

In the Matter of PMC CITIZENS PANEL MEETING

April 24, 2007

2:00 p.m.

Commissioners Ghan, Hadley and Whitworth participated in a meeting of the PMC Citizens Panel. Commissioner Ghan opened the meeting at 2:05 p.m. Panel members present: JuDee Adkins, Grady Staley, Nancy Renn, Rowanna Stump, Bob Chandler, Mark Buckalew, Michael Callaghan, Dorsey Hill, Tom Sahlburg, Tom Dial, Charles Evans, Lela Liggins, Mayor England, Bob Chandler, and Stephen Weeg as well as numerous interested parties. Cindy Hepworth was present taking minutes.

Larry Ghan welcomed the group and introduced Capella Health Care who presented their proposal to fund the completion of the PMC facility which will be owned by Bannock County.

Present from Capella were:

Dan Slipkovich – Chief Executive Officer

Tom Anderson – President

Andrew Slusser – Senior vice President of Acquisitions and Development

Christine Craft – Executive Director of Development

Anne Hancock – Communications Advisory

David Katz – Principal for GTCR

Capella provided a Summary of the Proposal stating they are a young company formed in 2005 with 25+ years of experience.

Capella's mission and commitment to Capella-affiliated hospitals includes accelerating growth of services and reinvesting 100% of all cash flows back into the hospitals. Capella stressed their wish to improve the quality of health care.

Capella said the hospital board would consist of a local advisory board. The Board would set and direct the policy of the hospital. No Capella officer would hold a board seat. Capella would be involved and visible in the process but look to the local board to set policy. Capella would however make major capital expenditure decisions that must remain within the covenants.

Capella would provide a strong work place for employees and physicians providing cutting edge management support and optimal technology. The hospital would serve all patients regardless of their ability to pay and would follow charity policies in place today because it is the right thing to do.

Capella would maintain accountability through a long term lease with obligations that would be agreed upon under terms of lease with accountability to the local board and satisfaction indicators.

Weeg asked if Capella had specific times when they have not agreed with local boards. Capella said they place a lot on the board and if there is a disagreement they work

through the problem and stressed that Capella has never reversed a decision of the board. Capella said they would communicate and maintain good understanding on the part of the board. Weeg asked if they can get their money back through services, growth, etc. Capella said the new facility would give more capacity with broadened opportunities. Capella considered unique opportunities for the PMC facility to include working with ISU to develop a med school which would help ISU as well as the community as well as the expansion of the heart program and oncology program, use of the accelerator program as well as neurosurgical expansion to increase volume. Capella would build on volume to strengthen the hospital and the community and have done it more than 50 times as a group in previous and with this organization by doing their homework and understanding what they can do in a community through a partnership with the community. Capella has a track record of putting the capital back into the areas that make sense by determining the priority projects and putting those dollars back into the community. Capella will be visible in the communities on many levels.

Tom Anderson, President of Capella said they were in Pocatello over a year ago expressing their interest and have spent much time looking at the opportunities in Pocatello and feel they can make a difference in health care in Bannock County. He has been in both NPF and FP settings stating over the past 15 years more and more hospitals of larger size need help, they need the capital and experienced management expertise to effect change and establish services, recruit doctors etc., to help make a difference. He said Capella guarantees they will complete construction of a new facility which is needed for a variety of reasons for the vibrancy of the community, to help bring in a medical school, to develop the cancer center, however a referendum of the people of this county would be needed to have an extended lease to allow Capella to effect change in this community. Capella will construct and build a new facility and they will give it back to Bannock County. The hospital will take care of every patient. The lease will include reporting responsibilities. Hospital growth will be determined by technology and advancement in services which will dictate how they operate for the next 40 to 50 years. Capella is happy to be here and wants to be an active vibrant part of the community with a hospital serving Bannock County citizens. Capella will build relationships with the Board, with the employees and doctors of the hospital making sure all basic needs are met including salaries and benefits making sure they are up to date. He stressed the employees are an important part of the care and hospital. They will work hard with the medical staff and allow physicians to invest in the hospital working with those groups to foster that sense of ownership to create better health care in the community. This is what sets them apart from any other FP or not NFP company. Capella will be attentive, listen, responsive, reactive. He reminded there are four members of the Board of Capella Health Care and three of them are present today to answer any questions.

