



Proposal for Sustainable Healthcare Services in Sitka in 2018

OVERVIEW

- Benefits to the Community of Sitka and City Assembly Outlined in SEARHC's Proposal
- SEARHC's Value Proposition
- Background on SEARHC
- Terms of the SEARHC Proposal
- Conclusion and Next Steps

Benefits to the Community of Sitka and City Assembly Outlined in SEARHC's Proposal

SEARHC's proposal provides economic security to Sitkans and creates a thriving healthcare delivery system that everyone can count on for years to come!

SEARHC'S PROPOSAL

Assumes ALL financial risk and responsibility for healthcare services in Sitka.

Provides funding for the City's pension liability.

SEARHC proposes three payment options representing a total cash payment ranging from \$9 million to \$16 million.

SEARHC's offer provides the City and Assembly with an additional projected \$3 million through the liquidation of SCH balance sheet assets.

Enables the City to retain its current facilities for alternative use.

Frees up money for the Assembly to spend on schools, public safety, roads, infrastructure, etc.

Expands and enhances sustainable healthcare services in Sitka and gives all Sitkans access to all services.



Ensures better electric rates for Sitkans with lower rates projected to range between 15 to 30 percent for the entire community, due to the increased electric load for the new healthcare campus.



Provides the Assembly and Sitkans with a governance role by creating a dedicated Advisory Council for input about services, quality and patient satisfaction.



Guarantees employment for SCH employees – no layoffs.

Promises a transparent, collaborative process with transition teams of SCH and SEARHC representatives creating the best outcome for all.



Builds a new sustainable healthcare campus for the entire community, including a 25-bed critical access hospital, new medical office building and 20-bed long-term care facility.

We are committed to creating a thriving healthcare delivery system for all of Sitka and believe it's the right thing to do for our community!

Our Value Proposition

OUR VALUE PROPOSITION TO SITKA

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

- Economic Security
- Elimination of Healthcare Financing Obligations
- Improved:
 - Overall Patient Experience
 - Health of the Community
 - Overall Cost of Care
 - Technology
- Service Line and Specialty Expansion to Include:
 - Care Coordination
 - Cardiology
 - Urology
 - ENT
 - Dermatology, Hematology, Oncology, Neurology
- Ongoing Input on Healthcare Services and Patient Satisfaction – Advisory Council
- Effective Collaboration and Transition of Services from SCH to SEARHC
- A Modern Healthcare Campus and Sustainable Healthcare Delivery System

OUR VALUE PROPOSITION TO SITKA



View Looking North
Toward Main Entrance



View of Proposed Campus



Aerial View
Looking North

Background on SEARHC

SEARHC STRATEGIC PLAN DIRECTION

SEARHC's mission, vision and values drive the strategic plan direction, which is...

- The healthcare provider of choice in our communities
- The employer of choice in our communities
- Providing high-quality healthcare
- Collaboratively engaged in community partnerships
- A comprehensive, regional healthcare system that is built on a financially secure and strategic framework of growth

SEARHC AT A GLANCE

- A non-profit health Consortium established in 1975
- Provides healthcare in 28 Southeast Alaskan communities
- Mt. Edgecumbe Hospital, a 25-bed critical access hospital, provides acute care, critical care, obstetrics, surgery, perioperative care, and rehabilitation services.
- Employs approximately 116 providers, including 43 in Sitka
- Annual operating revenue of \$160 million and net income of more than \$24 million in 2017
- Patient satisfaction survey results – 99% in 2017
- 1,070 employees, including 495 in Sitka

SEARHC EXECUTIVE LEADERSHIP TEAM

Charles Clement
President & Chief
Executive Officer



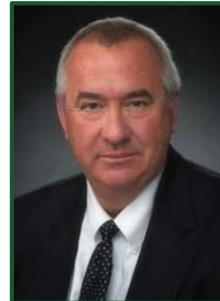
Chris Wolf
Vice President
Chief Operating Officer



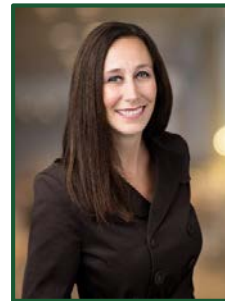
Leatha Merculieff
Vice President
Executive
Administration



Dan Neumeister
Executive Senior
Vice President



Dan Harris
Vice President
Chief Financial
Officer



Alexa Koontz
Vice President
Chief Human
Resources Officer



Michael Douglas
Vice President &
General Counsel



Dr. David Vastola
Medical Director
Mt. Edgecumbe
Hospital



SEARHC Providers and Advanced Practice Clinicians in Sitka

	Specialty	In Sitka	SEARHC Total
	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
Advanced Practice Clinicians	Nurse Practitioner	10	26
	Physician Assistant		
	Optometrist	1	4
	Dentist	5	25
	Orthodontist	1	2
	Oral Surgeon	1	1
	Dental Hygienist	2	8
	Dental Therapist	1	4
	Community Health Practitioners	0	4
	Number of Providers	43	116

