

Proposal for Sustainable Healthcare Services in Sitka 2017



May 25, 2017

The Honorable Mayor Matthew Hunter and Assembly Members
City and Borough of Sitka
100 Lincoln Street
Sitka, Alaska 99835

Dear Mayor Hunter and Assembly Members,

SouthEast Alaska Regional Health Consortium (“SEARHC”) appreciates the opportunity to submit the attached proposal based on the vision of Sitka becoming the home of *a premier healthcare provider dedicated to improving our community’s health through inclusive and sustainable, quality services*. In light of declining reimbursements and marketplace pressures to decrease costs and enhance our patients’ experiences, integration of Sitka Community Hospital’s (SCH) and SEARHC’s services and assets is critical to ensure sustainable healthcare services for Sitka.

Our proposal outlines the process by which SCH’s and SEARHC’s assets can be integrated to create a healthcare delivery system that is not just bigger, but better, for patients and community residents. SEARHC fully embraces the goals of improving access to both primary and specialty services, attracting and retaining high-quality providers and staff, enhancing quality patient care and clinical outcomes and creating a financially thriving enterprise that promotes the expansion of services in Sitka. Our intent, as described in this proposal, is to implement strategic and financially secure strategies to create a sustainable and flourishing enterprise that meets the needs of each and every Sitka resident.

In reviewing the proposal, you will note the benefits to the City and its residents include:

- Development of an integrated healthcare delivery system within the community supported by SEARHC capital investments;
- Expansion of services and strategic initiatives to create a continuum of care in Sitka that mitigates outmigration to surrounding markets;
- Enhanced quality and patient safety;
- Commitment of employment for all SCH staff;
- Improved recruitment and retention of primary care and specialty providers;
- Long-term financial viability given the financial strength of SEARHC; and
- Local governance and operating oversight participation.

We are committed to a collaborative partnership with the Assembly as we build the future of healthcare in Sitka. We look forward to working with you to determine the best approach in developing an integrated healthcare delivery system in Sitka and respectfully await your response.

Sincerely,



Kimberley Strong, Board Chair
SEARHC



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Executive Summary

Our healthcare environment is complex, and costs are mounting as the demand for accountability, affordability and quality care is pushing healthcare leaders to focus on value and efficiency. Simultaneously, the Sitka Assembly is grappling with how best to ensure the community has access to quality and affordable healthcare services while balancing the demands of managing a cost-effective municipal operation. SouthEast Alaska Regional Health Consortium (SEARHC) appreciates these tremendous challenges and believes that by acquiring Sitka Community Hospital (SCH), Sitka residents will benefit from an integrated healthcare system that will provide the care they need when they need it and eliminate the City's financial burden of continuing to operate a community hospital.

SEARHC believes the shared vision, created jointly by SCH and SEARHC, of *developing a premier healthcare provider while improving community health through the sustainable provision of a broad array of high-quality clinical services* can be realized and envisions a reality where:

- The City can ensure better healthcare for the community, while eliminating its future financial risks and obligations associated with providing healthcare services. This would result in access to capital for the City's ongoing maintenance and improvements as well as unmet educational, public safety and infrastructure needs;
- Clinical services are expanded, and patients are assured access to primary and specialty services close to home;
- High-quality providers and staff can join the delivery system through equitable hiring practices;
- Governance includes the creation of an Advisory Council and adding a Sitka representative on the SEARHC Accreditation Governing Body to influence the creation of a stable and financially thriving enterprise that provides for the expansion of services; and
- Patient care, quality and clinical outcomes are enhanced.

The following proposal provides the background and context for a thriving healthcare system in Sitka. SEARHC would be the ideal partner with the City for numerous reasons as outlined throughout this proposal, including:

- Our exceptional patient experience and quality outcomes will ensure high-quality healthcare for each and every Sitka resident;
- Our significant experience managing the total cost of care will help keep healthcare affordable for area residents;
- Our strong financial position will ensure that the community's health system will be viable for the long-term;
- Our multi-specialty physician practice and ambulatory services, when combined with SCH's inpatient and outpatient services and long-term care, will provide a comprehensive continuum of care and position the community for future healthcare reform;



- Our ability to recruit physicians through residencies in our extensive rural service area will enable us to provide the right mix of specialists in expanded service lines and seamless solutions through outreach or telemedicine when feasible; and
- Our use of telemedicine and advanced technology, such as the Cerner electronic medical record platform, 3-D mammography and magnetic resonance imaging, will ensure the application of current technology to treat our patients.

The specific terms and commitments of SEARHC’s proposal are summarized below and outlined in more detail throughout the proposal:

- SEARHC will provide healthcare services to all members of the community and ensure all services and programs will be available to all individuals from various, diverse cultures.
- SEARHC’s governance structure will be amended to include representation from the Sitka community in the form of an Advisory Council and one additional seat on the SEARHC Accreditation Governing Body to implement and influence effective change within the community.
- Upon leasing the SCH facility and completing the acquisition of all operating assets and operations, SEARHC will commit to offering employment to all SCH employees in good standing, subject to typical licensure and background checks. In hiring future job candidates, SEARHC will rely on standard employee metrics, and preference will be given to the most qualified candidates.
- SEARHC will make a cash payment to the City in the form of an upfront purchase price of \$6.5 million, adjusted for any working capital items that will be retained by the City, or a cash estimated outlay of \$5.7 million to the City. Additionally, SEARHC will lease the SCH real estate for \$600,000 per year for up to five years for a total of \$3 million. The City will retain all SCH balance sheet liabilities. (Note that the state of Alaska is in the process of estimating the pension liability.)
- Once the SCH facility is leased and SEARHC has acquired all operating assets and operations, the City will retain the annual \$600,000 to \$900,000 in tobacco tax revenue and City capital, previously used to support SCH, for other programs within Sitka.
- Once the SCH campus is leased, SEARHC will commit to funding the routine capital needs of the existing SCH facilities until the completion of the replacement facilities.
- Once the SCH campus is leased, SEARHC foresees MEH becoming the acute care facility and SCH transforming into primarily a skilled nursing facility. Keeping the needs of the community in mind, SEARHC will consider a phased approach in determining where best to locate the primary care clinics.
- SEARHC will commit to the development of a new medical campus, including a hospital, medical office building and skilled nursing facility. Construction will begin within three to five years from the close of the transaction.

