

June 29, 2009

10/12

Office of Statewide Health Planning and Development
400 R Street, Suite 200
Sacramento, Ca 95811-6213
Attn: Jerry Yee/SB1661

Dear Jerry Yee:

Re: SB 1661 Information for Marshall Medical Center (1-RH), Placerville, CA

Attached are revisions to Marshall's SB 1661 Facility Report. The prior reported timeline has been forced to be revised due to multiple reasons that I would like to include in the comments to this report.

It was Marshall's intention to meet the prior timeline, I have outlined below the essential facts that has caused significant delay in our ability to meet proposed timeline.

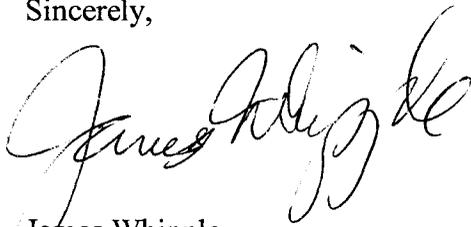
1. Significant increase in commodity prices in the time-period 2005-2008 increased the cost of planned revisions by over 100% or an extra \$60,000,000.
2. Marshall attained financing with \$50,000,000 bond before the increase in commodity prices that capped our ability to borrow with bonds for a more expensive project. This became a larger concern with the collapse of the credit market in 2008-2009 that eliminated access to all other types of borrowing for Marshall.
3. The states Cal Mortgage program that guarantees Marshall's bonds response to credit crunch was to significantly reduce Marshall's flexibility to either sell assets to raise money for meeting 1661 or creative financing opportunities if available.
4. The momentous and swift disintegration of the economy in the California and El Dorado County caused a collapse in Marshall's operating income. Marshall moved from an operating profit of \$6,883,000 in 2007 to an operating loss of <\$5,868,000> in 2008.
5. The free fall of the United States equity and bond markets resulted in a massive loss to Marshall's pension assets and Marshall's investment portfolio. This added to 2008 loss by <\$8,006,000> for a total loss for 2008 fiscal year of <\$13,874,000> versus a profit of \$8,791,000 in fiscal year 2007.

6. Due to increased costs, lack of funds and Marshall's projected income in a questionable economic times caused us to shell the majority of the four-storied new wing that would have allowed Marshall to meet the timeline for SB 1661. This has also delayed our timeline due to value engineering the project down to an affordable cost requiring time to replan and redraw the project.
7. Working with the City, County and State in approval of the project has taken significantly longer than anticipated.

Marshall's current project that broke ground in April of this year is a four-story building with only the emergency room finished. Building one in our prior SB1661 submission includes the emergency room, OB, skilled nursing, dietary, cafeteria and support services. As soon as Marshall has the funds, Marshall plans to finish the new wing providing a home for a new OB, dietary, cafeteria. The next step, again as soon as money is available, is to upgrade both building one and two from our submission to meet SB 1661 standards. Our best estimate at this time, depending on the rebound in the economy and the State's approach to the budget crisis, is to have this finished by 12/31/18.

I hope this explains what Marshall is capable at this time. If you have any questions please give me a call at 530-626-2658.

Sincerely,



James Whipple
CEO

cc: Michael Ryan
Dana Rice
Kenneth A. Luttrell
Laurie Eldridge.