

# Proposal for Sustainable Healthcare Services in Sitka 2017



 **SEARHC** | healthy is here.

# OVERVIEW

- The Healthcare Environment
- Background on SEARHC
- ECG Shared Values & Goals
- Benefits to the Community of Sitka and City Assembly in Working with SEARHC
- SEARHC's Value Proposition
- Terms of the Proposal
- Conclusion and Next Steps

# The Healthcare Environment

# THE NATIONAL HEALTHCARE ENVIRONMENT

## unprecedented industry and consumer challenges

**Declining revenues** and pressure to reduce cost



Transition from fee-for-service to **value-based payments**

**Technology constraints** and need for greater **business intelligence**



**Improve quality outcomes** and patient experience

**Shifting demographics** and changing **payment** models

Potential repeal of **Affordable Care Act**

AS CHALLENGES  TRENDS EMERGE THAT DEMAND **innovative strategies** FOR **significant change**

# THE HEALTHCARE ENVIRONMENT ALASKA AND SITKA

- Declining State Revenue
- Declining Public Funding
- Increased Nonprofit Pressure

# THE HEALTHCARE ENVIRONMENT SITKA'S COMPETITIVE SITUATION

Present State



Inefficient Allocation  
of Resources



Decreasing  
Reimbursement  
and City Support



Outdated Facilities



Duplicative  
Service Lines



Intermittent  
Specialty Care



Staffing Shortages

# Background on SEARHC

# SEARHC AT A GLANCE

- A nonprofit health Consortium established in 1975
- Provides healthcare in 27 Southeast Alaskan communities
- Mt. Edgecumbe Hospital, a 25-bed critical access hospital, provides acute care, critical care, obstetrics, surgery, perioperative care, skilled nursing and rehabilitation
- Employs approximately 109 providers, including 37 in Sitka
- Annual operating revenue of \$126 million and net income of \$9.2 million in 2016
- Patient satisfaction survey results – 95.8% in 2016
- 964 employees, including 458 in Sitka



