

CEO/CFO Recruitment

The Process Quorum will utilize to recruit a CEO and CFO is described below:

- Quorum will provide an interim CEO in the event the recruitment process is not concluded when the current CEO's contract ends
- Quorum will conduct a national search for CEO and CFO with experienced in-house executive recruiters dedicated to Quorum
 - Quorum will develop a CEO profile with the Board, focusing on the qualities needed to be successful in Sitka
 - Quorum will utilize its resources to source candidates
 - Quorum will screen candidates, utilizing our experience in working with rural hospitals and the criteria developed with the Board
 - Quorum will present a slate of candidates to the Board of Directors that are acceptable to Quorum
 - The Board of Directors will make the final selection of the CEO
 - Quorum will work with the Board on developing an offer of employment at a salary level approved by the Board of Directors
 - The same process will be followed for recruitment of the CFO except the CEO will make the final selection of the CFO after consultation with the Board
- After further review with hospital staff, Quorum would determine if a remote CFO was a viable cost savings opportunity for the Hospital; and would provide this option as part of a separate agreement for consideration by the Board

Leadership Support

The Regional Team

Quorum will provide continuous operations support to the Board of Directors, CEO, CFO and all Senior Leaders, with seasoned hospital executives and consultants, as well as our other corporate resources, including the following dedicated personnel to the Hospital:

- Regional Vice President – responsible for all aspects of hospital operations and finance
- Associate Vice President – responsible for direct support of CFO and hospital finance
- Regional Financial Analyst – responsible for financial analytics, benchmark comparisons and financial operating reviews

- Reimbursement Consultant - Responsible for reviewing the cost report, contractual allowance model as well as providing reimbursement advice for optimizing reimbursement to the hospital under the Medicare program.

Board Support

- Attend Board meetings; attend Finance Committee in person or by phone
- Onsite at the hospital 6 times a year to participate in key meetings and conduct the Financial Operations review (FOR) and the CEO evaluation
- Serve as an advisor to Board and Board Chair
- Provide Education Services to Board including:
 - Monthly Trustee webinars
 - Monthly Trustee Times newsletter
 - Monthly Q-View Healthcare Digest
 - Annual new Trustee Board Essentials Conference
 - Annual Trustee Conference
- Assist with annual CEO evaluation including annual compensation review
- Provide an annual report to the Board regarding operational performance of Sitka Community Hospital
- Facilitate an annual business planning process

Senior Leadership Support

- Establish best practices and accountability structure with QHR's proprietary Operating Practices Manual (currently at more than 50 practices)
- Review and assistance in developing the annual budget and business plan
- Conduct monthly operations reviews with Senior Leadership Team
 - Review of financial performance and budget variances
 - Discuss progress in implementing the annual business plan
 - Review of consulting recommendations as well as action plan implementation
 - Review and discuss new and future business opportunities
- Conduct an Annual Financial Operations Review
- Host Senior Leaders at annual QHR leadership meetings, including national and regional conferences
 - National CEO Meeting
 - National CFO Meeting
 - Regional Leadership Meeting
 - National Nursing Meeting
- Facilitate access to QHR Consultants and develop annual Support Plan to establish consulting engagements for the upcoming calendar year

- Oversight of consulting action plan implementation
- Leadership and Staff have access to HR consultants for ongoing advice by phone

QHR tools

Quorum will provide the hospital a Suite of tools supported by Quorum consulting staff, to monitor and review hospital performance.

1. Quorum Vantage Suite

- Vantage Cost Report Model**-Estimates Medicare allowances based on the cost report to provide accurate monthly financial statements to the Board. The tool can also model the impact of operational changes on the cost report and on reimbursement.
- Vantage Productivity**-Uses hospital specific productivity standards based on national benchmark and hospital specific operations to monitor staffing levels and educate managers on optimizing staffing.
- Vantage Comparative Data**-Provides the hospital real time financial comparisons to other CAH hospitals.
- Vantage My QHR**- Provides the Board a tool for use as an electronic Board packet.
- Vantage Data Analytics**-Reviews purchasing utilization to maximize use of the Group Purchasing organization.

Consulting

The following Consulting resources will be available to the hospital and included in the base management fee. As needed, consultants will be available on-site to assist with reviews and provide education and support to the Hospital staff. On a regular basis, consultants will be available as a resource to the hospital staff and Board via phone and email.

Health Finance and Reimbursement

- Set up and license to Vantage Cost report model
- Support in calculating the monthly Medicare allowance
- Mid-year and year-end review contractual allowance calculations
- Annual review of the cost report
- Ongoing reimbursement support for decision making

Workforce Efficiency

- Initial staffing assessment
- Vantage productivity System license and set up with initial staffing standards
- Onsite staff education and an annual update of the standards

Compliance

- Program compliance assessment conducted bi-annually
- Regular follow up on the improvement plan developed as a result of the assessment
- Ongoing support to the Hospital compliance officer

Clinical/ Regulatory Services

- Tri-annual mock survey of the Hospital to CMS standards
- Phone support for regulatory service and advice

Physician Practice Support and Physician Compensation

- Review and advise on current physician contracts
- Assistance in developing and moving to an incentive-based compensation model
- Medical Staff Development planning

Strategy

- **Quorum Planning Analytics.** Using a number of public available and purchased (IBM Health Analytics and Definitive Health Care) data sources, Quorum will provide market and analytic data to assist with Strategic planning.