Anderson spoke on how Capella would survey physicians, employees, patients, and the community as to how they are doing. He said Capella will not raise prices stating medicare, medicaid and insurances do not pay based on charges. Capella has a methodology to discount for those with income below the poverty level. Anderson said raising prices is not effective. They want to build based upon volumes by reaching out and having people come to this hospital from other areas which will build Pocatello's

economy and build health care here. They want to help physicians take care of patients. The board would annually set the strategic direction of the hospital for the coming year and the next three years. They would like to work to establish a medical school at ISU and work to get physicians out of the med school to work here. Capella would make sure employees feel a part of things and make them part of the problem solving process. Lewis Andrews asked if the Panel could speak to someone from a Capella hospital to verify this information. Capella said they would be happy to have them talk to hospitals they have worked with and feel they will stand head and shoulders above everyone else. Capella has a strong recruitment program starting by asking the doctors what they need. Capella wants to be a regional health care provider in our area. Capella currently owns 5 hospitals which were reviewed.

Survey information for the past year for Capella owned hospitals shows employee satisfaction at 81% satisfied or very satisfied. Physicians at 81% satisfied or very satisfied. In-patients at 96% satisfied or very satisfied. Out-patients at 99% satisfied or very satisfied and ED patients at 88% satisfied or very satisfied.

Anderson stressed a very strong ethics and compliance program including training programs for employees. They have a strong information and technology services and are now the 3<sup>rd</sup> largest purchasing group in the U.S. He said they also purchase as much as they can locally.

Anderson said all facilities are fully accredited and reviewed Capella's hospital services which are strong and innovative. Capella's corporate staff includes 21 professionals. He said Capella has no corporate integrity agreement to make sure they stay within the line of compliance as they do not need one. They have a 24 hour hot line available for anyone to voice concerns. He reviewed the local board would include 9 to 11 members one half physicians, and one half community leaders etc., which would meet monthly following the joint commission guidelines.

David Katz – Principal for GTCR spoke of GTCR Golder Rauner's access to capital and their commitment of \$200M to Capella for this project. He said health care is approximately 30% of their investments and they see Capella becoming more valuable down the road. GTCR feels a hospital is a valuable enterprise which will grow through Capella's leading edge patient care and technology bringing in patients and physicians to this community. He said through volume growth you make money doing a better job providing better services. That is how GTCR will recoup their investment.

Anderson reviewed the proposal wherein Capella will lease the current hospital facilities from the county for 5 years with monies to pay all debts. Her reminded a referendum will be needed to have a lease period of 40 to 50 years on the new hospital. After the referendum passes in May of 08 the construction will be completed in 5 years. In the first 5 years the county will own the hospital. At no point in time will the county relinquish its ownership of the hospital. If Capella were to sell it's interest in ten years that same lease would survive the sale. Weeg asked about a 50 year old hospital at the end of the lease. Anderson said the lease agreement would include a commitment to maintain the

facility and to keep up the latest technology. Capella expects to spend millions yearly as a commitment of the lease.

The Board and how it would be organized was discussed. Physician ownership was discussed and would be a leased interest ownership. Only physicians would get a quarterly distribution of cash. Whether they invest or not all physicians would use the hospital. FP is the only entity who can offer physicians the opportunity to participate in funding opportunities.

Anderson said all employees would be hired at current salaries and all seniority would be honored. Capella would adjust salaries to be market competitive. The facility would be maintained state of the art. The old hospital would be the county's to do with as they wished. Some equipment could be moved to the new hospital as part of the lease.

Dorsey Hill asked about the formula to provide care for the indigent. Capella said the formula includes charity right off so if someone can't afford to pay the bill is heavily discounted staying within State charge norms. The panel questioned FP monies going to Tennessee and Capella's management fee. Capella said under 3% of the monies goes to the company and a management fee would not be charged, Capella would receive 2% of net revenue. Capella would work with insurance companies such as Blue Cross and they stated 3 of the 5 hospitals they owned are currently accredited. The panel asked what bylaws they would use. Capella said they have a model set of bylaws which would be modified for this project. Credentials and bylaws were discussed. The panel asked if Capella employees physicians. Capella said they have but prefer they work independently. They have an aggressive program for recruitment which includes a competitive package. Recruitment was more fully discussed.