DEMONSTRATED CULTURE OF QUALITY

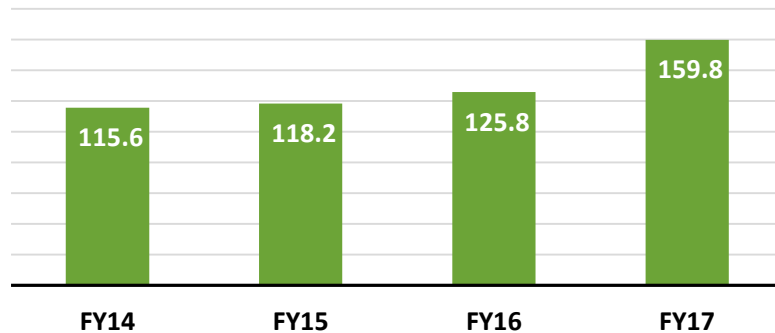


- All SEARHC Facilities are accredited by The Joint Commission.
- Mt. Edgecumbe Hospital was one of four hospitals to earn the Mountain Pacific Quality Achievement Award.
- Chasing Zero Award-Zero Hospital Infections

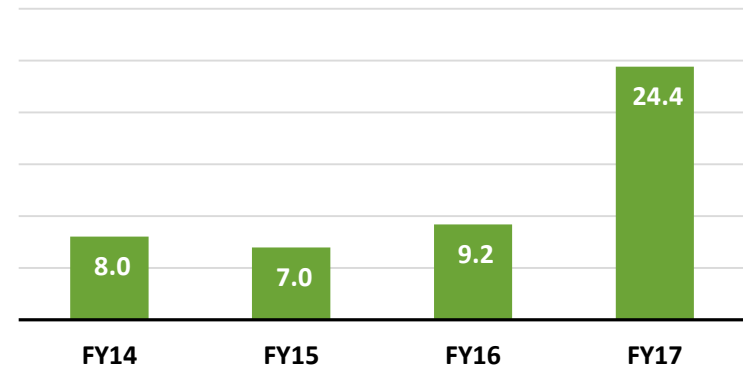


SEARHC'S TRACK RECORD OF FINANCIAL PERFORMANCE

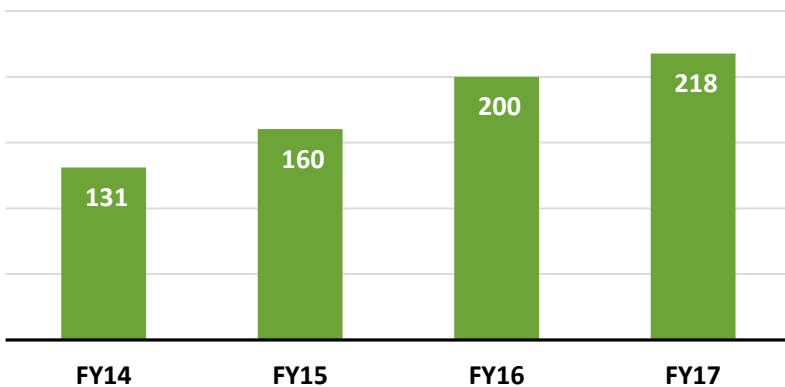
Total Revenue (\$ in MM)



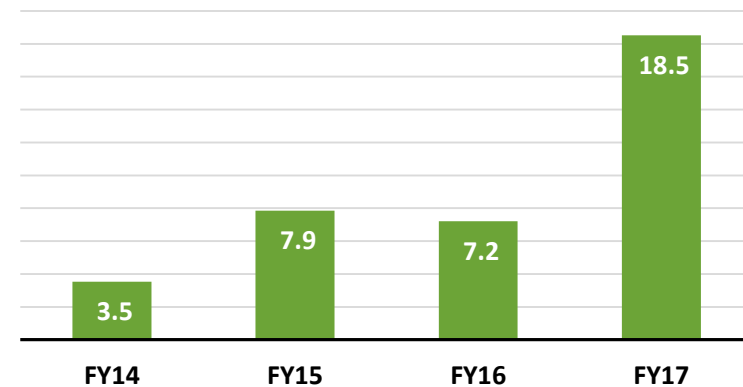
Net Income from Operations (\$ MM)



Days Cash on Hand



Capital Spend (\$ MM)



Terms of the Proposal

FINANCIAL TERMS

SEARHC proposes three financial options (see next slide) where SEARHC:

- Assumes **ALL** of the risk and responsibility for ongoing operations.
- Assists in funding the pension liability.
- Provides a total cash commitment ranging between \$9 - \$16 million.
- Provides the CBS with an additional projected net positive \$3 million through the liquidation of SCH balance sheet.
- Provides for better electric rates for Sitkans, projected at between 15-30 percent.
- Purchases the business, defined as employees, services and licenses, for the hospital and long-term care unit **but not the property** that SCH operates.
- Enables the City to retain its current facilities for alternative use.
- Will be responsible for the results of the income statement and balance sheet.

FINANCIAL TERMS Continued...