# SEARHC EXECUTIVE LEADERSHIP TEAM

**Charles Clement**  
President & Chief  
Executive Officer



**Jeff Prater**  
*Hospital  
Administrator*



**Leatha Merculieff**  
*Vice President  
Executive  
Administration*



**Dan Neumeister**  
*Senior Vice  
President & Chief  
Operating Officer*



**Dan Harris**  
*Chief Financial  
Officer*

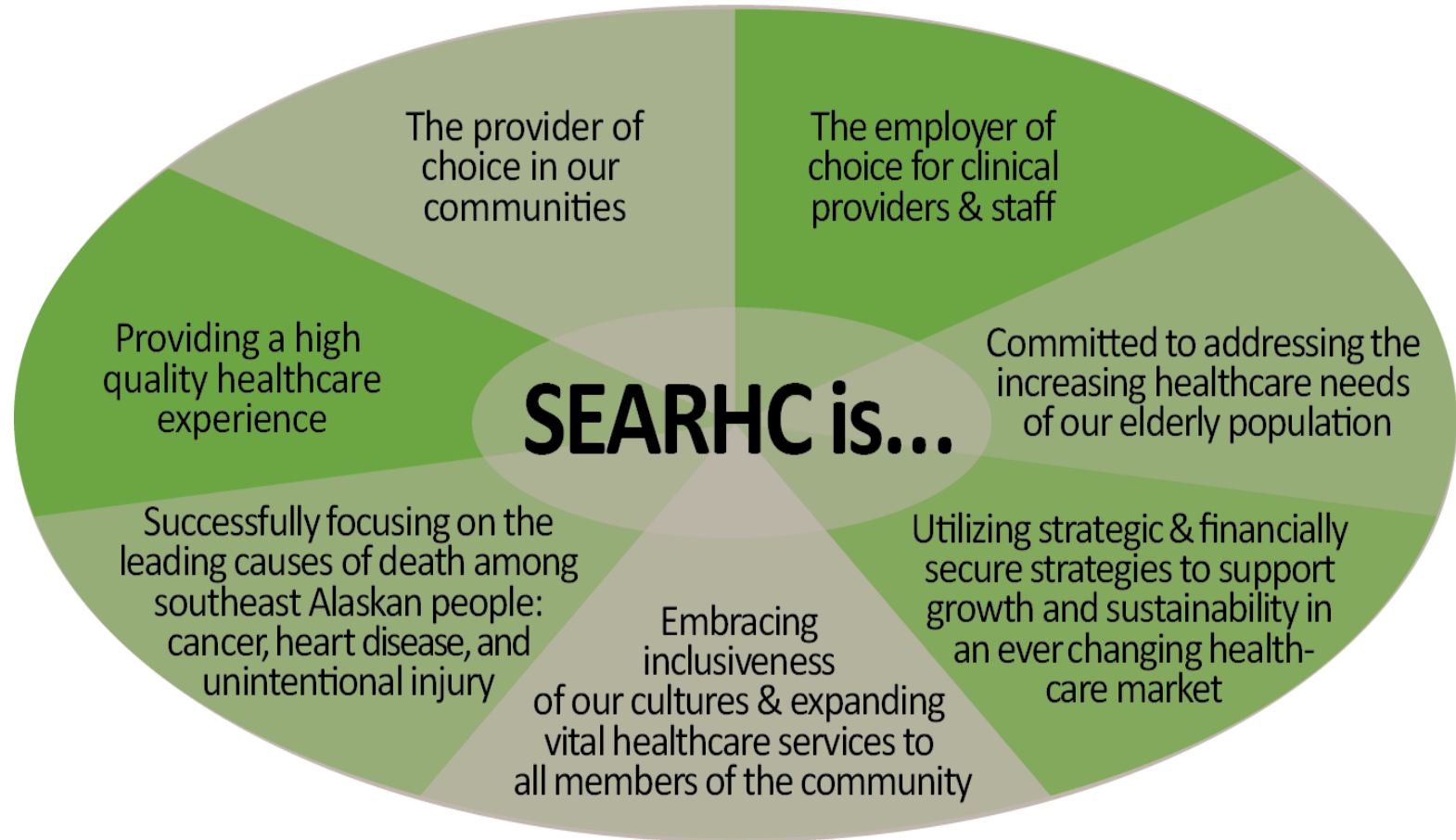


**Michael Douglas**  
*Vice President &  
General Counsel*

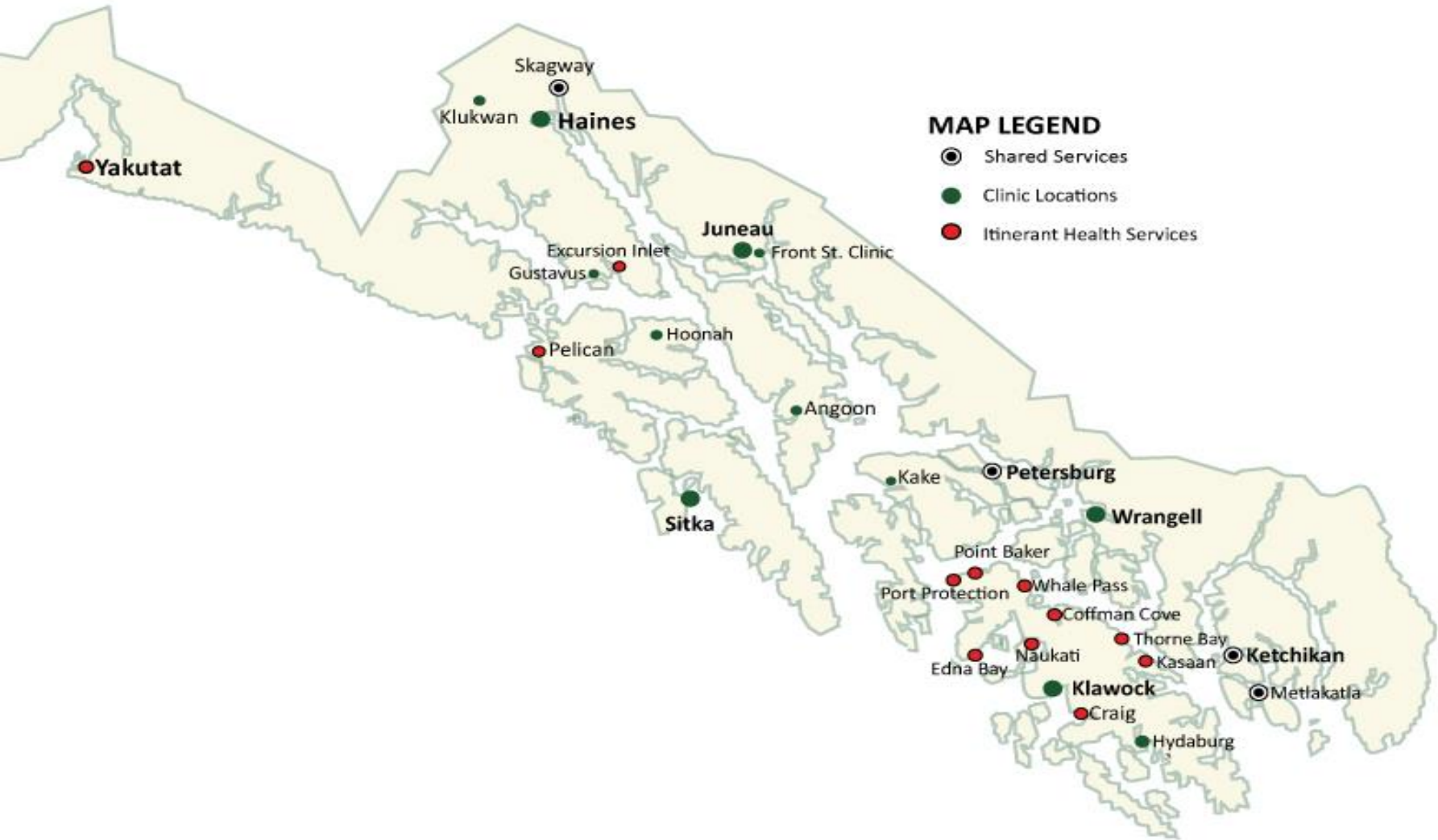


**Dr. David Vastola**  
*Medical Director*

# SEARHC STRATEGIC DIRECTION



# SEARHC Health Services Map



## MAP LEGEND

- Shared Services
- Clinic Locations
- Itinerant Health Services

# SEARHC REGIONAL CENTERS

**MT. EDGE CUMBE HOSPITAL, SITKA**  
POPULATION 8,912  
458 EMPLOYEES



