Strategic Options
Status Report
to
Board of County Commission

Presentation by:
Jon Kurtz, Chairman,
Marion County Hospital District

May 15, 2012
Strategic Options Presentation Outline

- Genesis: (Spring, 2006 Board Planning Day Conclusion)
- Chronology of Board & Trustee Activity (2008 to current)
- HB 711 — Sale or Lease of a County, District, or Municipal Hospital (Highlights)
- Public Options Considered
  - Bond Referendum Selected
- Two Track Plan Timeline (Sale/Lease & Bond Referendum)

Questions
Strategic Options Presentation
GENESIS

• Spring, 2006 Board Planning Day **Conclusion:**

  In light of projected future period financial losses and the need to implement Master Facility Plan...

  “Pursue alternative financial sources to offset increasing uncompensated care and meet capital demands.”
Ponder was requested by MRHS to make contact with a potential strategic partner

- This occurred on three occasions between May 2008 and November 2010
- On each occasion MRHS’ proposal was rejected

MRHS and MCHD Activities

10/3/2008  • Task Force formed to evaluate public financial support options available;
  Outcome - “White Paper on supplemental Public Funding Options”

11/18/2008 • Mtg. of the Marion County Hospital District (MCHD) Trustees with the Marion County Board of Commissioners (BOCC) - Dependant to Independent status

1/16/2009  • Munroe Regional executive team presentation to the MCHD Trustees on current financial status

1/26/2009  • TriBrook presentation to the MCHD Trustees on next steps in the planning process to evaluate alternative organizational options.

2/2/2009   • MCHD Trustee Workshop with the BOCC

4/25/2009  • Munroe Regional Medical Center (MRMC) Board Strategic Planning Session - Presentations by: Governance Institute; TriBrook; and Lee Memorial Health System.

6/29/2009  • Cleverly & Associates presentation of findings to the MCHD Trustees

9/2/2009   • Cleverly & Associates presentation to the BOCC
Chronology of Activities Pursued by MCHD & MRHS
- Continued -

2/20/2010  • Ponder issued its Strategic Options Assessment

4/13/2010  • MCHD Trustee & BOCC Workshop - presentation of financial forecast for Munroe Regional

4/26/2010  • Ponder presentation to MCHD entitled “Overview of Options for Future Direction”

6/1/2010   • Ponder provided an “Update on M&A Activity in Florida”

8/30/2010  • TriBrook presentation to MRHS entitled “Remaining Independent – What are the Challenges?”

9/27/2010  • Report on the community survey conducted by Kerr & Downs Research

7/9/2011   • Board Retreat – Ponder presented update on M&A Activity and Financial Forecast Update

8/18/2011  • MCHD Trustee workshop with BOCC

9/20/2011  • Ponder engaged by MCHD to provide transaction services
Chronology of Activities Pursued by MCHD & MRHS - Continued –

Sale/Lease Process Commences:

October 17, 2011

- Strategic Options Workgroup formed – includes MRHS Board Representatives and Medical Staff Representatives

Fall, 2011

Ponder Actions:

- In depth review of MRHS (site visit; meetings with MRHS executive officers)
- Confirm MCHD/MRHS goals
- In-depth review of potential partners
- Prepare Instruction Letter and Confidential Information Memorandum
- Pre-qualify interested partners

December 20, 2011

- Sent Instruction Letters and Information Memorandums to fourteen potential partners (all information posted to Munroe’s website under Strategic Options Workgroup)
Chronology of Activities Pursued by MCHD & MRHS
- Continued -

January 10, 2012  ● MCHD published notice of its intent to accept proposals from all parties interested in responding to the Instruction Letter

January 30, 2012  ● Subject matter expert engaged by MCHD (Scanlan)

February 10, 2012  ● Receipt of proposals from seven potential partners

February 15, 2012  ● Meeting to review proposals with MCHD Board of Trustees and confirm the preferred process to select three to five candidates for Phase 2

March 7, 2012  ● Four finalists selected; consideration and net proceeds presented