SEARHC looks forward to the opportunity of working closely with the City in this venture. SEARHC will prepare a term sheet no later than July 15, 2017, that more closely defines the parties’ interests and identifies specific goals pertaining to the leasing of the SCH facility and acquisition of all operating assets and operations. Should the City elect to proceed, we look forward to negotiating a memorandum of understanding and entering into a due diligence period. We would expect to complete due diligence and sign a definitive agreement within 90 to 120 days, with closing anticipated within 60 days of signing a definitive agreement and subject to receiving final applicable regulatory approvals.



Overview of SEARHC

About SEARHC

For more than 40 years, SEARHC has provided high-quality healthcare services for the people of the Southeast Alaska region. Founded in 1975, SEARHC is one of the oldest and largest Native-run health organizations in the nation. In 1976, SEARHC contracted with the Indian Health Service under the Indian Self-Determination and Education Assistance Act to assume management of the Community Health Aide Program. In 1982, the contract was expanded to include the operations of the Indian Health Service Juneau clinic, now called the Ethel Lund Medical Center, and in 1986, SEARHC assumed operation of the Sitka Mt. Edgecumbe Hospital (MEH). Today, SEARHC has 964 employees, operates in 27 communities and has one hospital.

MEH, a 25-bed critical access hospital with 458 employees, provides acute care, critical care, obstetrics, surgery and perioperative care as well as emergency and outpatient primary care services. In 2016, MEH had 46,392 outpatient visits, performed 1,236 surgical procedures, had 502 inpatient admissions and delivered 57 babies.

SEARHC is committed to making a difference in the lives of people and bridging gaps in healthcare services to enhance the quality of life for the people in the communities it serves. One of the many ways SEARHC does this is by offering specialty clinics or sending medical specialists to various remote facilities to care for patients who cannot travel to Anchorage or Seattle and need services not available in Southeast Alaska. Additionally, our medical providers make regular trips to the smaller, remote clinics to provide services typically not available.

The following proposal sections provide a more in-depth background on SEARHC:

- Governance, including Mission, Vision, Values and Strategic Plan
- SEARHC's Executive Leadership Team
- Employees and Providers
- Commitment to Innovation and Quality
- Financial Performance

Governance

The SEARHC Board of Directors (Board) is comprised of 15 individuals and is responsible for providing oversight of all functions and programs. The Board is elected to represent the communities SEARHC serves and is the chief policymaking body of the Consortium.

SEARHC's Board is guided by a mission that is inclusive of all people residing in the Southeast region – *Alaska Native People working in partnership to provide the best healthcare for our communities*. Additionally, the Board continually keeps SEARHC's vision and values in perspective when determining the best direction and actions to pursue on behalf of our patients, community residents and employees.



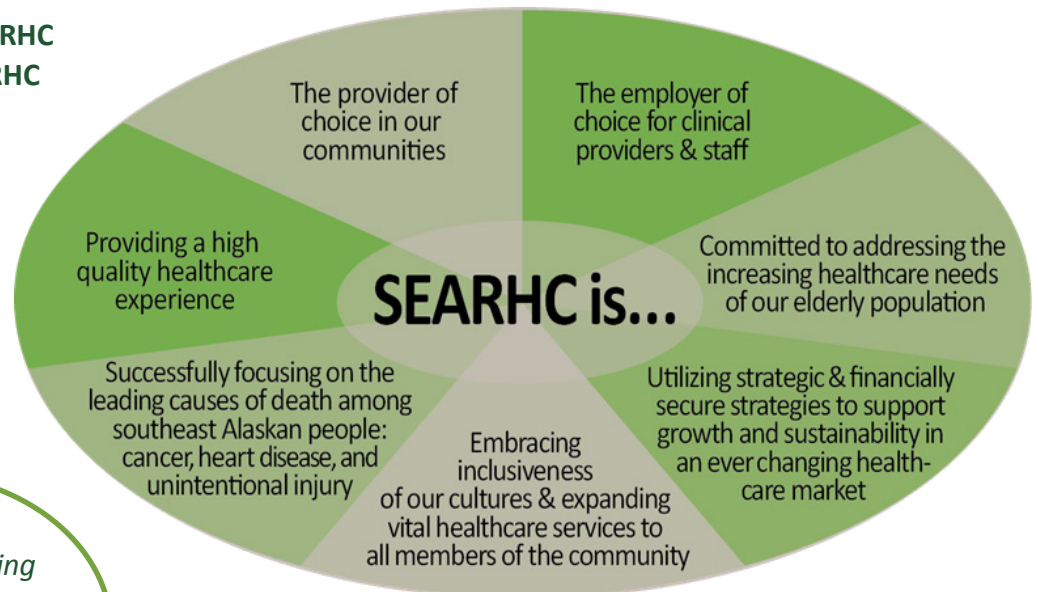
SEARHC’s governing body for overall policy and direction, and the clinical governing body, is the Accreditation Governing Body, which has the authority to:

- Govern overall operations and programming of hospital, medical, behavioral health and dental clinics;
- Maintain decision-making on provider and employee staffing and recruitment;
- Oversee quality improvement and compliance programs and receive regular updates on progress; and
- Direct other areas relevant to accreditation and licensing of SEARHC facilities and programs.

Members of the Accreditation Governing Body include the following individuals.