**ETHEL LUND MEDICAL CENTER,  
JUNEAU**  
POPULATION 31,409  
207 EMPLOYEES



# SEARHC SUB-REGIONAL CLINICS



## **Klawock: Alicia Roberts Medical Center**

Prince of Wales Population: 5,000

47 Employees



## **Haines Health Center**

Population 2,200

49 Employees



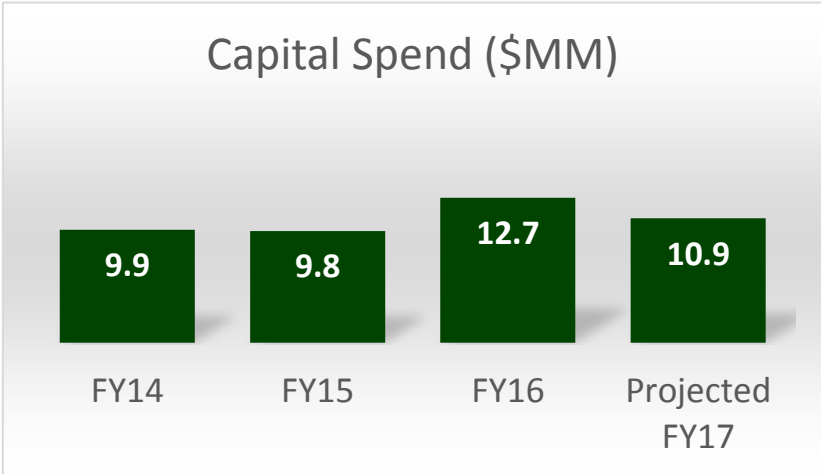
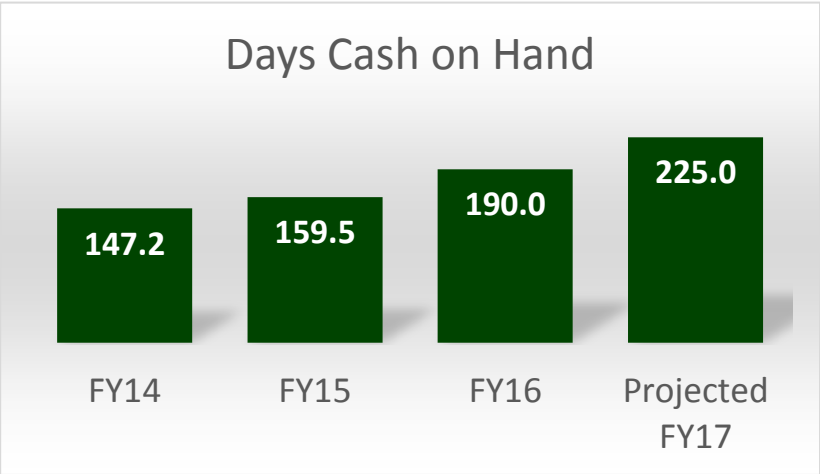
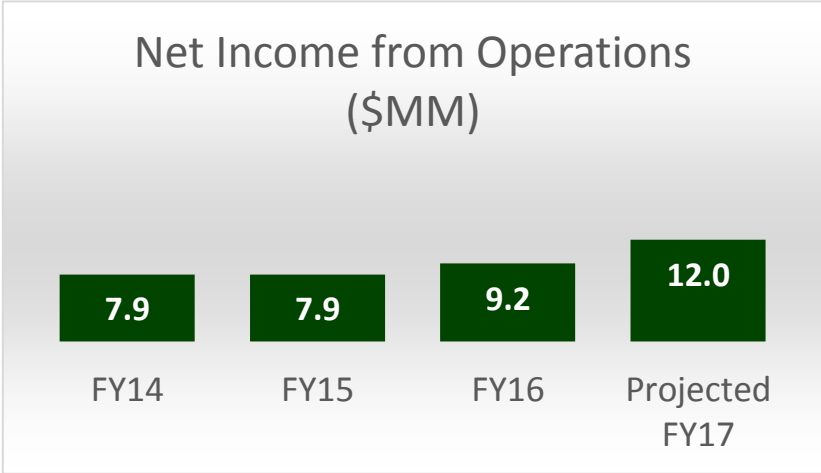
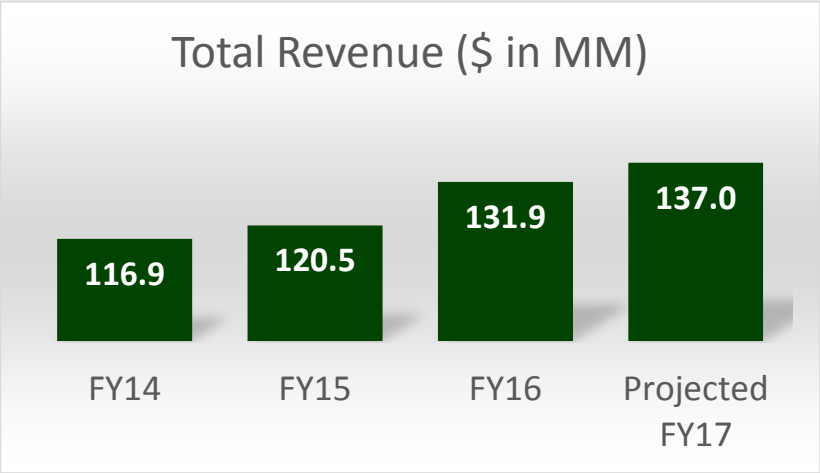
## **Wrangell: The Alaska Island Community Services Medical Clinic**

Population 2,369

117 Employees



# SEARHC FINANCIAL PERFORMANCE



# QUALITY AWARDS



- All SEARHC Facilities are accredited by The Joint Commission
- Mt. Edgecumbe Hospital was one of four hospitals to earn the Mountain Pacific Quality Achievement Award
- Chasing Zero Award-Zero Hospital Infections



# BREADTH OF SEARHC PROVIDERS

Breadth of SEARHC Providers		
Specialty	In Sitka	SEARHC Total
Physician		
Family Medicine	7	24
General Surgeon	2	2
Hospitalist	4	4
OB/GYN	1	1
Pediatrician	2	3
Radiologist	1	1
ENT	2	2
Orthopedic	1	1
Internal Medicine/Pediatrician	0	1
Psychiatrist	2	3
<b>Total Physicians</b>	<b>22</b>	<b>42</b>
Nurse Practitioner	5	24
Physician Assistant	3	8
Optometrist	1	4
Dentist	5	25
Orthodontist	1	2
Community Health Practitioner	0	4
<b>Total Providers</b>	<b>37</b>	<b>109</b>



# Shared Values and Goals

# SHARED VALUES AND GOALS

## VALUES

Ensure equal access to care for all patients.

Provide services tailored to the needs of patients and the community.

Provide high-quality, culturally appropriate care.

Ensure equitable employment opportunities.