March 26, 2012  ● Four public options for tax support presented to Trustees

April 9, 2012  ● Trustees approved going forth with a referendum for general obligation bonds to be held on the November, 2012 general election date

April 30, 2012  ● Bond Referendum alternatives presented

May 21, 2012  ● Trustees to determine final resolution and ballot language, along with the dollar amount of the bonds to be determined.
Potential Strategic Partners
## Potential Strategic Partners

<table>
<thead>
<tr>
<th>Investor Owned (For Profit)</th>
<th>Not-For-Profit Systems in Florida</th>
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<tbody>
<tr>
<td>Ardent Health Services</td>
<td>Adventist Health System</td>
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<td>CHS Community Health Systems</td>
<td>BayCare Health System</td>
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<td>Health Management Associates</td>
<td>Orlando Health</td>
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<td>IASIS Healthcare</td>
<td>Shands HealthCare</td>
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<td>Vanguard Health Systems</td>
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<td>LHP Hospital Group, Inc.</td>
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<td>LifePoint Hospitals</td>
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<td>RegionalCare Hospital Partners</td>
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</table>
# Potential Strategic Partners

## Scorecard for Selection of Strategic Partner Finalists

<table>
<thead>
<tr>
<th>Selection Criteria</th>
<th>Ardent</th>
<th>CHS</th>
<th>Duke/LifePoint</th>
<th>HMA</th>
<th>LHP</th>
<th>Regional Care</th>
<th>UHS</th>
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<tbody>
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<td>Governance</td>
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<td>Capital Commitment</td>
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<td>Consideration</td>
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<td>FL Presence</td>
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<td>Level of support services</td>
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<td>– Physician recruitment</td>
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<td>Evidence that Strategic Partner meets exceeds commitments</td>
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In addition, as for-profit entities, these companies would pay ad valorem taxes and sales taxes. These taxes have been estimated by one of the finalists to range from $750,000 to $1,000,000 annually for ad valorem taxes and $500,000 annually for sales taxes.
HB 711 — Sale or Lease of a County, District, or Municipal Hospital

Highlights

- The governing board of a public hospital or health care system must commence an evaluation of the possible benefits to an affected community from the sale or lease of the hospital facilities no later than December 31, 2012, unless exempted.
- be approved by the Secretary of Health Care Administration

- 50 percent of proceeds earmarked for health care economic development, including the promotion and support of health care business development or research, and 50 percent is earmarked for funding the delivery of indigent health care.
- The bill also exempts hospitals and health care systems that have executed a letter of intent to sell or lease before December 31, 2011, or issued a request for proposals for sale or lease on or before February 1, 2012, from these processes and allocations, so long as the sale or lease of the hospital of health care system occurs by December 31, 2012.
Public Options
Public Options Considered

Summary:

- **Existing Hospital District Property Tax**
  - 1 Mill Operations / 1 Mill Capital Improvements
  - Generates $14.2M / year
  - Annual Request – Uncertain for planning purposes

- **Voter Approved Hospital District General Obligation Bonds**
  - Ad Valorem Tax
  - Flexible as to amount and usage
  - May fund multi year ongoing capital and retire debt
  - Negative – not a broad based tax

- **Indigent Care Surtax**
  - 1/2 cent sales tax generates $16.5M
  - Available to all healthcare providers
  - Overhead costs?
  - MRMC allocation estimated at $5.9M / year
  - Insufficient and Uncertain

- **Local Government Infrastructure Surtax**
  - 1/2 cent sales tax
  - Limited to fixed capital outlays (i.e. Construction)
  - Unable to address ongoing Capital needs
Conclusions reached:

- No ideal tax option is available; none possess all three:
  - Broad based approach i.e. sales tax
  - Flexibility for use (debt service and/or capital or operations)
  - Certainty of amount
Public Options Considered  
- Continued -

Best option available may be voter approved hospital general obligation bonds because:

• Provide expense reduction and improve cash and income position over the projection period
• Allow time for more clarity about the future of healthcare, regardless of what happens with the ACA (Affordable Care Act)
• If assumed stand alone hospital is no longer tenable, then future state is consolidation/integration which:
  - May allow time for NFP interest as a JV or merger partner
  - Brings additional capital support dollars to the table in such a negotiated transaction
• Risks associated with waiting too long include:
  - NFP suitor partner may never show interest
  - Financial performance may improve or deteriorate as compared with projection
  - Changing priorities of potential partners
Public Options Considered
- Continued -

• The trustees approved going forth with a referendum for general obligation bonds to be held on the November, 2012 general election date.