- Kimberley Strong, Chair
- Harriet Brouillette, Vice-Chair
- Harriet Silva, Treasurer
- Lavina Brock, Secretary
- Patty Cottle, Member-at-Large
- June Durgan, Member-at-Large
- James Jack, Sr., Member-at-Large
- Mark Walker, Southern Region Director (Former Alaska Island Community Services Executive Director)
- Dr. John Baciocco, Chief of Staff

SEARHC’s strategic plan, “SEARHC View 2018,” emphasizes SEARHC as a top-ranked provider of healthcare services in Sitka and in all the communities it serves. The focus of the strategic plan is to objectively demonstrate excellence on the following seven key pillars:



VISION: *Partnering with our communities to promote a healthy balance of mind, body and spirit.*

VALUES:
Respect, Cultural Identity, Service, Professionalism and Compassion

Executive Leadership Team

Our Executive Leadership Team is responsible for administration and setting the tone for SEARHC's culture. The Executive Leadership Team includes:



Charles Clement
President and CEO

■ As President and CEO, **Charles Clement** is accountable for all day-to-day aspects of SEARHC's operations.

An Alaska Native of Tsimshian and Athabascan heritage, Charles came to SEARHC in 2011 after serving as Vice President of Operations/COO for Southcentral Foundation. He played an instrumental role in the Foundation becoming the first Alaska healthcare organization to earn the prestigious Malcolm Baldrige National Quality Award.

Charles earned a Bachelor of Science degree in Economics and Political Science from Northern Arizona University in Flagstaff, AZ. He earned a Master of Public Administration degree from the University of Alaska Anchorage and completed an executive leadership program with the Indian Health Service.



Dan Neumeister
*Senior Vice President,
Chief Operating Officer*

■ For more than 25 years, **Dan Neumeister** has been a senior healthcare executive with a record of distinguished service as both a CEO and a COO.

Known for developing high-performing teams, while building cultures of collaboration and accountability, Dan came to SEARHC in April 2013 and immediately assumed the task of assessing SEARHC's needs and restructuring its operations.

Dan received a Bachelor of Science in Management from San Diego State University, San Diego, CA and a Master of Healthcare Administration from Trinity University in San Antonio, TX.



Leatha Merculieff
*Vice President of
Executive Administration*

■ **Leatha Merculieff** began her tenure at SEARHC in February 2015 as the Vice President of Executive Administration. This newly formed position placed a renewed emphasis on patient satisfaction and customer service.

Leatha began working in Tribal Health in 1999 at the Alaska Native Tribal Health Consortium/Alaska Native Medical Center (ANMC). After serving as the Executive Director for a private foundation, Leatha returned to ANMC in 2009 where she served as the Vice President of Customer Experience.

Leatha received a Bachelor of Business Administration degree at the University of Alaska Anchorage and a Master of Business Administration from Alaska Pacific University.



Michael Douglas, JD
Vice President, General Counsel

■ **Michael Douglas** joined SEARHC as its General Counsel in November 2012 after serving six months as Interim General Counsel. In January 2015, he was promoted to Vice President, Chief Legal Officer. Prior to his tenure at SEARHC, Michael spent more than five years as an associate attorney with the Indian law firm of Sonosky, Chambers, Sachse, Miller & Munson, LLP, in Anchorage, AK.

Michael earned a Juris Doctor degree from the University of Washington School of Law in Seattle, WA and a Bachelor of Arts degree from Fairhaven College’s Law & Diversity program at Western Washington University in Bellingham, WA. Michael recently completed the program requirements for a Master of Science degree in Health Care Delivery from Dartmouth College in Hanover, NH, which will be conferred in June 2017.



Dan Harris
Chief Financial Officer

■ With more than 28 years of healthcare experience, **Dan Harris** has spent 20 years at the CFO level working on hospital, system and physician group growth and acquisitions. Prior to joining SEARHC, Dan served as CFO and Vice President of Financial Operations for Providence Health & Services in Renton, WA providing support to system services and operations for the system’s 19 hospitals in AK, WA and MT.

Dan earned a Bachelor of Business Administration degree from Eastern Washington University and a Master of Business degree from the University of Portland.



Jeff Prater
Hospital Administrator

■ **Jeff Prater** serves as the Hospital Administrator of Mt. Edgecumbe Hospital and has spent more than 25 years in healthcare with extensive experience in hospital and clinical settings. Prior to joining SEARHC, Jeff was the Hospital Administrator at Samuel Simmons Memorial Hospital in Barrow, AK.

Jeff received his Bachelors in Health Sciences degree from The Medical University of South Carolina in Charleston and his Masters in Healthcare Administration degree from Montana State University in Billings. He is a Fellow with the American College of Healthcare Executives and a Fellow with American College of Medical Practice Executives.



Dr. David Vastola
Medical Director

■ **Dr. David Vastola** is the Medical Director of Mt. Edgecumbe Hospital (MEH). Dr. Vastola joined MEH in 1988 as a pediatrician, and in 1994, he assumed the role of medical director for SEARHC Community Health Services where he supervised medical services provided by SEARHC’s rural clinics. In 2012, Dr. Vastola returned to providing pediatric services at MEH.

Dr. Vastola earned his medical degree from and completed his residency at the University of Connecticut in Storrs, CT. He received the 2011 Sockeye Award from the Alaska Primary Care Association for his work increasing access to primary health care in rural Southeast Alaska.

Employees and Providers

SEARHC is the largest employer in Southeast Alaska and believes its 964 employees are its greatest asset. With 458 of those employees based in Sitka and, according to the Sitka Economic Development Association’s economic model, SEARHC provides an economic value to the community of approximately \$36 million annually.

Our healthcare providers represent a wide range of specialties to address the healthcare needs of SEARHC’s patients and communities. As seen in the table below, 52 percent of our physicians practice in Sitka with more than a third of all SEARHC providers offering services in Sitka.

