride Hospital District Board of Directors. Gordon Reichard, Executive Director of TMC and Kate Wadley, Director of Telluride Medical Center Foundation provided support to the Facility Advisory Committee.
Tasks of the Facility Advisory Committee included oversight of selection an architectural firm for Phase One Conceptual Design services, deciding the appropriate implementation approach that the project financing supports (developer vs. TMC alone), selecting a Phase Two architect for facility design, selecting a general contractor or developer, selecting an owner’s representative to oversee the construction phase as well as developing and executing a strategy to raise sufficient funds to build the new medical facility incorporating the program developed by the Telluride Hospital District Board and TMC staff.

**New Facility Implementation Options** The Facility Advisory Committee and Telluride Hospital District Board have reviewed the options available that will best enable Telluride Hospital District to deliver a cost effective, efficient and expandable Regional Medical Center to the public. All of the options will result in Telluride Hospital District eventually owning the asset of the new facility and land. Those “Implementation Options” include:

- **The Developer Option** This is where a third party developer assumes the risk and responsibility to build a building much larger than the Telluride Hospital District requires. The Telluride Hospital District would contract to purchase the space it needs from the developer that would include future options to acquire expansion space. The developer and its investors would sell or lease the non-medical center space to other interested parties, conditioned on availability for future expansion.

- **The Design Build Option** This is where Telluride Hospital District would reach an agreement with a general contractor who would build a building consistent with the facility’s specifications and needs. This firm would provide a Guaranteed Maximum Price to Telluride Hospital District.

- **The General Contractor Option** This is where Telluride Hospital District independently hires an architectural firm for Phase II (construction drawings) and a general contractor to complete the new medical center. The agreements are normally some combination of cost plus and fixed cost.

The Telluride Hospital District Board has narrowed the preferred option to either the Design Build Option or General Contractor Option. The developer option is not deemed to be either attractive or viable after the Phase One Conceptual Design identified a very low cost opportunity for almost 9,000 SF of shell space on the second level that the Telluride Hospital District could lease to other healthcare organizations.

In summer of 2015, the Facility Advisory Committee will refine the estimated capital cost of a new facility and plan how it will be financed. Critical to this decision is the knowledge of what the community philanthropic capacity may be in support of this project. The Telluride Medical Center Foundation has
retained a capital campaign consultant who will be conducting a philanthropic feasibility study, once the size, cost and operational feasibility is determined.

Based upon this study, Telluride Hospital District in conjunction with the Telluride Medical Center Foundation and the Facilities Advisory Committee will plan how to finance the cost of the new medical center. The Telluride Hospital District Board understands that if a general obligation bond is necessary, it will be voted on prior to beginning Phase Two design services.

**Planning For Future Growth And Expansion**

The new regional medical center will have multiple options to accommodate both the growth in patient visits as well as the possible need to expand new services and the initial building. While it is impossible to accurately predict the healthcare needs of the community over the next 50 years, the Telluride Hospital District Board believes the new medical center will provide the capacity to anticipate and adequately manage the healthcare concerns of the residents and visitors for decades to come.

The new regional medical center will be designed to include the operating capability to last at least for 20 years, plus room to expand. See the Healthcare Trends (Appendix 3) to better understand the difficulty of predicting space needs. Instead of assuming TMC will expand in the future by adding “bricks and mortar,” the Telluride Hospital District Board intends to first accommodate any increase in patient visits by expanding hours of operation and adding healthcare providers to maximize use of the new facility and the use of telemedicine to consult with patients and provide medical education remotely.

At the Emergency Services level, the new facility will have two additional examination plus the Critical Access Hospital beds to flex into that will allow a single emergency physician and their resident to serve patients simultaneously during peak periods. The Telluride Hospital District will continue to supplement the Emergency Room physicians with seasonal residents and locums during peak periods.

Currently, Primary Care has three physicians and two physician assistants and one nurse practitioner on staff seeing patients from 8 a.m. to 5 p.m. on Monday through Friday and from 9 a.m. to 3 p.m. on Saturday. The planned new regional medical center will increase the number of primary care examination and treatment rooms from 6 - 12 while continuing to provide two examination rooms for visiting specialists. Additional care providers will be added as patient volume and financial resources justify.

While the planned increase in space for administration, imaging and support is modest, TMC will host a procedure room to be used by visiting specialists as well as overnight observation room(s) to minimize medical transports.
Appendix 1

Regional Healthcare Needs

TMC provides a bridge between local healthcare and regional or national health care services. TMC collaboratively identifies deficits in local community health care and strives to provide appropriate solutions such as visiting physicians or transition to tertiary care for those with a higher level of acuity.

The Telluride Hospital District Board understands that the area residents and second homeowners would like the convenience of having certain additional medical services available locally, but the study conducted in late 2010 by Health Care Futures, confirmed that the local population base is insufficient to support more than a fraction of a full-time specialist in pediatrics, orthopedic services, mental health services, birthing, dermatology, cardiology and ambulatory surgery. Consequently, the only economically feasible way to provide those services has been through visiting specialist program.

Currently, the TMC has visiting specialist programs offering orthopedic, mental health, midwifery, urology, and ophthalmology services. See Appendix 6.

Not all of the services identified in the Health Care Futures Needs Assessment have been offered due to limited physical space available at TMC, insufficient demand, and difficulty in attracting providers due to lengthy drive times and inadequate regional supply of many of the needed specialties. It is hoped that pediatric and dermatologic services could be added in the next several years through visiting specialists.

A number of area residents seek medical treatment outside of Telluride. Those that leave the area for operative procedures will continue to do so; TMC does not have the facilities or staff for surgical procedures. Additionally, many residents have already established a trusting relationship with doctors outside the area and may be unlikely to change when the service is offered locally. A number of those who obtain primary care services outside the local area leave for obstetrics and pediatrics. With the Telluride Hospital District population growth projected to be limited, obstetrics and a birthing unit is unlikely to be economical.