Improve access to primary and specialty services close to home.

Attract and retain high-quality providers and staff.

## GOALS

Create a financially thriving enterprise that enables the expansion of services in our community.

Enhance patient care, quality, experiences, and clinical outcomes.



# Benefits to the Community of Sitka and City Assembly in Working with SEARHC

# BENEFITS TO THE COMMUNITY OF SITKA AND CITY ASSEMBLY IN WORKING WITH SEARHC

Realizes the vision of a *premier healthcare provider while improving community health through the sustainable provision of a broad array of high-quality clinical services* by:

- Providing exceptional patient experience and quality outcomes ensuring high-quality healthcare for each and every Sitka resident
- Strengthening the ability to recruit and retain physicians and provide for expanded service lines through outreach or telemedicine
- Eliminating the City's future healthcare financial risks and obligations, resulting in access to capital for ongoing maintenance and improvements and unmet educational, public safety and infrastructure needs
- Accessing advanced technology (Cerner electronic medical record platform, 3-D mammography, magnetic resonance imaging, etc.) to treat patients.
- Including a local Advisory Committee and one Sitka representative on the SEARHC Accreditation Governing Body to provide input and influence change in creating a financially thriving enterprise

# Our Value Proposition

# OUR VALUE PROPOSITION TO SITKA

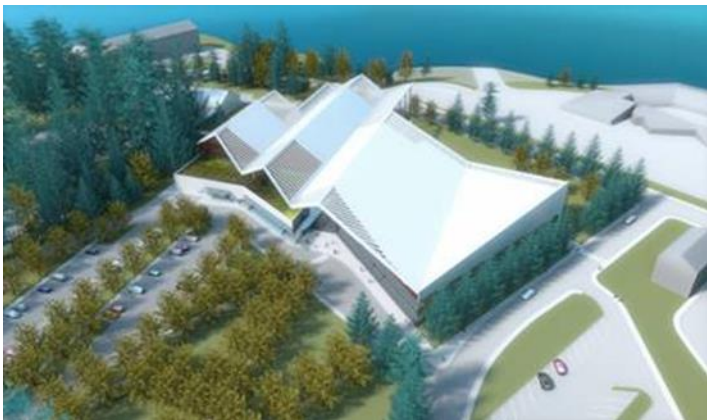
In working with the City Assembly, SEARHC offers the Community of Sitka...

- Improved:
  - Patient Experience
  - Overall Health of the Community
  - Improved Cost to the Patient
  - Technology
- Service Line and Specialty Expansion to include:
  - Care Coordination
  - Cardiology
  - Urology
  - ENT
  - Dermatology
- Elimination of Healthcare Financing Obligations and Improved Financial Position
- A Trusted Partner with Shared Values and Goals

# OUR VALUE PROPOSITION TO SITKA

## A Proposed Modern Healthcare Campus

- Advanced Technology
- Critical Access Hospital
- Medical Office Building
- Skilled Nursing Facility



Aerial View Looking North



View of Proposed Campus

# Terms of the Proposal



# PROPOSAL TERMS

The financial terms are based on a valuation of SCH. Three approaches were used in preparing the valuation:

## Market Approach

- Value is derived by analysis of the market value of reasonably comparable transaction prices at which similar facilities have been acquired.

## Income Approach

- Value is derived by discounting future available cash flow to present value at an appropriate rate of return.

## Asset-Based Approach

- Value is derived by analysis of the individual assets and liabilities comprising the business. In this approach, the assets of the hospital are individually appraised, then reviewed to determine total enterprise value.

# PROPOSAL TERMS

## Keeping in Mind...

- The current and anticipated cash flows of SCH are insufficient to support a true meaningful value for SCH
- There are significant operational efficiencies that would result from the integration of SCH and SEARHC

# PROPOSAL TERMS

## Financial Terms

**Cash Payment to the City:** Upfront purchase price of **\$6.5 million**, adjusted for any working capital items that will be retained by the City, or an estimated cash outlay of **\$5.7 million** to the City.

**Lease Payment to the City:** SEARHC will lease the real estate for \$600,000 per year for up to five years, for a total of \$3 million.

**City Retains Support Payments:** The City would retain \$600,000 to \$900,000 a year of tobacco tax revenue which has a present value of \$15 million to the City. This money, previously used to support SCH, would be available for other programs within Sitka.

**Retained Liabilities:** The City will retain all SCH balance sheet liabilities. Note that the state of Alaska is in the process of estimating the pension liability.