Although recruitment in Southeast Alaska can be challenging, our team has strong expertise in recruiting and retaining physicians in Sitka. SEARHC endeavors to recruit and retain qualified, competent and compassionate healthcare professionals who uphold our values while pushing to meet quality standards. SEARHC also is dedicated to furthering our employees’ and providers’ development by assisting in their professional advancement.

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
Total Physicians	22	42
Nurse Practitioner	5	24
Physician Assistant	3	8
Optometrist	1	4
Dentist	5	25
Orthodontist	1	2
Community Health Practitioner	0	4
Total Providers	37	109



Commitment to Innovation and Quality

In 27 communities throughout Southeast Alaska, SEARHC strives to make a difference in the lives of all residents and improve their health through innovation and quality services. This is reinforced through one of SEARHC's primary messages, "healthy is here," which emphasizes patients and residents can rely on SEARHC to provide the highest level of care, best medical staff and state-of-the-art equipment.

As outlined above, SEARHC provides a full array of physician and provider services, including dental, optometry, physical, behavioral health and health promotion services. All SEARHC facilities are accredited by The Joint Commission, and in 2016, SEARHC was awarded the Commission's "Gold Seal." MEH earned the Quality Achievement Award in 2016, one of four hospitals to earn this high-level award given by Mountain-Pacific Quality Health. MEH also is one of 10 hospitals to receive the Chasing Zero Award for the quality of its Infection Prevention and Control Program.



As part of our commitment to the health of patients, our primary care teams embrace the clinical quality measures defined by the Government Performance and Results Act. In 2016, SEARHC met or exceeded 17 out of 19 of these measures. Notably, SEARHC's scores for most of the quality measures surpassed the overall results for the state of Alaska.

The following are a few examples of our ongoing commitment to innovation and quality:

Providing State-of-the-Art Technology and Services – SEARHC recognizes the role of advanced technology in delivering quality healthcare services. For example, MEH now offers 3-D mammograms, which bring the best in breast cancer screening to families in Sitka. This technology increases the detection of invasive cancers by more than 40 percent compared to traditional 2-D mammograms and gives providers the information needed to better treat cancer early. Additionally, MEH is leading the way in 2017 to become the only Tribal-certified, baby-friendly hospital in Alaska by implementing rigorous standards for baby care and infant feeding to ensure the best possible outcomes for mothers and children.

Promoting Community Health – SEARHC promotes and encourages healthy initiatives in the community. As a founding member of the Sitka Health Summit Coalition, SEARHC provides funding opportunities to local groups interested in creating healthier systems in their communities. Consequently, local groups and businesses have created community playgrounds and gardens, added wild fish on school menus, instituted environmental changes that increase physical activity, improved nutrition and adopted policies for smoke-free spaces.

Implementing Systems Transformation – The implementation of Cerner's electronic medical record platform brings patients' complete and current health information into one location. Tying together all patient and business systems into one comprehensive system allows SEARHC's healthcare practitioners to be better prepared for patient interactions and proactive in delivering healthcare services. SEARHC intends to add a patient portal feature to the Cerner platform, allowing patients to access their own medical results and provider recommendations through a secure web page.

Leading in Telemedicine Services – Clinics in some of our smallest communities use state-of-the-art video technology and secure software to connect patients with healthcare providers in Sitka, Juneau or Anchorage. This technology allows SEARHC to conduct office visits that previously required travel for the provider or patient. Tele-behavioral health allows patients in remote areas to consult by video conferencing with a psychiatrist, clinical psychologist or behavioral health clinician based in Sitka or Juneau. Dietitians in Juneau and Sitka also provide tele-nutrition services to patients in remote communities.

Providing Behavioral Health Services – SEARHC offers a full-service, nationally accredited behavioral healthcare program in Sitka. The program includes youth residential substance abuse treatment programs as well as intensive outpatient services for adults. One example is SEARHC’s Raven’s Way, a residential matrix model program with a wilderness expedition component. This innovative approach to meeting the needs of young people, between the ages of 13 and 18, has earned Raven’s Way national recognition as a successful model for treating hundreds of adolescents with substance abuse problems. Another example is SEARHC’s partnership with Alaska Island Community Services, which offers Alaska Crossings, a therapeutic behavioral health skills-development program for youth ages 12 to 18. Participants progress through the therapeutic expeditionary program designed to increase their social functionality and help them build and master real-world life skills.

Providing Dental Health Aide Therapy – SEARHC’s community-based program addressing patients’ dental health needs has been instrumental in improving oral health and dental care in areas that previously had none. SEARHC’s Dental Health Aide Therapists can perform a variety of procedures without a dentist present, consequently, improving access to much needed services. SEARHC also recently opened an updated and expanded Children’s Dental Clinic in Juneau, which is staffed by board-certified pediatric dentists and outfitted with the latest in pediatric dental technology.