While second homeowners and visitors to the region would certainly use Telluride for emergencies, they often prefer to access non-emergency healthcare back home. The addition of a procedure room in a new facility could offer a compromise whereby visiting specialists could perform procedures in Telluride that do not require general anesthesia.
Appendix 2

Primary Healthcare Service Area
TMC provides medical services to a small, remote mountain resort community located at an altitude of almost 9,000 feet, and 65 miles from the nearest hospital.

The emergency and primary care medical services provided by TMC are critical to the local economy, which is based on tourism, outdoor recreation and real estate/construction.

People are often drawn to the area for the challenging outdoor recreational activities, and unfortunately, injuries sometime happen. Without TMC, the community would have inadequate emergency or basic health services, and this would significantly impact residents, second homeowners and tourism associated with outdoor activities and festivals.

The year-round local population within TMC’s primary service area is approximately 7,500 people. Given the limited amount of developable land in the box canyon and established zoning, future growth is expected to be both limited and more predictable. The 2010 census showed a resident population of just over 5,200 occupying just over 5700 housing units. There were approximately 1,400 zoned and unbuilt housing units in the 2010 census. These census numbers do not include visitors and part time residents but do provide guidance on the potential number of housing units when the district is fully developed.

Roughly, only 20% of TMC’s visits are from patients that live outside of the primary service area. These are generally visitors who become ill or are injured while they are here and need medical services, which tend to be primary care and episodic emergency care.

Approximately two thirds of TMC’s patients are full time residents and 15% are second homeowners. Of significant interest is the origin of patients delivered to TMC by ambulance. The chart above shows the approximate origin of Emergency Medical Service patient deliveries to TMC.

While many communities can forecast growth using historical averages or economic development statistics, the Telluride region is unique. Surrounded by USFS land, the towns and developments in TMC’s primary service area are predictable in their potential growth of residents, second homeowners and visitors. For that reason, the Telluride Hospital District Board and the Community Advisory
Committee have concluded that planning for approximately 25% to 50% building expansion space is reasonable.

It’s believed that there are significant financial barriers for potential competitors to enter the Telluride area. The cost of offering a 24/7 Level V Trauma Center would be prohibitive given the existing mil levy authorization that is in place. History and current trends in healthcare have shown that an individual or small group of Primary Care physicians would find it difficult to overcome the financial challenges of opening a practice in Telluride.
Appendix 3

Healthcare Trends

During 2010, Congress enacted sweeping legislation which has had a dramatic effect on the business models of a number of healthcare organizations. During the fall of 2010, TMC had an assessment done of the likely impact of healthcare reform on TMC, and to identify what potential actions Telluride Hospital District should take in response to the changing environment. This assessment was conducted by Health Care Futures, a highly respected consulting firm. TMC was fortunate to have this assessment paid for by a grant from the Telluride Foundation (copies available upon request).

Health Care Futures believes that TMC will benefit most from focused collaborative efforts with other Western Slope providers and related organizations both in terms of meeting current access needs and potential reform positioning.

The following are Health Care Futures recommendations:

- TMC should remain focused on its core purpose of providing excellent primary and emergency care to area residents.

- TMC should work to expand its affiliation agreement (largely administrative and educational support currently) with St. Mary's Hospital in Grand Junction, Colorado.

- TMC should continue to work with Montrose Memorial Hospital to secure, as available, additional specialty physicians to periodically visit TMC (e.g., dermatology).

- TMC should work to position itself favorably for potential health reform initiatives by continuing to support of the regional health network (San Miguel, Montrose and Delta Counties) to:
  - Assure inclusion in the Quality Health Network’s regional health information exchange, and develop the resources to mine and utilize data (i.e., disease registries) for the effective management of high-risk populations, and be positioned for potential Accountable Care Organization (ACO) participation.
  - Develop population management capabilities to monitor and manage care for potential value based reimbursements.
Additionally, according to Health Care Futures, TMC, with its focus on primary care, emergency care, its limited dependence on specialist care, and a low number of Medicare patients, is reasonably well positioned for healthcare reform.

In anticipation of health care reform, TMC began the transformation from “volume based” reimbursement strategy to “pay for value” in 2013. TMC is well-positioned to participate in a Community Care Collaborative by implementing several population-based patient management strategies to address this new era of patient care delivery.

There are a number of external pressures that may reduce healthcare revenues and force cost reductions by providers. Medicare payments have been cut and insurance companies are trying to minimize any increases in reimbursement rates paid to providers for medical services. With the enactment of healthcare reform in 2010, TMC is seeing a trend to reimburse providers based on value and not volume. Value based reimbursement rewards providers that provide quality care and better population health management at a lower cost to the patient and third party payers. TMC is uniquely positioned to maximally take advantage of this new reality.

Information technology is becoming even more important in the provision of healthcare as organizations find that useful data enables decisions which improve health and reduce costs. TMC has had electronic patient medical records since 2006 and has had an effective practice management (billing) system for several years. TMC offers a patient portal providing patients with online access to healthcare providers, billing and prescriptions. TMC’s imaging systems are connected to the Colorado Telehealth Network and TMC joined with the Quality Health Network for electronic data exchange of medical records across the Western Slope. Continued improvements in health information exchange will be critical to driving the regional relationships among healthcare providers that will accelerate with the implementation of healthcare reform. Additionally, the use of telemedicine by TMC will enhance quality healthcare for patients in Telluride’s remote location.

Predicting the future of medical facilities is complicated by the rapid change in medical technology. In 1965, Gordon Moore (Intel’s co-founder) predicted that “the speed of a computer chip would double every 18 months” and in fact that has happened. Moore’s Law will dramatically impact further discoveries by exponentially increasing the amount of data available for imaging, biosensors, genomic sequencing, population health, and communication.