• Final resolution and ballot language, along with the dollar amount of the bonds to be determined May 21, 2012.

• Bond Referendum alternatives presented; trustees seem to be leaning toward a $65.4M Bond Issue which would refinance debt of $24.4M and provide for two (2) years on ongoing capital with debt service to be financed by one (1) mill or less for a period of five (5) years.
Two Track Plan Timeline
(Sale/Lease & Bond Referendum)
**Two Track Plan Timeline (Sale/Lease & Bond Referendum)**

Revised Timeline As of April 30, 2012

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
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<tbody>
<tr>
<td>April 30</td>
<td>Regular meeting of Board/Trustees: Ponder provides Instruction Letter – 2 to Trustees for review; voter approved District bond options presented for trustee consideration</td>
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<tr>
<td>May 7</td>
<td>Send Instruction Letter – 2 to four finalists</td>
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<td>May 21</td>
<td>Regular meeting of Board/Trustees: District adopts resolution to issue bonds</td>
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<tr>
<td>June 20, 21</td>
<td>MRHS management presentations and tour of MRHS facilities by finalists</td>
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<td>June 25</td>
<td>Regular meeting of Board/Trustees: No strategic options agenda</td>
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<td>June 29</td>
<td>Receipt of responses to Instruction Letter – 2</td>
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<td>July 16</td>
<td>Workgroup meeting: review revised proposals</td>
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<tr>
<td>July 30</td>
<td>Regular meeting of Board/Trustees: Summary of workgroup meeting provided to Trustees</td>
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<td>August 14 (On or before)</td>
<td>Bond referendum ballot language to supervisor of elections for November general election</td>
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<td>August 27</td>
<td>Regular meeting of Board/Trustees: No strategic options agenda</td>
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<td>September</td>
<td>Trustees interview finalists – no dates established yet; separate meetings for each of the four over two days (2 hours per finalist)</td>
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<td>September 24</td>
<td>Regular meeting of Board/Trustees: No strategic options agenda</td>
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<tr>
<td>October 15</td>
<td>Workgroup meeting: review feedback from interviews and any open issues</td>
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<td>Date</td>
<td>Event Description</td>
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<tr>
<td>October 29</td>
<td>Regular meeting of Board/Trustees: No strategic options agenda</td>
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<td>November 6</td>
<td>Election day; referendum for tax support</td>
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<td>November 19</td>
<td>Workgroup meeting: Develop recommendation for two finalists; discuss Instruction Letter – 3</td>
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<tr>
<td>November 28</td>
<td>Regular meeting of Trustees (no Board meeting): review Workgroup recommendation to approve two finalists; review Instruction Letter – 3</td>
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<td>December 10</td>
<td>Regular meeting of Board/Trustees: No strategic options agenda</td>
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<tr>
<td>January 4</td>
<td>Receipt of responses to Instruction Letter – 3</td>
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<tr>
<td>January 14</td>
<td>Workgroup meeting: review responses to Instruction Letter – 3; develop recommendation for preferred partner</td>
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<tr>
<td>January 28</td>
<td>Regular meeting of Board/Trustees: Approve preferred partner for sole negotiations</td>
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<td>February - April 2013</td>
<td>Negotiate lease and other key documents; complete due diligence</td>
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<td>April</td>
<td>Trustees approve final lease and documents; file public notice of transaction</td>
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<td>April through July</td>
<td>Licensure process, new legislative steps</td>
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<tr>
<td>August 1</td>
<td>Close transaction</td>
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</tbody>
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If referendum is defeated, strategic options process continues as follows:
Thank You

Questions?