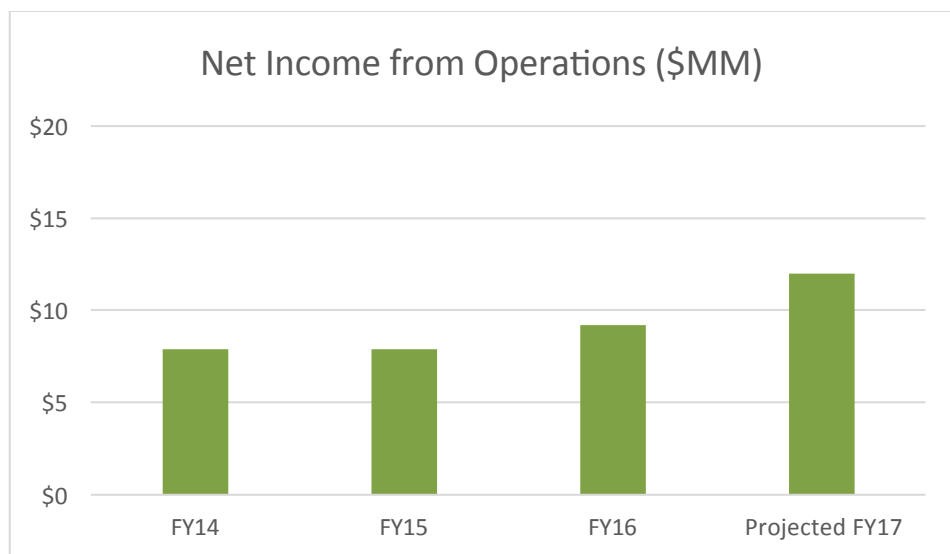
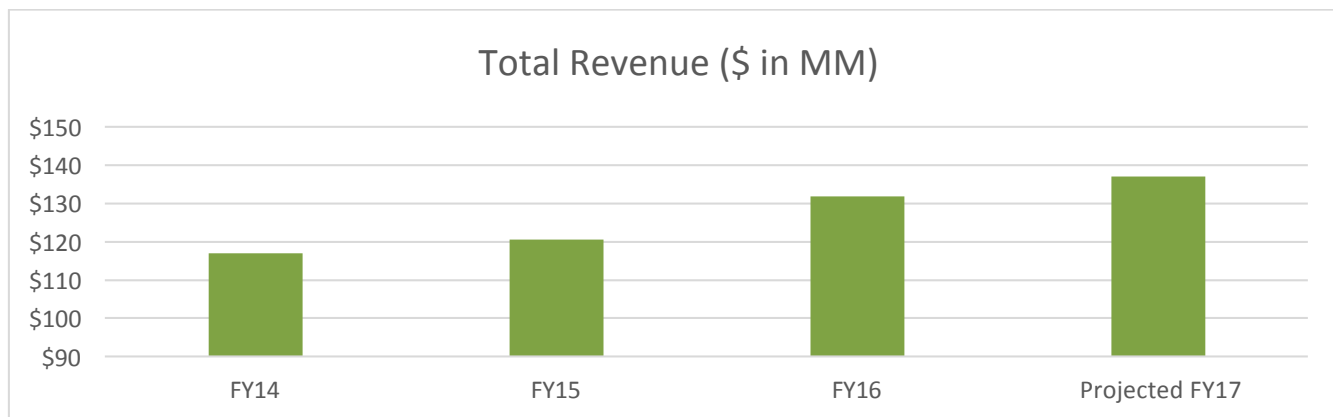
Financial Performance

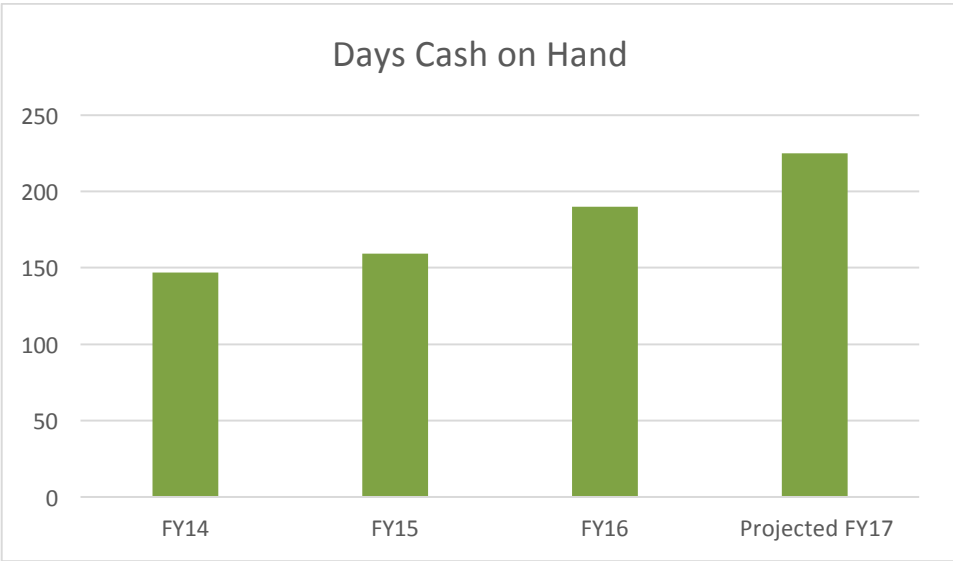
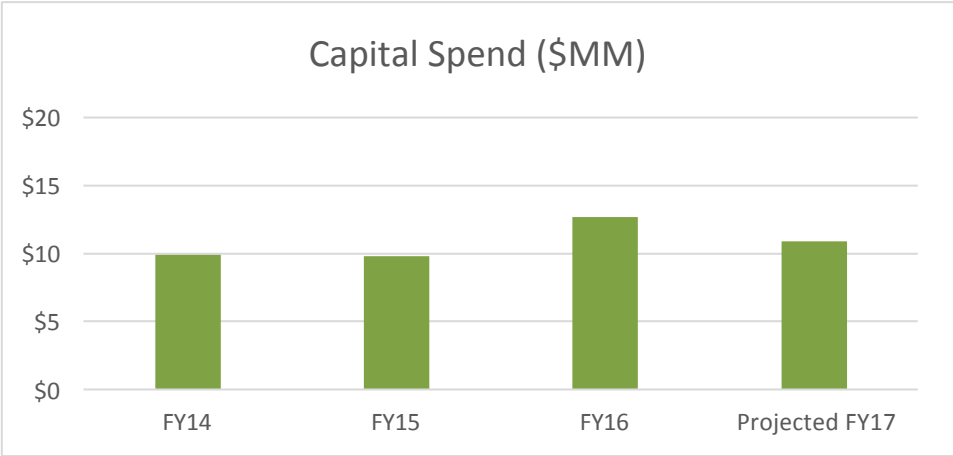
The Alaska healthcare environment continues to be volatile, while Medicaid enrollment is rising, resulting in a \$45 million increase in the governor’s 2018 proposed budget. Given this, Alaska’s administration plans to reduce Medicaid expenditures by approximately \$30 million, including a 5% cut or \$6.2 million in inpatient and outpatient services. This, combined with increasing healthcare delivery costs, the need for new technology and capital investments, points to the importance of creating a strong financial organization that can positively respond to challenges. After implementing a restructuring program during the last several years, SEARHC has created a strong financial foundation.