The Internet is changing the patient experience with patient portals. Patients today can view lab results, communicate with their provider and in some cases request prescription refills. A future will include “on-line scheduling” and in some cases, “Skype-type doctor tele health visits.” These advancements could reduce the need for front desk staff and a traditional doctor’s office because they are able to see patients from home.
Another evolution in healthcare will occur in home testing and monitoring. Biometric monitors that feed the patient’s information to the physician and into their medical record seamlessly have been developed and are in beta testing. One such test is a reliable (as reliable as the test in the doctor’s office) rapid strep test. Smartphones will allow patients to gain access to (and even edit) their own medical records and generate their own medical data. There is an impressive array of lab tests that can (or soon will) be performed by smartphones and in-home diagnostic devices, including blood counts, urinalysis, electrolyte panels and blood glucose monitoring.

A patient will soon be able to sit down at a computer keyboard and input their symptoms and health history and diagnostic computers will be able to access peer-reviewed research, clinical studies, and the doctor’s and nurses’ notes to produce a diagnosis and treatment guidelines in a matter of minutes with a degree of confidence far beyond what a human can do in days. This will not obviate the need for medical providers but they will practice differently and in different physical surroundings.

Virtual physician visits, smartphones and personal computers will obviate the need for some patients to go to doctors’ offices, where wait times average more than one hour. Technology will improve access to physicians and possibly reduce costs. This revolution in how healthcare is provided could also reduce the need for square feet in medical facilities.

Appendix 4
**TMC Healthcare Services**  
**Emergency Services**  
TMC provides Trauma and Emergency Services twenty-four hours a day, seven days a week (24/7). Emergency Services is staffed by four full-time board certified emergency medicine physicians with nurses and radiology technologists and occasional assistance from the primary care staff during peak times. Emergency Services makes use of the availability of excellent seasonal staffing of both qualified locums and medical residents during ski season. TMC is the sole provider of Trauma and Emergency Services within a 65-mile radius of Telluride. Having a full service Level V Trauma Center in a community of this size is unusual and remarkable.

**Primary Care**  
Primary care services are provided by TMC’s three physicians, three mid-level providers (two physician’s assistants and a nurse practitioner) and medical assistants. Included in the Primary Care Department are additional medical services provided as a convenience to the community by visiting medical specialists who work with TMC’s staff and who utilize the resources of the medical center. Visiting physicians generally schedule their own appointments and bill for their services.

**Ancillary Services**  
TMC’s Radiology Department is staffed with licensed radiology technologists, who are certified to perform CT scans, x-ray procedures, and ultrasounds which support both Emergency Services and Primary Care. TMC boasts state-of-the-art equipment, including a digital x-ray and a 16 slice CT scanner.

TMC has state-of-the-art laboratory equipment that interfaces with the patient’s electronic medical record. This allows for patient access to lab results via the web portal. The laboratory can perform office-based tests and operates 24 hours a day in order to provide prompt test results. TMC provided over four thousand lab test results last year supporting both Emergency Services and Primary Care.

TMC benefits from hosting both Primary Care and Emergency Services under one roof. Patient Relations and Administrative staff share services as well. TMC is able to integrate patient care between Emergency and Primary Care, transitioning patients to an appropriate treatment and efficiently sharing resources during peak patient periods. Patients are encouraged to use primary care services when appropriate, rather than more expensive emergency services. The average emergency visit costs over three times that of a primary care visit.
The Institute for Altitude Medicine is a unique organization based on the expertise of Dr. Peter Hackett who is one of the foremost altitude medicine specialists in the world and who conducts research and provides consulting services on a worldwide basis. The altitude of the town of Telluride is 8750 feet, and nearby mountains rise to over 14,000 ft. That means that residents and visitors live, work, and play at relatively high altitudes. IFAM assists local residents to live healthy at high altitude.

TMC provides bilingual care serving the Hispanic population which comprises approximately 8% of the local population.

**Demand Fluctuation and Demographics**

TMC experiences significant seasonal fluctuations in patient volumes, with a peak demand during the winter months and a smaller spike during the summer.

This seasonal demand is driven by tourists during the ski season (late November to early April) and by summer visitors.

Additionally, second homeowners are more likely to be in the area during these periods. The chart at right shows the seasonal fluctuation as a percentage of annual patient visits by each department. The patient visits to Primary Care are much more consistent month-to-month than the Emergency Department.

Telluride’s age mix and demographic make-up reflect a disproportionately younger and healthier population choosing to live in Telluride for its diversity of challenging outdoor mountain sports. This population’s utilization of health care resources is also generally limited to basic primary care and episodic emergency care.

TMC sees fewer senior citizens on Medicare than most medical facilities due to the smaller elderly population in the region but that group, along with patients on Medicaid, has seen significant increases in recent years. In 2014, patient revenues from Medicare and Medicaid approximated 19% of TMC total patient revenue.

Due to the ski area and the many other sports and activities that take place locally TMC treats a higher proportion of sports injuries than most medical facilities. Telluride’s high altitude location and the number of visitors to the area who are not acclimatized to the altitude contribute to TMC treating an unusual number of altitude related illnesses. During the ski season, approximately 90% of the EMS’
ambulances and Telluride Ski Resort vans that deliver injured skiers to TMC originate in Mountain Village where the ski resort is primarily located.

**Revenue Sources**
The Primary Care Department at TMC is financially self-supporting through the fees that are charged for services.

TMC treats a number of patients without the ability to pay for the full costs of their medical care, and TMC works with these patients to help make healthcare affordable. Any private medical practice operating independently within the service area would not be obligated to do this. However, the tax support that TMC receives effectively compels TMC to provide this critical service. Annually, the cost of the unreimbursed care that TMC provides is approximately $130,000.

Access to 24/7 emergency care that is staffed with board certified emergency medicine physicians, nurses and radiology technologists is unusual in a community with a small population like Telluride. TMC is able to provide this outstanding, certified level of care due to the fact that it receives approximately $1.5 million annually in tax support in addition to annual net patient revenue of $3.6 million. The tax support is necessary to subsidize the costs of providing Emergency Services on a 24/7 basis to a small population.
Exhibit 5

Public Outreach Activities
Obtaining community feedback is critical to maintaining quality health care and designing appropriate community outreach activities. TMC has systematically collected patient satisfaction feedback since early 2009.