Timeline of building the hospital was discussed if all goes well which included a 5 year lease being the first step, which could be concluded sometime between June to August. Capella would then educate the public, go over plans, talk with employees, nurses and physicians to make sure plans meet the needs of everyone involved. After the referendum passes the construction will proceed with the hospital to open within 3 to 5 years. The panel questioned if the ongoing construction would continue. Capella said the money that exists right now would go to the county. A 6 to 9 month planning process would begin with the signing of a lease. After the referendum construction would begin again. Capella felt this would probably be the same scenario under a 501 process and Capella would finish the hospital faster.

Capella believes the market is here today and it is their job to bring the business to the hospital. Psychiatric care was discussed as being a very viable service and will continue as to what the needs are. Capella feels it is an opportunity rather than something to be cut. Capella intends to meet with every physician who wants to meet with them and see what their needs and ideas are. Renn asked if other hospitals purchased by Capella were county owned to which the answer was yes, their first 4 hospitals were acquired from HCA, and a city owned the Muskogee OK hospital. Capella employees previous experience included a vast majority of hospitals bought were either city or county owned. Renn asked how they approach the sale of a county hospital for a FP hospital. Capella

advised they would hold community meetings, town halls meetings, go to civic clubs, do a media blitz. The more citizens understand the better understanding they will have that a FP runs no differently than a NFP hospital. Capella said their \$50M offer would be increased if necessary to pay the hospital debt as the information they have may not be totally accurate.

The panel asked how Capella differed from ERIMAC. Capella said they work on relationships, building confidence, attentively listen. A Long term lease obligation is a business contract with each other that they will perform. Capella would only appoint the CEO of the hospital with the board being part of the selection process. The CEO is accountable to the board.

Andrew Lewis said he appreciated listening to Capella talk about a FP hospital. He suggested the panel let the general staff of the hospital talk to the group and have doctors come in. He wanted to hear from the Idaho Health Facilities Authority. He said he spoke with Dr. Robert Crittendon with the University of Washington and said he might be able to offer some help on this issue. Dr. Ben Call said we need to look at the 501(c)(3) recommended by the board. He encouraged the committee carefully plan out the agenda in the future and discuss each option. Carolyn Fossey was also recommended as excellent with administrative policies. Gerald Homstadt said we should focus on the narrow question. How to pull off a 501(c) (3) which may be doable in a short amount of time. It was reminded it took 2 years for Twin Falls to make the decision to go NFP.

Dorsey Hill would like to have a clear understanding of each model before she hears another presentation. Tom Dial said it was helpful to him to hear the Capella proposal, that it told him a lot more than just what they were saying. Several options were suggested as to a forum regarding the 501 (c) (3), or a forum with doctors. A forum of the four models was discussed, possibly putting it on community TV. Mayor England said this committee is now the community because it is so hard to educate the community because you have to start from scratch with each new person. A panel member said numerous hospital employees have expressed concerns as to how the hospital is being run. Another panel member said others have expressed concerns about Capella coming in and firing everyone. Dr. Delarosa said the committee needs to look at the options. He has a heart program that wants to move forward. Having the Health Facilities Authority come in was discussed. Drs. Evans and Callaghan said they could put something together with input from some of their colleagues as to the doctors perspectives. Education for each model and the considerations for each models is needed for the panel. More education needed. The hospital was asked to get the name of the professional that did a presentation for the Board. Dr. Call suggested the panel concentrate on the different options. Lin Whitworth said we will never be able to do the 501 (c)(3) again. Russ Wight said that it would depend on the negotiations, that the 501(c)(3) could be worked into the supporting documents of the lease. Dr. Call said Russ Wight could probably give you a state of the art discussion on 501(c)(3) and the 501(c) (3) conversion at the next meeting which will be Wednesday, May 2<sup>nd</sup> at 4:00 p.m. Meeting adjourned at 5:40 p.m.