# FINANCIAL TERMS CONTINUED...

## Acquired/Retained Assets and Liabilities

SEARHC Acquires	City Retains	
	Assets	Liabilities
All service lines and operations	Cash and investments	Current Liabilities
Inventory	Accounts Receivable	Long-Term Debt
Equipment	Prepaid expenses	Net Pension Liability
Assembled Work Force	Deferred Pension Outflows	Due to 3 <sup>rd</sup> Party Payers
Intangible Assets	Any Identified Non-Operating Assets	Other Disclosed or Non-Disclosed Liabilities
Certain Working Capital		

# FINANCIAL TERMS CONTINUED...

## Timing of Cash Flows

Assuming the City is able to convert retained assets to cash, and liabilities are equal to their book values shown on the balance sheet as of March 31, 2017, the estimated cash flows should be sufficient to satisfy all liabilities within four years.

	Year 1	Year 2	Year 3	Year 4	Year 5
Purchase Price	6,500,000				
Less Retained W/C	(840,000)				
Payment to City	5,660,000				
Current Cash Balance	3,682,000				
Retained Other Assets	6,444,000				
City Support	750,000	750,000	750,000	750,000	750,000
Lease Payment	600,000	600,000	600,000	600,000	600,000
<b>Total Inflows</b>	<b>17,136,000</b>	<b>1,350,000</b>	<b>1,350,000</b>	<b>1,350,000</b>	<b>1,350,000</b>

# PROPOSAL TERMS

## Governance Terms

- Establishment of a Sitka Advisory Council
- One Seat on the SEARHC Accreditation Governing Body Representation

## Employee and Provider Terms

- As Employer of Choice in the communities we serve, we will ensure that we provide equitable opportunities to the greatest legal extent
- SCH employees passing necessary background checks will be offered positions of a “like” nature and at compensation and benefit levels similar to those provided to current SEARHC employees in similar position
- Providers with employment agreements and in good standing with SCH will be offered similar positions at compensation/benefit levels similar to those currently provided by SEARHC

# PROPOSAL TERMS CONTINUED...

## Technology and Capital Expansion Terms

- Cerner electronic medical record platform extended throughout the healthcare delivery system, including SCH facility
- SEARHC to provide maintenance of SCH facility
- SEARHC will assume obligations of the facility, including capital investments in new equipment

## New Facility

- A new 25-bed critical access hospital (83,250 gross square feet) with four operating rooms, replacing all acute care services provided at MEH and SCH
- A new medical office building (78,100 gross square feet) housing primary care, specialty clinics with 50 treatment rooms as well as laboratory and radiology services
- A new 20-bed skilled nursing facility (14,000 gross square feet) to replace the SCH facility

# CONCLUSION AND NEXT STEPS

Stage	Timeframe
Sign Letter of Intent	30 days
Due Diligence	45 to 60 days
Sign Definitive Agreement	60 to 90 days
Close	Within 60 days of regulatory approval

This transaction is subject to the final approvals of the respective governing boards of SEARHC and the Sitka Assembly



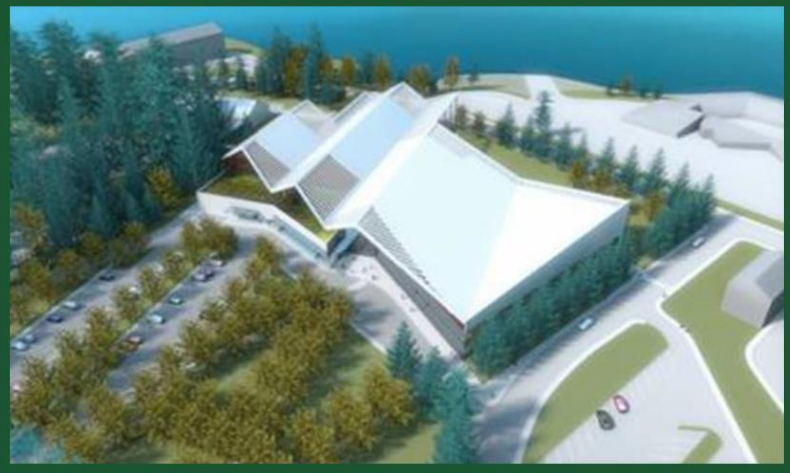
# QUESTIONS



View Looking North  
Toward Main Entrance



View of Proposed Campus



Aerial View  
Looking North