Patient satisfaction surveys are sent to patients after every visit, answers are summarized, shared with staff and board of directors and used to improve patient care and evaluate services.

TMC has received over 3,000 patient survey responses, the vast majority of which have been positive. TMC consistently receives an overall satisfaction rating of 4.75 out of 5 from its patients. As always, TMC balances patient satisfaction, operational efficiencies and resources available.

Additionally, since 2013, TMC maintains a Patient Advisory Council, a group of 9-11 local patients and caregivers that meets quarterly to promote improved relationships among patients, families and staff. The Patient Advisory Council creates policies and programs to ensure TMC works even better for patients.

When larger issues arise that require input from the community, TMC organizes public forums. For example, two such programs were executed in 2014 to facilitate community engagement and feedback in the new facility site selection process. Both forums were live-streamed on the web and one was live-broadcast on KOTO-FM as part of TMC efforts to reach as many community members as possible.

In order to keep the community abreast of TMC’s services and plans for improving available medical care for the public, the board has engaged the services of an independent communications consultant and developed a Communications Plan that is guided by TMC’s Executive Director and a committee of the Telluride Hospital District Board.

Goals of TMC Communication Plan:
- Communicate the value to the community of having outstanding local healthcare available
- Communicate positive feedback that TMC receives from patients
- Provide information to the community to encourage use of all TMC services
- Communicate the need for a new regional medical facility
- Communicate TMC’s desires to obtain input from the community in site selection process, design and funding of new facility

The Communications team uses the typical methods to get its message to the community, which include: press releases and media alerts, websites (one web portal for healthcare information and another for private patient information), direct email messages (e.g. Medical Moments), advertising,
KOTO Commentaries ("Off The Record"), editorials for local newspapers and direct mailings, among others.

In addition to traditional communication strategies, TMC and its collaborators reach out to the community throughout the year with health fairs and clinics to offer free or discounted services. Special TMC campaigns include free HIV testing, May Health Month, a fall Health Fair and an annual retinopathy and skin cancer-screening clinics.
Exhibit 6

Management and Legal Structure
The Telluride Medical Center is governed by the Telluride Hospital District, a special district established under Colorado law. Telluride Hospital District receives tax support from the R1 District to enhance and promote local health care by providing emergency medical services.

Telluride Hospital District is governed by a five member Board of Directors elected by the R-1 District voters. As a special district in Colorado, Telluride Hospital District must comply with those state regulations. Telluride Hospital District is subject to TABOR, which requires a vote of the electorate to increase mil levy for operations or to issue general obligation bonds to finance new facilities.

The Telluride Hospital District Board includes Larry Mallard, Carol Kammer, Richard Cornelius and Davis Fansler. For information regarding terms and positions, visit tellmed.org.

The Telluride Medical Center Foundation under the leadership of Kate Wadley, Executive Director, was established in 2008 to assist in raising money, primarily for facilities and equipment.

The Telluride Medical Center Foundation has assisted financially over the intervening years by raising funds for the emergency department remodel and by purchasing capital equipment on behalf of TMC. Since its inception the Telluride Medical Center Foundation has raised over $1.5 million in gifts and $3.2 million in Grants for TMC.

The Telluride Medical Center Foundation sponsored the Tri County Health Network grant from 2010 through late 2013. The Telluride Medical Center Foundation is a public charity and is tax exempt under section 501 (c) (3) of the Internal Revenue Code.

Since 2007, TMC has had an informal affiliation with St. Mary’s Hospital and Regional Medical Center in Grand Junction. St. Mary’s is not the nearest hospital, but it offers the best tertiary services and medical capabilities on the Western Slope and has a progressive and forward thinking management team. St. Mary’s has been very generous in helping TMC with administrative issues, continuous training and education for medical personnel, and providing purchasing power to lower the cost of medical supplies. TMC’s management and St. Mary’s management meet once or twice a year to discuss issues and review opportunities. This has resulted in a number of patient benefits such as smoother transfers for emergency care patients and the availability of blood supplies at TMC. A recent collaboration between St Mary’s and TMC resulted in a very successful telemedicine education program for local diabetes patients.
TMC Staff:

Gordon Reichard, Executive Director
Sharon Grundy, MD, Primary Care Medical Director
Diana Koelliker, MD, Emergency Services Medical Director
Dan Hehir, MD, Chief of Staff
Julie Wesseling, Director of Finance
Eric Adolphi, Director of Technology and Facilities

TMC Healthcare Providers include:

Primary Care
Sharon Grundy, MD
Kent Gaylord, MD
Heather Linder, MD
Eric Johnson, MS, CFNP-BC
Laura Cattell, PA-C
Christine Tealdi, PA-C

Emergent Care
Diana Koelliker, MD
Paul Koelliker, MD
Dan Hehir, MD
Simon Kotlyar, MD
Numerous Locums and Seasonal Residents

Visiting Specialists:

Orthopedics
Gloria Biem, MD

Ophthalmology
Andrew Dahl, MD

Urology
Craig Peterson, MD

Nurse/Midwives
Montrose Midwives
Mesa Midwives

Mental Health
William Karls, MD

Imaging Technicians
Amber Ruggles, RDMS
Appendix 7

Financial Data, Funds Required and Their Uses
As a result of conservative financial policies adopted by the Telluride Hospital District Board, TMC’s revenues have exceeded its expenses over the last decade and have therefore been able to increase its financial reserves each year in anticipation of building a new facility. At the end of December 31, 2014, TMC had liquid assets, exceeding its policy of holding 90 days cash reserves for operations, of $1.5 million available for the new medical center. Annually, TMC has achieved a gross margin on services provided ranging from 14 to 15%. Of the total direct and indirect operating costs, approximately 73% is salaries and benefits.