	OPTION 1	OPTION 2	OPTION 3
Cash Payment to the CBS	\$8.3 million to buy the SCH business only	\$700,000 for 22 years for a total cash payment of \$15,400,000 to buy the SCH business only	\$9 million to buy the SCH business only
Lease Payment to the CBS	\$140,000/year for up to five years	Included in above	Included in above
One-Time Payment for SCH Termination in PERS DB and PERS DCR		\$646,000	
Total Cash Commitment	\$9 million	\$9 million (minimum)	\$9 million
Total Maximum Cash Commitment by SEARHC	\$9 million	\$16 million	\$9 million
CBS Retains Current Subsidies and Support Payments	The CBS retains \$900,000 per year of tobacco tax revenue and capital support	\$900,000	\$900,000
Retained Assets and Liabilities by CBS	Cash and investments, foundation assets, accounts receivable, prepaid expenses, deferred pension outflows and any identified non-operating assets, as well as current liabilities, long-term debt, net pension liability, obligation payments to third-party payers and other disclosed or non-disclosed liabilities, together which are valued at a net positive \$3 million	\$3 million	\$3 million
Total CBS Savings	\$3.9 million +	\$3.9 million +	\$3.9 million +
Grand Total Value	\$12.9 million	\$19.9 million	\$12.9 million

FINANCIAL TERMS Continued...

OPTION 1

- SEARHC will purchase the SCH business operations with an up-front, cash payment of \$8.3 million.
- SEARHC will lease the SCH real estate for \$140,000 per year for up to five years for a total of \$700,000 resulting in a total cash commitment of \$9 million.
- The CBS will retain most all of SCH balance sheet assets and liabilities.

FINANCIAL TERMS Continued...

OPTION 2

- SEARHC will provide a yearly payment of \$700,000 for 22 years for a total cash payment of \$15,400,000.
- The CBS can use the money, combined with current subsidies of nearly \$900,000 consisting of tobacco/alcohol tax and capital support as it deems fit, which could fund the pension liability as actuarially estimated. The funding will end if the liability ends and will be reduced if the liability is reduced.
- If the pension liabilities are resolved prior to 22 years, SEARHC will, at a minimum, contribute a net total of \$9 million minus the amount paid up to the time the liability ends.
- The CBS will retain most all of SCH balance sheet assets and liabilities.

FINANCIAL TERMS Continued...

OPTION 3

- SEARHC will make a \$9 million up-front cash payment to purchase the SCH business operations as described above. The CBS can use this money as it deems fit such as funding pension obligations.
- The CBS will retain most all of SCH balance sheet assets and liabilities.

PROPOSAL TERMS Continued...

Governance Terms

- Establishment of a Sitka Advisory Council for input about services and patient satisfaction

Employee and Provider Terms

- SEARHC will guarantee and offer equitable employment opportunities.
- SCH employees who pass the necessary background checks will be offered similar available positions at compensation and benefit levels similar to those provided by SEARHC.
- SEARHC welcomes all providers who meet the requirements of the SEARHC Medical Staff Bylaws. Providers who pass the necessary background checks and are 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 will provide maintenance of SCH facility and assume the facility obligations, including capital investments in new equipment.

New Facility

- 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
- A new 20-bed skilled nursing facility to replace the SCH facility

CONCLUSION AND NEXT STEPS

TIMELINE	
Sign Binding Letter of Intent	Within 30 days of CBS's Decision
Due Diligence	45 to 60 days
Sign Definitive Agreement	60 to 90 days
Close	Within 60 days of signing a definitive agreement and subject to regulatory approvals

- This transaction is subject to the final approvals of the respective governing boards of SEARHC and the CBS Assembly.
- The offer(s) described in this proposal will no longer be valid as of September 1, 2018.

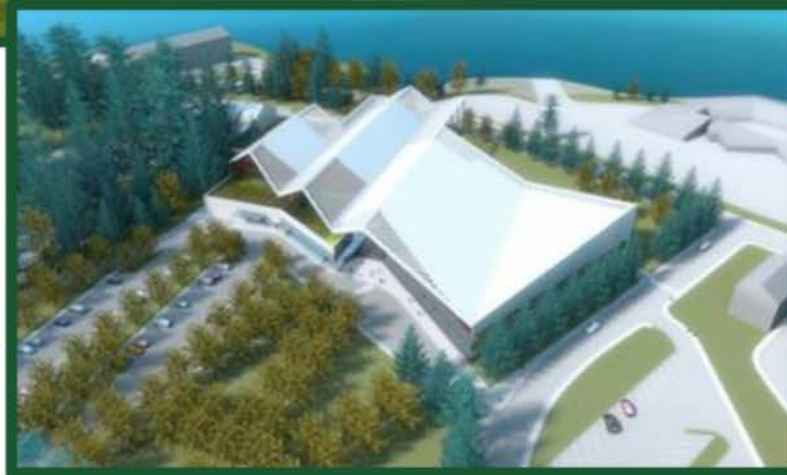
QUESTIONS?



View Looking North
Toward Main Entrance



View of Proposed Campus



Aerial View
Looking North