SEARHC’s revenue growth from 2014 to 2016 increased 12.9% and is ahead of fiscal targets for 2017 (see charts below). SEARHC’s operating margins are above industry standards and in 2016 and 2015, respectively, operating margins were 7.3% and 6.6%. SEARHC has more than 200 days of cash on hand. The majority of the system’s revenue comes from Medicare, Medicaid and third-party payors. Additionally, SEARHC receives revenue from Indian Health Service to provide care for Alaska Natives and from large grants to support numerous programs and services.



Recognizing the importance of keeping up with demand while providing top-notch services, our capital investments during the last three years have totaled more than \$30 million, including investments in the Cerner application and equipment such as an MRI, 128-slice CT Scanner and 3-D mammography machine in Sitka. Additionally, SEARHC opened new clinics in Hoonah and expanded dental operations in Haines and Juneau.





Our Value Proposition

We believe the governing bodies of SEARHC and the Assembly recognize that the Sitka community is at a fork in the road regarding healthcare delivery. As healthcare leaders, our patients and community residents rely on us to make decisions that make the best use of our community's resources. The current model of having two stand-alone hospitals serving a local population of 9,000 is no longer sustainable, and the duplication of costs and services to the community must be addressed.

SEARHC will work with the Assembly to better coordinate healthcare delivery in Sitka with increased access to quality services, decreased wait times and improved facilities. By SEARHC leasing the SCH facility and acquiring all operating assets and operations, Sitka will benefit from enhanced, expanded and sustainable healthcare services.

The following highlights the key value drivers that a partnership with SEARHC will bring to Sitka.

Less Exposure to Challenges in the Alaska Healthcare Industry

Alaska is facing unparalleled fiscal challenges accompanied by the expansion of Medicaid and 2018 state budget cuts to Medicaid's reimbursement for inpatient and outpatient services, all of which result in decreased funds to the City. Concurrently, Sitka has excess bed capacity, and the population is rapidly aging with growth in the general population remaining stagnant. All the above are creating fiscal burdens for Sitka hospitals, community leaders and, most importantly, Sitka patients and residents. However, despite these pressures and with a focus on building a solid financial foundation, SEARHC has experienced growth in total revenue, net operating margins and cash on hand. This translates into SEARHC being a strong partner with the City in effectively responding to the challenges above while delivering efficient and high-quality healthcare services in Sitka.

Improved Patient Experience, Health and Cost

Best practices in healthcare focus on improving the patient care experience and the health of populations as well as reducing the per capita cost of healthcare. By drawing from SEARHC's large service area, the Sitka community will benefit from increased access to reliable, quality healthcare services provided throughout Southeast Alaska. Additionally, SEARHC will be able to increase patient access to enhanced medical services, including specialty services, while creating operational efficiencies to optimize patient care and economies of scale in Sitka. For example, SEARHC will be able to address the shortage of physicians and expansion of specialty offerings in Sitka by attracting and retaining high-quality providers.

Improved Technology, Service Lines and Expansion of Services and Care Coordination

SEARHC believes in keeping care local and close to home. As reflected in our expansion of orthopedic services in Sitka, SEARHC also will be expanding ear, nose and throat (ENT) services and providing cardiology, urology and dermatology services at a minimum of one week per month. Additionally, SEARHC will grow the long-term care program in Sitka.



SEARHC also has numerous forward-thinking initiatives specific to community health management, tele-behavioral health and short-term patient housing to name a few. These programs focus on improving the health of the individual as well as the community. With the leasing of the SCH facility and acquisition of all operating assets and operations complete, SEARHC will provide and coordinate expertise and resources for Sitka’s community health and wellness initiatives as part of its larger structure. Consequently, Sitka will benefit from a strong pool of expertise at all levels of patient care without losing the local, family-provider relationship.

Referenced in the section above titled, Commitment to Innovation and Quality, SEARHC is dedicated to employing first-rate technology and diagnostic tools to improve Sitka patients’ experiences. SCH will be integrated into the SEARHC technology platform, which will improve care coordination and communication on behalf of Sitka patients as well as contribute to significant cost savings to the City. By adding SCH to the Cerner platform, the estimated cost to SEARHC would be approximately \$200,000.

Elimination of Healthcare Financing Obligations and Improved Financial Position

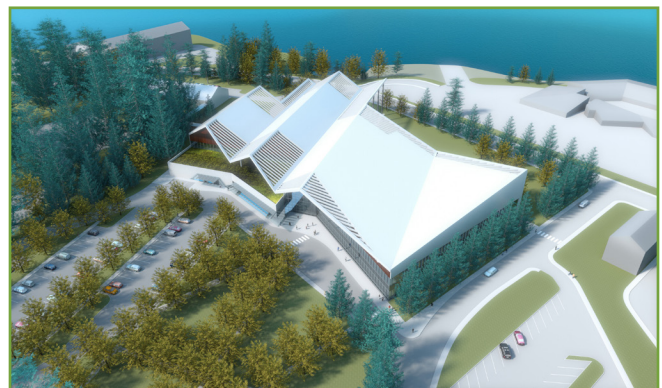
Not only will the leasing of the SCH facility and acquisition of all operating assets and operations create a financially thriving healthcare delivery system, but it also will eliminate the Assembly’s financial obligations and liabilities for future healthcare services. As a result, the precious resources spent to date on healthcare can be invested back into the City treasuries to enrich the community. The City will gain access to capital for ongoing maintenance and improvements in numerous areas, including education, public safety and infrastructure. And, through job expansion and workforce development, residents and the City will experience greater economic stability.