TMC operations are subsidized by an annual mil levy for the R-1 District. That mil levy is the second lowest for any organization in the R-1 District. Only the cemetery is lower. TMC tax proceeds from that mil levy have fallen over 28% over the last five years, due to reductions in assessed values, as follows:

- 2011 $2.1 million
- 2012 $1.9 million, a 10% decrease
- 2013 $1.8 million, a 5% decrease
- 2014 $1.5 million, a 16% decrease
- 2015 $1.5 million, no change

TMC has managed its affairs to absorb these revenue reductions to date and anticipates increasing tax revenue beginning in 2016. The proceeds from the operating mil levy approximate 24% of net operating revenues (including both patient revenue and tax proceeds) for the 2015 budget. Approximately 90% of the property tax proceeds are used to subsidize the 24/7 emergency services and the remainder to cover losses as a result of indigent care provided to the community.

Following industry practice, TMC has raised prices from 1% to 3% for the past four years as needed to offset part of the loss of property tax proceeds. Gross patient revenues are approximately $7 million annually. Historically, TMC has incurred average annual adjustments to gross patient revenues of approximately 36% as a result of discounts in insurance company reimbursement agreements and practices.

Telluride Hospital District is audited each year and copies of the audited financial statements, certified by Dalby Wendland CPAs, are available upon written request to the Executive Director.
Funds Required for Proposed New Regional Medical Center

**Land** The Town of Mountain Village has donated the land next to their Town Hall and multi-level parking garage for a new regional medical center. This generous contribution Telluride Hospital District residents and visitors includes waiving over $800,000 in building fees and permits but is conditioned upon the Telluride Hospital District beginning construction by May 2020.

**Building Core & Shell** Preliminary conservative estimates are approximately $200 per sq. ft. totaling approximately $10 to $12 million.

**Unfinished Shell** Preliminary conservative estimates are approximately $70 per square foot totaling approximately $1 to $1.2M for between 4,000 and 9,000 SF for potential expansion space on second floor that could be used temporarily by third party tenant(s).

**Tenant Improvements** Depending on the type of area being finished (ER v. Clinic v. MRI) tenant improvement or finishes vary greatly ($200-$600 per square foot). Total finishes are approximately $6,000,000 to $7,000,000.

**Furniture and Equipment and IT Costs** Preliminary conservative estimates are approximately $2 million. As much of the existing furniture and equipment at the current TMC facility will be moved and utilized.

**Timing** Based upon the proposed timeline, funds will be needed beginning in late 2015 for the detailed design and bidding phase thru fall 2018 when Telluride Hospital District Board estimates to begin occupancy.

Source of Financing for New Regional Medical Center

**TMC Reserves** TMC began 2015 with approximately $1.5 million in cash reserves that could be available for costs related to a new regional medical center but the Telluride Hospital District Board would prefer to hold much of those reserves for contingencies and initial start up costs.

**Town of Mountain Village** Contribution of the land and waiving building fees and permits.

**Philanthropy** The fundraising Feasibility Study will determine how much of the estimated capital, start up and transition costs that can be raised from major Telluride donors. The Feasibility Study will establish the philanthropic fundraising target. It is hoped that commitments of approximately $4 to $6M can be raised from this effort prior to a bond election.

**Grants** The most likely grants available are HRSA grants. While these tend to focus on Healthcare, they are also “operationally focused” and less
“capital focused.” These will require bundling any capital needs to any incremental operational costs. Good candidates include telemedicine expansion as well as the Critical Access Hospital beds. For grants that are more “capital focused” they tend to not focus on just healthcare, so competition is more rigorous. These can be national and local in nature. These tend to take time to unfold, so will be initiated early. It is hoped that grants are available to cover $1 to $2 million of the cost of the new regional medical center.

**General Obligation Bond** There is an expectation that Telluride Hospital District will need to gain voter approval in November 2015 or 2016 to issue a general obligation bond of approximately $19.6M to insure the funds needed for the construction of a new medical center. Any difference between the project budget and the general obligation bond will be covered by a combination of the sources listed above.

**Prospective Operating Statements**
The following projections for the ten years beginning with 2015 (budget) through 2024 encompass current operation of TMC (Status Quo) and project results of operations and impacts on cash flow of moving from the existing medical center to a new facility (expanded services) in the fall of 2018.

Historical results, medical consultant input and information obtained from comparable facilities was used to develop the assumptions shown below.

The results, which are intentionally conservative, indicate that TMC will not need to seek additional operating funds from taxpayers during the term of this projection. The increased cost of operating a larger facility are more than offset by increasing property valuations and projected increased net revenues resulting from qualifying as a Critical Access Hospital. Sensitivity analyses indicate that only a major downturn in patient visits or reduction in property values could demand that TMC seek additional operating subsidies from the Telluride Hospital District taxpayers.
### Historical Financial Information – Current TMC

**Audited Operating Statements for the three years ended December 31, 2014**

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<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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<td><strong>LIABILITIES &amp; EQUITY</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Liabilities</td>
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<td>Accounts Payable</td>
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<td>$104,000</td>
<td>$192,000</td>
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<td>688,000</td>
<td>693,000</td>
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<td>Deferred Revenues - Mil Levy/Grant</td>
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<td>Equity</td>
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<tr>
<td>Total Equity</td>
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<td>4,838,000</td>
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<td><strong>TOTAL LIABILITIES &amp; EQUITY</strong></td>
<td>$7,017,000</td>
<td>$7,014,000</td>
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</table>
# Operating Budget for 2015 by Department

