

Side-by-Side Comparison of Refined Proposals for SCH Affiliation (August 20, 2018)

	Sitka Jet	Quorum Health Resources (QHR)	SEARHC
Affiliation Type	Real estate purchase with leaseback	Management Agreement	Acquisition of SCH business via purchase or lease
Key Terms	<p><u>1 Option:</u></p> <ul style="list-style-type: none"> Sitka Jet purchases SCH property for \$5 million Sitka leases back SCH to CBS or a management company of CBS's choosing) on a triple net lease basis (SCH responsible for all taxes, insurance, and maintenance) Lease terms: \$39,000/month with 4, 5-year options to renew (lease payment increases by 10% on each renewal) Internal Rate of Return (IRR) approximates 8% CBS guarantees lease payments and maintains oversight for hospital operations 	<p><u>2 Options:</u></p> <ol style="list-style-type: none"> 5-Year Management Agreement for annual fee of \$454,000. Fee does not include salary and benefits for CEO and CFO. <u>Services included:</u> CEO and CFO recruitment; leadership and governance support; use of Quorum management tools (CMS cost-reporting, productivity, benchmarking data, web-based board portal, data analytics); consulting services (revenue cycle, workforce efficiency, compliance, clinical/regulatory support, physician practice/compensation support, strategy). In the event of SCH affiliation with SEARHC, Quorum provides "transitional" services until change of ownership (or for one year), for a fee of \$480,000, paid in monthly installments of \$40,000. Same services included in fee, except interim CEO/CFO provided as well as affiliation Due Diligence analysis. 	<p><u>3 Options:</u></p> <ol style="list-style-type: none"> \$8.3 million to buy the SCH business only + \$140,000/ year lease payment for up to five years \$700,000 for 22 years for a total cash payment of \$15,400,000 to buy the SCH business only + \$646,000 one-time payment toward PERS Termination \$9 million to buy the SCH business only <p>Under all three options:</p> <ul style="list-style-type: none"> CBS retains ownership of the SCH real estate. SEARHC assumes full responsibility for provision of healthcare services in Sitka Employment for SCH employees (no lay-offs), and future job opportunities throughout SEARHC system CBS Assembly and Sitka community play a role in governance through an Advisory Council

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Future Risk Assumed by Proposer	None	None	100%
<u>Assembly Goal 1A:</u> Increase quality & scope of healthcare services in Sitka	No Change	Potentially, yes. Contingent on Quorum's success with operating SCH.	Yes, access to broader array of specialty providers and service offerings throughout the SEARHC system
<u>Assembly Goal 1B:</u> Mitigate current and future liabilities	No	No	Yes, significant mitigation of current and future liabilities to CBS
<u>Assembly Goal 2:</u> Maintain/expand employment opportunities	Contingent on future sustainability of SCH	<u>Option 1:</u> No changes to SCH employment initially. (QHR to complete a productivity review and recommend any changes in staffing levels to the SCH Board.) <u>Option 2:</u> Yes (via SEARHC)	Yes, employment for SCH employees (no lay-offs), and future job opportunities throughout SEARHC system. (Confirmed in SEARHC's one-page promotional collateral piece.)
<u>Assembly Goal 3:</u> Access to Capital	Cash from sale would go to CBS permanent fund (only available to SCH through public vote). Potential for buyer to contribute to future capital needs of SCH for same buyer return on investment.	No	Yes, SEARHC plans to build new facility for new consolidated entity, and will assume responsibility for all future capital improvements
<u>Assembly Goal 4:</u> Future Governance	No change	No change, however board education services provided	SEARHC establishes Sitka Advisory Council to provide input on clinical services. Membership includes 3 members selected by SEARHC and up to 9 at-large members initially appointed by SEARHC and the CBS Assembly. Council reports to SEARHC Accreditation Governing Body.