Improved Facility

As the health needs of Sitka’s population change, service line expansion occurs and current facilities age, new and improved facilities will be needed in Sitka. SEARHC envisions a modern healthcare campus in Sitka that would house advanced technology and include a hospital, medical office building and skilled nursing facility. As seen in the photos, the campus is estimated to be 175,350 square feet and will include 25 in-patient beds, four operating rooms and 50 treatment rooms in the medical office building as well as 20 skilled nursing facility beds. Project costs are estimated at \$115 million. SEARHC hopes to build a facility the Sitka community will be proud of and that provides top-quality healthcare services.



View of Proposed Campus



Aerial View Looking North

Trusted Partner with Shared Values and Goals

SEARHC believes in the values and goals identified by the community assessment conducted by ECG Management Consultants, which included critical input from key stakeholders. As discussed throughout this proposal and in partnership with the Assembly, SEARHC's decisions and actions will be guided by the values of ensuring equal access for patients; providing services tailored to meet the needs of the patients and community; providing high-quality, culturally appropriate care; and ensuring equitable employment. SEARHC is dedicated to making the goals outlined below a reality for Sitka patients and residents and achieving the vision of Sitka as the home of a premier healthcare provider dedicated to improving our community's health through inclusive and sustainable, quality services.

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.



Proposal Terms

Summary of Proposed Lease of the SCH Facility and Acquisition of Operating Assets and Operations

SEARHC's Executive Leadership Team and staff have worked on several partnerships and affiliations, including Lynn Canal Counseling in Haines, Sitka Medical Center and, most recently, Alaska Island Community Services. Recognizing the sensitivities in creating a seamless transition for operations while continuing to provide quality healthcare experiences for patients, SEARHC's team will draw on their experience to efficiently coordinate the elements needed to be successful.

SEARHC is proposing to lease the SCH facility and acquire all operating assets and operations. In addition to other benefits, the City's future healthcare funding obligations will decrease, and the use of cigarette tax monies and additional capital funding to support SCH will no longer be required to be paid to SCH. The following summarizes the proposed financial consideration based on leasing the SCH facility and acquiring all other operating assets and operations.

Financial Terms

Key financial terms and commitments are summarized below:

- **Cash Payment to the City:** Recognizing current and anticipated cash flows of SCH are insufficient to support a true meaningful valuation for the organization, yet recognizing there is significant operational efficiencies that would result from the integration of the two Sitka hospitals, SEARHC proposes an upfront purchase price of \$6.5 million, adjusted for any working capital items that will be retained by the City, or a cash outlay estimated to be \$5.7 million to the City.
- **Lease Payment to the City:** SEARHC will lease the real estate for \$600,00 per year for up to five years, for a total payment 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 to support other programs within Sitka.
- **Retained Liabilities:** The City will retain most of the SCH balance sheet regarding assets and liabilities. Note that the state of Alaska is in the process of estimating the pension liability.

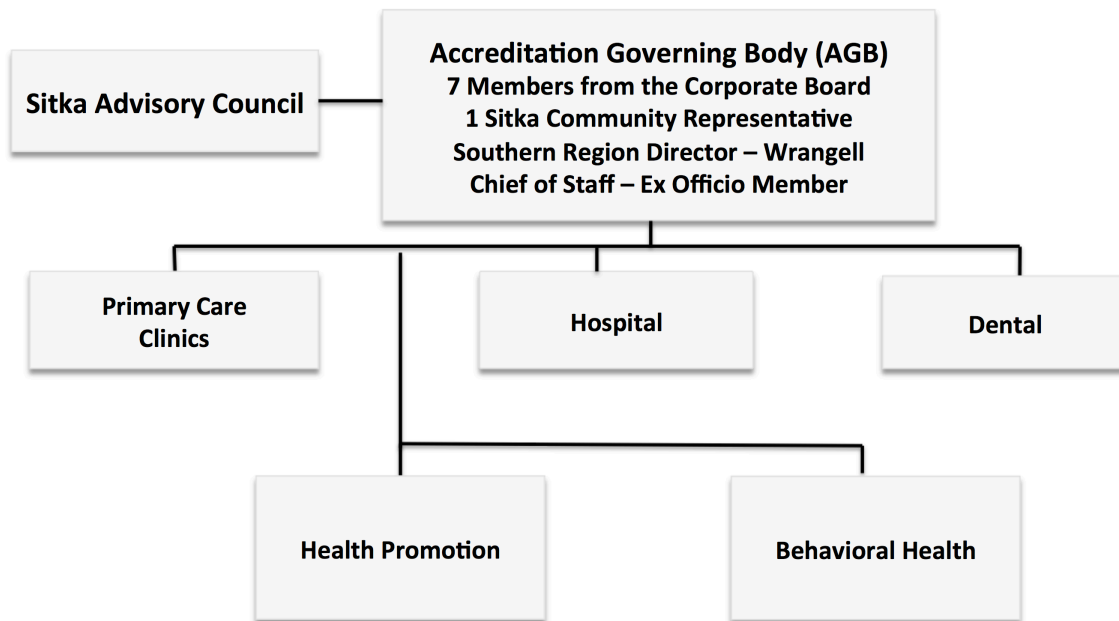


Governance Terms

As shown in the chart below, SEARHC’s governance structure would be amended to include representation from the Sitka community through the creation of a new Advisory Council and the establishment of one seat on the Accreditation Governing Body.