<table>
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<th></th>
<th>Emergency</th>
<th>Primary Care</th>
<th>Total</th>
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<tr>
<td><strong>Patient Visits</strong></td>
<td>3,575</td>
<td>11,742</td>
<td>15,318</td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Patient Revenue</td>
<td>$3,502,638</td>
<td>$3,563,358</td>
<td>$7,065,995</td>
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<td>(1,103,784)</td>
<td>(1,491,982)</td>
<td>(2,595,766)</td>
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<td>Other Revenue - Grants &amp; Misc</td>
<td>300</td>
<td>249,705</td>
<td>250,005</td>
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<tr>
<td><strong>Total Net Revenue</strong></td>
<td>2,399,154</td>
<td>2,321,081</td>
<td>4,720,235</td>
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<td><strong>Cost of Services</strong></td>
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<tr>
<td>Clinical Wages &amp; Benefits</td>
<td>2,146,035</td>
<td>1,113,290</td>
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<td>Grant Support (patient related)</td>
<td>-</td>
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<td>228,616</td>
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<td><strong>Total Cost of Services</strong></td>
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<td>-</td>
<td>28,445</td>
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<td>-</td>
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<td>(1,440,417)</td>
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<td><strong>Other Income &amp; Expense</strong></td>
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<td>Net Mil Levy Income</td>
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### PROJECTED OPERATING STATEMENTS – EXPANSION OF SERVICES IN NEW TMC

Operating Statements Projected for the 10 years from 2014 to 2024, rounded to the nearest thousand dollars:

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<tbody>
<tr>
<td><strong>Est. Number of Patient Visits</strong></td>
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<td></td>
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<td>17,979</td>
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<tr>
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<td>203</td>
<td>203</td>
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<td>5,549</td>
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<td></td>
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<td></td>
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<td></td>
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<tr>
<td>Material and Other Patient Costs</td>
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<td>335</td>
<td>342</td>
<td>349</td>
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<td>363</td>
<td>370</td>
<td>377</td>
<td>385</td>
<td>393</td>
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<td>Grant Support (patient related)</td>
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<td>140</td>
<td>140</td>
<td>140</td>
<td>140</td>
<td>140</td>
<td>140</td>
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<td>Total Cost of Services</td>
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<td>4,325</td>
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<td>4,578</td>
<td>4,710</td>
<td>4,846</td>
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<td>946</td>
<td>903</td>
<td>967</td>
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<td>Administrative Wages &amp; Benefits</td>
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<td>408</td>
<td>421</td>
<td>434</td>
<td>448</td>
<td>468</td>
<td>488</td>
<td>509</td>
<td>532</td>
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<td>133</td>
<td>135</td>
<td>138</td>
<td>141</td>
<td>144</td>
<td>147</td>
<td>150</td>
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<td>IT &amp; Equipment Maintenance</td>
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<td>314</td>
<td>319</td>
<td>325</td>
<td>330</td>
<td>335</td>
<td>341</td>
<td>346</td>
<td></td>
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<tr>
<td>Property Tax - Idarado</td>
<td>28</td>
<td>31</td>
<td>32</td>
<td>33</td>
<td>34</td>
<td>35</td>
<td>35</td>
<td>36</td>
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<td>67</td>
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<tr>
<td>Utilities</td>
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<td>83</td>
<td>84</td>
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<td>88</td>
<td>89</td>
<td>91</td>
<td>93</td>
<td>95</td>
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<tr>
<td>Other Operating Expenses</td>
<td>208</td>
<td>212</td>
<td>216</td>
<td>220</td>
<td>225</td>
<td>229</td>
<td>234</td>
<td>239</td>
<td>243</td>
<td>248</td>
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<tr>
<td>Non-Cash Expense - Depreciation</td>
<td>259</td>
<td>259</td>
<td>259</td>
<td>259</td>
<td>259</td>
<td>259</td>
<td>259</td>
<td>259</td>
<td>259</td>
<td>259</td>
</tr>
<tr>
<td><strong>Total Expense</strong></td>
<td>2,342</td>
<td>2,667</td>
<td>2,645</td>
<td>2,708</td>
<td>2,763</td>
<td>2,819</td>
<td>2,882</td>
<td>2,946</td>
<td>3,012</td>
<td>3,081</td>
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<tr>
<td><strong>Net Operating Income (Loss)</strong></td>
<td>(1,440)</td>
<td>(1,720)</td>
<td>(1,742)</td>
<td>(1,741)</td>
<td>(1,730)</td>
<td>(1,719)</td>
<td>(1,627)</td>
<td>(1,526)</td>
<td>(1,416)</td>
<td>(1,294)</td>
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<td><strong>Other Income &amp; Expense</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Net Mil Levy Income</td>
<td>1,545</td>
<td>1,667</td>
<td>1,800</td>
<td>1,836</td>
<td>1,873</td>
<td>1,911</td>
<td>1,949</td>
<td>1,988</td>
<td>2,028</td>
<td>2,068</td>
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<tr>
<td>Net Grant Income (Expense)</td>
<td>63</td>
<td>56</td>
<td>56</td>
<td>56</td>
<td>56</td>
<td>56</td>
<td>56</td>
<td>56</td>
<td>56</td>
<td>56</td>
</tr>
<tr>
<td><strong>Revenues in excess of expenses</strong></td>
<td>$ 168</td>
<td>$ 3</td>
<td>$ 115</td>
<td>$ 152</td>
<td>$ 199</td>
<td>$ 248</td>
<td>$ 378</td>
<td>$ 518</td>
<td>$ 668</td>
<td>$ 831</td>
</tr>
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</table>
Changes to the Projected Operating Statements for the Next 10 Years as a Result of Occupying a New Regional Medical Center, rounded to the nearest thousand dollars:

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<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>168</td>
<td>3</td>
<td>115</td>
<td>152</td>
<td>199</td>
<td>248</td>
<td>378</td>
<td>518</td>
<td>668</td>
<td>831</td>
<td></td>
</tr>
</tbody>
</table>

