Proposal for Sustainable Healthcare Services in Sitka 2017
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

<table>
<thead>
<tr>
<th>Declining revenues and pressure to reduce cost</th>
<th>Transition from fee-for-service to value-based payments</th>
<th>Technology constraints and need for greater business intelligence</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>↑ Improve quality outcomes and patient experience</td>
<td></td>
</tr>
<tr>
<td>Shifting demographics and changing payment models</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Potential repeal of Affordable Care Act</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

SEARHC | healthy is here.
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
- Duplicative Service Lines
- Decreasing Reimbursement and City Support
- Intermittent Specialty Care
- Staffing Shortages
- Outdated Facilities
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 is...

- The provider of choice in our communities
- The employer of choice for clinical providers & staff
- Committed to addressing the increasing healthcare needs of our elderly population
- Successfully focusing on the leading causes of death among southeast Alaskan people: cancer, heart disease, and unintentional injury
- Embracing inclusiveness of our cultures & expanding vital healthcare services to all members of the community
- Utilizing strategic & financially secure strategies to support growth and sustainability in an ever changing healthcare market
SEARHC REGIONAL CENTERS

MT. EDGECUMBE 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

Total Revenue ($ in MM)

<table>
<thead>
<tr>
<th>Year</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>Projected FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>116.9</td>
<td>120.5</td>
<td>131.9</td>
<td>137.0</td>
</tr>
</tbody>
</table>

Net Income from Operations ($MM)

<table>
<thead>
<tr>
<th>Year</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>Projected FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7.9</td>
<td>7.9</td>
<td>9.2</td>
<td>12.0</td>
</tr>
</tbody>
</table>

Days Cash on Hand

<table>
<thead>
<tr>
<th>Year</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>Projected FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>147.2</td>
<td>159.5</td>
<td>190.0</td>
<td>225.0</td>
</tr>
</tbody>
</table>

Capital Spend ($MM)

<table>
<thead>
<tr>
<th>Year</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>Projected FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>9.9</td>
<td>9.8</td>
<td>12.7</td>
<td>10.9</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Specialty</th>
<th>In Sitka</th>
<th>SEARHC Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physician</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family Medicine</td>
<td>7</td>
<td>24</td>
</tr>
<tr>
<td>General Surgeon</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Hospitalist</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>OB/GYN</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Pediatric</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Radiologist</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>ENT</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Orthopedic</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Internal Medicine/Pediatrician</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Psychiatrist</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total Physicians</strong></td>
<td><strong>22</strong></td>
<td><strong>42</strong></td>
</tr>
<tr>
<td>Nurse Practitioner</td>
<td>5</td>
<td>24</td>
</tr>
<tr>
<td>Physician Assistant</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Optometrist</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Dentist</td>
<td>5</td>
<td>25</td>
</tr>
<tr>
<td>Orthodontist</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Community Health Practitioner</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total Providers</strong></td>
<td><strong>37</strong></td>
<td><strong>109</strong></td>
</tr>
</tbody>
</table>
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.

GOALS

- Improve access to primary and specialty services close to home.
- Attract and retain high-quality providers and staff.
- 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
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.
## Acquired/Retained Assets and Liabilities

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

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

<table>
<thead>
<tr>
<th>Stage</th>
<th>Timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sign Letter of Intent</td>
<td>30 days</td>
</tr>
<tr>
<td>Due Diligence</td>
<td>45 to 60 days</td>
</tr>
<tr>
<td>Sign Definitive Agreement</td>
<td>60 to 90 days</td>
</tr>
<tr>
<td>Close</td>
<td>Within 60 days of regulatory approval</td>
</tr>
</tbody>
</table>

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