QHR Learning Institute

- Annual Board Essentials Training (designed for new Trustees)
- Annual Trustee Conference for Trustees, physician leaders and CEO
- Executive and physician leadership programs through conferences and monthly webinars
- Management and staff education programs—(tuition and fees covered within base fee; hospital responsible for travel costs)
- Quarterly Compliance and Reimbursement updates
- Over 100 programs offered on line and in classrooms annually
- Ongoing Board education and leadership programs through:
 - Monthly Trustee Times Newsletter, Q-View Healthcare Digest, webinars

Supply Chain Cycle

- Access to the best in the industry supply pricing and purchasing services
- Dedicated QHR Material Resource Group account representative
- Negotiated discounts for non-supply hospital purchases (Strategic Service Partners such as:

- IT Systems, physician recruitment, refurbished equipment, medical device implants, etc.
 - The SSP program currently has over 50 participating partners
- Product standardization
- Annual supply chain assessment and optimization
- Pharmacy purchasing and cost review

Services not included in the proposal

Actual Cost report preparation

Legal Service

Audit Services

Consulting in areas not outlined above including IT and revenue cycle

Follow up work to resolve any issues identified through the compliance audit, actual or mock regulatory survey.

Proposal

Five-year agreement

Annual fee \$454,000 with annual inflation adjustments based on the medical CPI

Travel Expenses – Travel expenses for up to six annual trips made by members of the regional team are included in the annual fee. Consulting travel and additional travel by the team will be billed separately to the Hospital.

CEO and CFO salary and related benefit cost will be billed directly at cost and not part of the above annual fee.

ALTERNATIVE PROPOSAL

Executive Management & Transition Advisory Services

Sitka Community Hospital is one of two community hospitals serving the same market population of approximately 9,000 residents. The market competitor is Mt. Edgecumbe Hospital – a member of the 6-hospital Southeast Alaska Regional Health Consortium (“SEARHC”).

Hospital leaders have struggled to manage the effects of healthcare reform: declining revenues and cost inflation; increased competition, often from non-traditional sources; explosive advances in technology and clinical practice; and an aging physical plant and related infrastructure. Together, these issues have greatly challenged the Hospital’s financial performance and, consequently, its stability.

As a result, the Hospital is evaluating strategies to optimize the Hospital’s role and relevance in its marketplace, and in doing so, its longer-term sustainability. One of those strategies is its potential sale to Southeast Alaska Regional Health Consortium.

This alternative option provides for experienced leadership and guidance through such a transition, and in a way that safeguards the best interest of the City and Borough of Sitka and the communities it serves. This alternative option shall provide for:

- Onsite interim executive management to provide experienced leadership, stability and continuity;
- An assessment of the Hospital’s compliance risks, the adequacy of its compliance program, and resulting recommendations;
- Access to experienced hospital operators, financial professionals, and consultants covering a broad continuum of hospital operational, financial, clinical, strategic, and other subject-matter disciplines; and
- Due diligence analysis of the SEARHC proposal options and resulting recommendation.

These elements are more fully described below:

1. **Executive Management** – QHR shall appoint experienced professionals to serve as Interim CEO and Interim CFO. These professionals shall lead the day-to-day operation of the Hospital and strive to maintain enterprise value and effectiveness through an orderly transition to SEARHC.
2. **Compliance Assessment** – Upon acceptance of this Proposal, and under attorney-client privilege, QHR shall initiate an assessment of the Hospital’s compliance risks, the adequacy of existing compliance programs, and shall provide the Governing Board a

report of findings, recommendations, and a related management action plan. Ultimately, this review is intended to identify and diminish or mitigate risks to the Hospital, the City and Borough of Sitka, and the communities it serves.

3. **Consulting Services** – At its discretion, QHR may deploy subject-matter consultants to support the interim executive team and Hospital.
4. **General Offer Evaluation** – Experienced financial and strategy experts and analysts shall evaluate SEARHC's May 16, 2018 proposal for its acquisition of the Hospital and shall provide their impressions and those recommendations believed to be in the best interests of the City and Borough of Sitka. QHR shall conduct a general evaluation of each of the three options described in the SEARHC offer document and shall present to the Board a report of the general strategic and economic merit of each option (the "General Offer Evaluation Report"). If fuller transaction advisory services are desired, those services shall be separately negotiated.

Term – The term of this option shall be upon change of ownership or control of the Hospital, or one year – whichever occurs first. Again, the intention of this option is to maintain or improve enterprise value and effectiveness through an orderly transition of ownership.

Fees –

- **Professional Fee** – The professional fee for this alternative option shall be \$480,000, payable in monthly installments of \$40,000. If a sale occurs prior to the expiration of the 12-month term, then the unpaid portion of the professional fee shall be paid upon closing of the sale transaction.
- **Interim Executives** – Additionally, the salary and benefits of the Interim CEO and Interim CFO, plus 10%, shall be separately billable.
- **Travel Expenses** – Travel expenses of the interim executives and consultants for services rendered shall be separately billable.