Incremental Revenues due to a new facility

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<th>Net Revenue expected from Procedure Room</th>
<th>0</th>
<th>0</th>
<th>0</th>
<th>417.2</th>
<th>451.9</th>
<th>497.8</th>
<th>551.3</th>
<th>738.6</th>
<th>797.1</th>
<th>874.4</th>
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<tr>
<td>Net Revenue expected from Critical Access designation</td>
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<td>0</td>
<td>297</td>
<td>-60.6</td>
<td>1114.7</td>
<td>1058.1</td>
<td>1083.9</td>
<td>945.4</td>
<td>841.3</td>
<td>723.5</td>
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<tr>
<td>Net Revenue expected with Imaging Expansion</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>723.3</td>
<td>615.1</td>
<td>659.9</td>
<td>706.9</td>
<td>793.4</td>
<td>846.8</td>
<td>904</td>
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<tr>
<td>Net New Lab Revenues expected with Lab Expansion</td>
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<td>0</td>
<td>0</td>
<td>35.1</td>
<td>58.3</td>
<td>65.6</td>
<td>74.2</td>
<td>88.5</td>
<td>94</td>
<td>99.8</td>
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</tbody>
</table>

Net New Facility operating costs:

| 137 | (267) | 1,555 | 3,079 | 3,030 | 2,875 | 2,879 | 2,890 | 2,915 | 2,974 |

Philanthropic Donations

| 2,000 | 3,250 | 1,250 |

Financing Proceeds (assumed $19.6M, General Obligation Bonds, 4.5%)

| 1,308 | 1,308 | 1,308 | 1,308 | 1,308 | 1,308 |

Adjusted Net Revenues as a Result of a New Facility

| 31 | 2,270 | 2,107 | 745 | 716 | 961 | 1,222 | 1,501 | 1,641 | 1,766 |
### Cash Flow After Expected Changes Resulting from Occupying a New Regional Medical Center, rounded to the nearest thousand dollars:

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</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Flows from operating activities</strong></td>
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<tr>
<td>Change in net assets</td>
<td>31</td>
<td>2,270</td>
<td>2,107</td>
<td>745</td>
<td>716</td>
<td>961</td>
<td>1,222</td>
<td>1,501</td>
<td>1,641</td>
<td>1,767</td>
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<td>Adjustments to reconcile net assets to net cash</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
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<td>245</td>
<td>1,374</td>
<td>1,346</td>
<td>1,329</td>
<td>1,322</td>
<td>1,324</td>
<td>1,343</td>
<td>1,396</td>
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<td>(37)</td>
<td>(39)</td>
<td>(12)</td>
<td>(47)</td>
<td>(51)</td>
<td>(54)</td>
<td>(59)</td>
<td>(49)</td>
<td>(53)</td>
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<td>Other current assets</td>
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<tr>
<td>Non-current assets</td>
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<td>-</td>
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<tr>
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<td>-</td>
<td>-</td>
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</tr>
<tr>
<td>Other accrued fees</td>
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<td>-</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td><strong>Net Cash Provided by (used in) operating activities</strong></td>
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<td>2,504</td>
<td>2,344</td>
<td>2,370</td>
<td>2,077</td>
<td>2,287</td>
<td>2,540</td>
<td>2,808</td>
<td>2,980</td>
<td>3,157</td>
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<tr>
<td><strong>Cash Flows from investing activities</strong></td>
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<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of property and equipment</td>
<td>-</td>
<td>(150)</td>
<td>(300)</td>
<td>(22,624)</td>
<td>-</td>
<td>(150)</td>
<td>(150)</td>
<td>(200)</td>
<td>(200)</td>
<td>(1,000)</td>
</tr>
<tr>
<td>EMR in Progress</td>
<td>(8,866)</td>
<td>(9,997)</td>
<td>18,864</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Cash Provided by (used in) investing activities</strong></td>
<td>-</td>
<td>(9,016)</td>
<td>(10,297)</td>
<td>(3,760)</td>
<td>-</td>
<td>(150)</td>
<td>(150)</td>
<td>(200)</td>
<td>(200)</td>
<td>(1,000)</td>
</tr>
<tr>
<td><strong>Cash Flows from financing activities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal payments on long-term debt</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from debt</td>
<td>17,691</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Change in leases payable</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Cash Provided by (used in) financing activities</td>
<td>-</td>
<td>17,691</td>
<td>-</td>
<td>(285)</td>
<td>(299)</td>
<td>(312)</td>
<td>(327)</td>
<td>(342)</td>
<td>(357)</td>
<td>(374)</td>
</tr>
<tr>
<td><strong>Net Increase in Cash</strong></td>
<td>93</td>
<td>11,179</td>
<td>(7,953)</td>
<td>(1,167)</td>
<td>1,778</td>
<td>1,825</td>
<td>2,063</td>
<td>2,267</td>
<td>2,422</td>
<td>1,783</td>
</tr>
</tbody>
</table>

**Cash Beginning of Year**

| 2,582 | 2,675 | 13,854 | 5,901 | 4,225 | 6,003 | 7,828 | 9,891 | 12,158 | 14,580 |

**Cash End of Year**

| 2,675 | 13,854 | 5,901 | 4,225 | 6,003 | 7,828 | 9,891 | 12,158 | 14,580 | 16,363 |
Assumptions for Prospective Financial Statements

**Patient Visit Growth** Clinical staff and management is projecting an annual average increase in patient visits in Primary Care of 3% and average annual increases in Emergency Services of 2%. This is conservatively estimated at less than half (5.9% and 4.3%, respectively) of the average annual increases over the last five years.

**Rate Increases** Management expects to implement annual average rate increases (average charge per visit) in Emergency Services and Primary Care of 3%. This is consistent with recent history for TMC and industry in general. After insurer reimbursement adjustments, TMC has historically realized approximately one-third of a price increase.

**Insurer Reimbursement Rates and Changes** Clinical staff expects an annual average decreases in insurer reimbursement rates in Primary Care and Emergency Services of 1%. No estimates are included for possible impacts of the trends toward “capitation.” This is due to the difficulty of estimating that impact with any degree of accuracy. That said, internal estimates guided by consultants indicate that TMC revenues will be likely be modestly enhanced by such a change.