- **Accreditation Governing Body Representation:** The City would receive one seat on the Accreditation Governing Body to implement and influence effective changes within the community. More importantly, to enhance the input of the City with respect to ongoing operations, the definitive agreement will afford the City specific contractual rights regarding healthcare operations. These rights can strengthen the City and its representative’s preferred outcomes relative to SEARHC taking certain actions during the term of the arrangement. Rights that will be addressed include:
 1. Changes in policies/procedures related to hiring practices;
 2. Changes in policies/procedures related to access to care; and
 3. Elimination of core acute care services.
- **Sitka Advisory Council:** The Advisory Council would include Sitka representatives with the Council’s membership expected to include three members selected by SEARHC and up to nine at-large members initially appointed by the Assembly. The Council’s responsibilities will include providing:
 1. Feedback and information concerning the clinical and healthcare needs of the community to ensure these needs can be built into the planning process for SEARHC activities in Sitka; and
 2. Input pertaining to programs and services; quality of care and quality improvement; and patient satisfaction.

SEARHC Governance Structure



Employee and Provider Terms

SEARHC supports the value of ensuring equitable employment opportunities as key to a successful healthcare delivery system. Consequently, SCH employees who pass the 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 positions.

Providers with employment agreements and in good standing with SCH will be offered similar positions at compensation and benefit levels similar to those currently provided by SEARHC, including continuing medical education benefits. Physician credentialing will be accomplished using SEARHC’s process and guidelines. And, as previously referenced, SEARHC will address the shortage and expand specialty offerings, including orthopedics, ENT, cardiology, urology and dermatology.

When hiring future job candidates, SEARHC will rely on standard employee metrics and preference will be given to the most qualified candidates.

Technology and Capital Expansion Terms

As referenced earlier in this proposal, the lease of the SCH facility and acquisition of all other operating assets and operations would result in SEARHC’s Cerner electronic medical record platform being extended throughout the healthcare delivery system, including the SCH facility.

With respect to capital investments and expansion, SEARHC would provide for the maintenance of the SCH facility and will assume the obligations of the facility, including capital investments in new equipment, thereby relieving the City of all existing capital obligations.

New Facility

Looking to the future, SEARHC envisions a healthcare campus as depicted below that is projected to include:

- A new 25-bed critical access hospital with four operating rooms, replacing all acute care services provided at MEH and SCH;
- A new medical office building housing primary care, specialty clinics with 50 treatment rooms as well as laboratory and radiology services; and
- A new 20-bed skilled nursing facility to replace the SCH facility.



- A** FUTURE CLINIC/MEDICAL OFFICE BUILDING: 78,100 GSF
- B** FUTURE HOSPITAL: 83,250 GSF
- C** FUTURE SKILLED NURSING FACILITY: 14,000 GSF
- D** HOSPITAL
- E** SHORT-TERM FAMILY HOUSING/
FAMILY HOUSING
- F** ADMINISTRATION

SEARHC is committed to identifying the best outcomes for a thriving healthcare system and will work closely with the Assembly to create the delivery system that works best for the community. If, as described in the financial terms above, the Assembly elects to lease the existing SCH facility to SEARHC and have SEARHC purchase the equipment, SEARHC will assume the upkeep and ongoing operational costs of the property.

Until the new campus becomes a reality, the existing MEH campus will serve as the interim acute care campus following closing and will provide acute medical/surgical care, obstetric services and support services, including radiology, laboratory, respiratory therapy, etc. The existing SCH campus will become a rehabilitation center to include a skilled nursing facility and rehabilitative services such as physical therapy, occupational therapy and speech programs.

Conclusion

Moving Forward

The healthcare industry is experiencing unprecedented change. Alaska’s current fiscal challenges, along with cuts to Medicaid, are calling us to action now by working together to create a sustainable healthcare delivery system for Sitka. SEARHC’s proposal is intended to outline critical issues for the Assembly’s consideration and emphasizes the following important benefits:

- Enhanced quality and patient safety;
- Expansion of services and strategic initiatives to create a continuum of care in the service area to mitigate outmigration to surrounding markets;
- Offer of employment to all SCH staff subject to pre-employment procedures;
- Improved recruitment and retention of primary care and specialty providers;
- Participation in the local governance and operating oversight;
- Elimination of funding healthcare and related liabilities by the City;
- Long-term financial viability given the financial strength of SEARHC; and
- Capital for a sustainable, integrated modern campus.

SEARHC appreciates the Assembly’s commitment to a defined process for efficiently evaluating the proposal and is optimistic that the City will deem this proposal worthy of pursuing. We look forward to moving this proposal forward and realizing these benefits on behalf of the Sitka community. Upon the Assembly’s acceptance of this proposal, SEARHC recommends the following timeline.

Timeline

Critical and associated timeframes for the completion of the proposed transaction are detailed below. This schedule is subject to timely receipt of all due diligence materials, final negotiation and execution of a mutually satisfactory definite agreement as well as receipt of all necessary approvals, consents, waivers and clearances from governmental and regulatory agencies and certifying authorities.

Sign a Letter of Intent30 days

Due Diligence45 to 60 days

Sign a Definitive Agreement60 to 90 days *

Close Within 60 days of signing a definitive agreement and subject to regulatory approvals

Key areas of focus for the due diligence would include:

- Confirmation of financial performance by SCH;
- Confirmation of regulatory compliance;
- Environmental review;
- Human resources (detail review of benefits – Public Employees Retirement System);
- Review of major capital and information technology needs;
- Review of physician arrangements and credentialing of physicians (as needed);
- Review of material contracts; and
- Meetings with respective constituents.

* As is customary with transactions of this nature, this proposal is subject to the final approvals of the respective governing boards of SEARHC and the Sitka Assembly.