

REQUEST FOR PROPOSAL
Beaufort Regional Health System

TO: Interested Party
FROM: HealthCare Appraisers, Inc.
DATE: July 21, 2010
RE: **Beaufort Regional Health System (“BRHS”) Request for Proposal for Long Term Lease of BRHS**

I. Introduction

RFP Overview

HealthCare Appraisers, Inc. has been engaged by our client, Beaufort Regional Health System (“BRHS”), to distribute to interested parties this request for proposal (“RFP”) for the long term lease of BRHS, and/or other affiliation arrangements. Your organization has recently indicated its interest in the RFP process by responding to an RFP Interest Letter and executing a related Confidentiality Agreement. A copy of such fully executed Confidentiality Agreement is being provided to you along with this RFP.

Your proposal should set forth your organization’s qualifications, including information regarding healthcare management experience and resources. BRHS’ goal in entering into a long term lease is to meet its governmental purpose through a qualified lessee or operating partner (the “Partner”) overseeing the daily operations of BRHS and establishing a strategy for the operational and financial success of BRHS.

Submittal Deadline/Instructions

Proposals are due by the close of business 45 days from the date this RFP is issued. Please remit both (i) an electronic version of your proposal; and (ii) six (6) hard copies of your proposal to:

Jim Hills, Director
HealthCare Appraisers, Inc.
421 N. Northwest Highway, Ste 201
Barrington, IL, 60010

Email: jhills@hcfmv.com

Telephone: 847-756-6150
Fax: 877-314-0107

We invite you to consider structuring your proposal in two parts.

1. **Part One.** The first part of your proposal will respond to our preferred leasing structure for the affiliation and will include a proposal for: (i) a long-term lease of BRHS real property, and (ii) a transfer of BRHS assets into a single corporate entity to be leased and operated by your company.
2. **Part Two.** In the second part of your proposal we invite you to be creative. If you see an alternative way to accomplish our objectives in lieu of the preferred leasing structure, we invite you to propose your best ideas without restriction.

Context for the Proposals (Lease Structure)

As a North Carolina Hospital Authority, BRHS' mission is to provide safe, high-quality, cost-effective and personalized primary and secondary healthcare consistent with patient needs in its services area, including that of low-income persons. Its healthcare system includes an acute care hospital, physician practices and other healthcare delivery organizations who work together to provide a broad range of inpatient and outpatient services. BRHS expects the successful Partner to commit to supporting BRHS' mission.

In addition, Article 2 of Chapter 131E of the North Carolina General Statutes, among other requirements, states the following:

§ 131E-13. Lease or sale of hospital facilities to for-profit corporations by municipalities and hospital authorities. (a) A municipality or hospital authority as defined in G.S. 131E-16(14), may lease, sell, or convey any hospital facility, or part, to a corporation, foreign or domestic, authorized to do business in North Carolina, subject to these conditions, which shall be included in the lease, agreement of sale, or agreement of conveyance:

- 1) The corporation shall continue to provide the same or similar clinical hospital services to its patients in medical-surgery, obstetrics, pediatrics, outpatient and emergency treatment, including emergency services for the indigent that the hospital facility provided prior to the lease, sale, or conveyance. These services may be terminated only as prescribed by Certificate of Need Law prescribed in Article 9 of Chapter 131E of the General Statutes, or, if Certificate of Need Law is inapplicable, by review procedure designed to guarantee public participation pursuant to rules adopted by the Secretary of the Department of Human Resources.
- 2) The corporation shall ensure that indigent care is available to the population of the municipality or area served by the hospital authority at levels related to need, as previously demonstrated and determined mutually by the municipality or hospital authority and the corporation.
- 3) The corporation shall not enact financial admission policies that have the effect of denying essential medical services or treatment solely because of a patient's immediate inability to pay for the services or treatment.

- 4) The corporation shall ensure that admission to and services of the facility are available to beneficiaries of governmental reimbursement programs (Medicaid/Medicare) without discrimination or preference because they are beneficiaries of those programs.
- 5) The corporation shall prepare an annual report that shows compliance with the requirements of the lease, sale, or conveyance.

It is in the spirit of these collective BRHS and State parameters and conditions that BRHS is requesting proposals for a long-term lease of the hospital that would among other obligations, be conditional upon the Partner's commitment to improved healthcare in Beaufort County as demonstrated by a commitment to the mission of BRHS, shared governance, growth in market share, physician retention and recruitment, financial stability, facility investment, preservation of services, enhancement of affiliated organizations, employee retention and improved outcomes in quality.

BRHS will seek to negotiate terms and conditions that will allow for periodic review by the governing body of the lessee's performance and provide for cancellation of the lease in the event of substantial breach of commitments made pursuant to such negotiations. In the event of cancellation, the lease will set forth provisions for damages and repayments of funds, such repayment to be determined by, among other factors set forth in the lease, the period remaining until expiration of the lease agreement.