**Overhead Costs** – Management expects approximately $750,000 to $850,000 per year in cash overhead costs beginning in fall 2018 as a result of moving into a larger facility. This is in addition to an average annual increase in overhead expenses of 2% beginning in 2016 based upon estimated inflation. The incremental costs are based upon the costs of comparable size buildings as well as an estimate of the increase in costs currently incurred in our smaller existing facility. Overhead costs include plant operations, central supply, housekeeping, building insurance, supplies, among others. This does not include depreciation or interest on a general obligation bond, which do not impact net operating cash flow.

**Personnel Costs** Management expects annual average increases in human resource cost (staff increases, salary adjustments, changes in benefit cost, net of staff turnover) of 3% beginning in 2018 for clinical personnel and 3% for administrative personnel. This assumes an increase in administrative headcount to manage growth. It is contemplated that additional resources will be needed for human resources/credentialing, admissions and billing/collecting. A modest increase in clinical personnel will be needed as patient visits increase.

**Property Tax Valuation** Management expects an average annual increase in assessed valuations that will result in an increase in mil levy proceeds of 8% in 2016 (San Miguel County Assessors) and approximately 2.5% thereafter. This estimate assumes a relatively stable economic environment and uses an average annual percentage increase that is conservatively projected at less than a third of the average annual rate experienced during the 20 year period leading up to 2010.
**Revenue and Corresponding Costs of New Services** – Many of the revenue assumptions below are based upon TMC becoming licensed as a Critical Access Hospital (CAH). That designation is necessary to realize the full revenue potential from the overnight observation rooms and new procedure room. The projected annual price increase and annual overhead increase assumptions are applied to the years subsequent to the first year in the new medical center:

- Based upon projections from Turning Point Advisors, management expects the first year average patient usage of each **overnight observation room** to be 3 per week translating into a seasonally adjusted revenue of approximately $660,000 less related direct costs of approximately $650,000. Based upon projections from Turning Point Advisors, management expects the first year average usage of the **new surgical procedure room** at 16 sessions per month translating into a seasonally adjusted revenue of approximately $610,700 less related direct costs of approximately $193,500. The average annual positive contribution to operating results is estimated to be approximately $697,000. Examples of expected surgical procedures include hand surgery, echocardiogy, colonoscopy, dermatology, plastic surgery and possibly pediatrics.

- Management projects that the first year average annual revenue from the expansion of **in house laboratory services** to be approximately $115,000 and the related direct operating cost to be approximately $85,000. The expanded laboratory services supported by a new medical center are related to observing patients overnight and procedures. The net average annual contribution to operating results is estimated to be approximately $76,000.

- The new regional medical center will allow TMC to **expand its capabilities in imaging**. This could include an MRI and other equipment. This projection is included based upon the assumption that the cost of the new equipment is covered by philanthropy. Management projects that the first year average annual revenue from the expansion of imaging services to be $832,000 and the related direct operating cost to be approximately $111,000. The net average annual contribution to operating results is estimated to be approximately $802,000.

**Evaluating Impact of Modalities**

An analysis was conducted to demonstrate the effects of the different aspects and programs planned for the new facility. In particular, separating out new services and capabilities and their impact on the capital investment and operating results. The “base” was considered to be the “expanded” version of the scenarios, including beds, MRI, Mammography, Dexe Scanning, procedure room, and Urgent Care. Clearly, the base case represents the most favorable operating results, but also the highest capital investment. It also shows the MRI is the largest impact on net income of all imaging possibilities.
### Project Cost & Incremental Net Income Improvement

<table>
<thead>
<tr>
<th>Capital Expenditure  (000's)</th>
<th>Incremental Improvement 3-Year Avg Net Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base</td>
<td>$22,600</td>
</tr>
<tr>
<td>Base Less MRI</td>
<td>$20,700</td>
</tr>
<tr>
<td>Base Less: Dexa/Mamm</td>
<td>$22,100</td>
</tr>
<tr>
<td>Base Less: MRI/Dexa/Mamm</td>
<td>$20,200</td>
</tr>
<tr>
<td>Add: 4,700 sf shelled space</td>
<td></td>
</tr>
<tr>
<td>Add: 8,800 sf shelled space</td>
<td></td>
</tr>
</tbody>
</table>

**Sensitivity Analysis**

Telluride Hospital District Board believes the projections used are conservative – in terms of growth rates, utilization, and reimbursement. The Board believes this to represent the “most likely” scenario. In order to understand the implications of fluctuation, sensitivity analyses were conducted to depict a “worst case” and “best case” scenario. A “risk corridor” of 15% was used to represent those scenarios.

**Best Case:** If volumes were 15% higher than projected, the net income for the base case jumps to $1.5M average for the first three years of operation.

**Worst Case:** If volumes are 15% lower than projected, net income is negative for the first two years of operations (-$100,000), before becoming positive.

Subsequent income levels range from $350,000 positive to $600,000 in the later years. Telluride Hospital District has the resources to absorb the negative operating results for the first few years.
Sensitivity Analysis - Net Income

- **Best Case**
- **Most Likely Case**
- **Worst Case**
APPENDIX 8

PHASE ONE CONCEPTUAL DESIGNS

Mahlum Architects were engaged to provide the initial space plans and diagrams reflecting the proposed space program. This was necessary to ensure the facility can fit well on the site as well as establish the proposed budget. Mahlum spent time with TMC clinical staff and leadership in reaching this initial program. Below are the elements of that design, depicting the approved expanded program.

The main level is the primary clinical level, with separate access for primary care and emergency services. While these are separate, they share the support services of lab, x-ray, pharmacy and other departments. Primary Care access will be from the east, as patients will park in the garage and enter or come directly off the gondola. Emergency services will be in the west side for ambulances and walk-in patients.

Main Level – Expanded Program
The lower partial floor takes advantage of the topography to provide for support services, primarily for deliveries and HVAC.
The upper level houses staff support and administrative functions. It also has approximately 8,800 of shelled space for future development of medical services. It also depicts the connection between the medical center and the medical heliport on the adjacent garage.