Available Data

Attached you will find a separate document containing relevant historical and projected financial and operational data of BRHS to allow you to submit a well informed response. In the event additional information and/or a site visit are desired, please send such requests in writing to Mr. Jim Hills at the email or postal address set forth above. We will make every effort to accommodate all reasonable data requests within 10 business days of receipt of such request. In order to minimize disruptions to the ongoing operations of BRHS, all requests for site visits should be provided at least ten business days prior to the planned visit.

Prospective Affiliate Partner Qualifications

Each proposal must include at least the following information regarding the prospective Partner:

- A statement of qualifications to manage BRHS including descriptions of other facilities managed by the prospective Partner.
- Information on charges, services and indigent care at similar facilities owned or operated by the prospective Partner.
- Biographical materials for the senior officers of the organization.
- Copies of audited financial statements for the past three years.
- Copy of most recent interim financial statements.
- Any other materials that will assist the Hospital Board of Trustees and the County Commissioners in evaluating the organizations capabilities and experience including

references.

Selection Process

Following receipt of the proposals, the BRHS Board of Commissioners (the “BRHS Commissioners”) will review and evaluate the proposals, and may request additional information and clarifications. The BRHS Commissioners may also seek review of the proposals from the Beaufort County Board of Commissioners (“County Commissioners”). The County Commissioners and/or the BRHS Commissioners (collectively, the “Commissioners”) may also request that some or all of the prospective affiliate partners appear at oral presentations.

You will then be notified if BRHS wishes to pursue further discussions with your organization. The BRHS Board intends to select a qualified affiliate Partner following a mutual due diligence process. Afterwards, the parties shall proceed to finalize the lease agreement (or selected alternative structure) and obtain all requisite governmental approvals.

In evaluating the proposals, the Commissioners' decision will be governed by criteria which correspond to the issues and topics addressed in this RFP, including:

- Overall financial and management strength of the organization;
- Experience in managing hospitals in communities similar to Beaufort County;
- An appreciation for and commitment to the values and health care needs of the community;
- An ability to attract and retain a high quality medical staff;
- Proven success in initiating and growing clinical services;
- A willingness to invest in the local community through facilities, equipment, programs, including information technology replacement and improvements, and ongoing lease payments to the County;
- Consideration for retention of existing staff;
- Commitments to local participation;
- Demonstrated ability to deliver on promises; and
- EEO, non-discrimination and diversity.

Reimbursement for Expenses

The successful prospective affiliate Partner will be required to reimburse the County of Beaufort for all reasonable consulting and legal fees and expenses incurred in this process. This commitment must be stated in your proposal.

Compliance with North Carolina Statutes

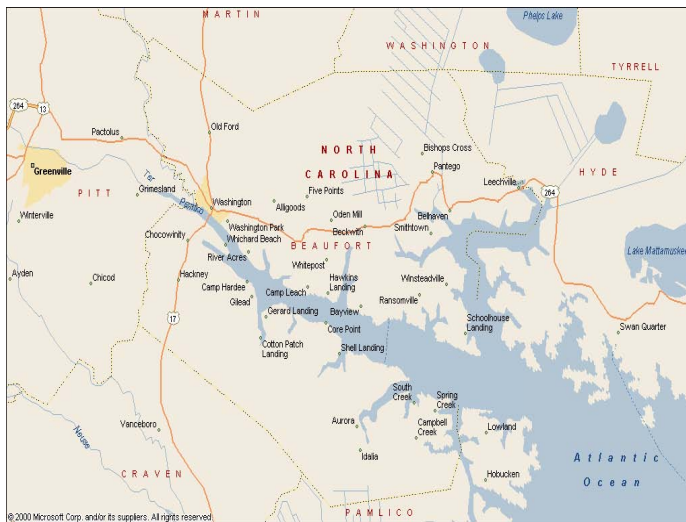
The prospective affiliate Partner will commit to comply with N.C.G.S. § 131E-13 (attached) governing the standards for public hospital clinical programs, access to care, indigent care and other matters.

II. Background

The following narrative describes the market served by BRHS, local factors that influence BRHS's operations and services, strengths and challenges, and the current situation that has prompted the issuance of the RFP.

The Community

BRHS is located at 628 East 12th Street, Washington, North Carolina, in Beaufort County.



Beaufort County. Beaufort County is located along North Carolina's northeastern coastline and is divided by the Pamlico River. It has a total area of 959 square miles, of which 131 square miles is water. According to the U.S Census Bureau, the county had an estimated population of 46,414 residents in 2009, representing a 3.2% increase over that of 2000. Nearly 23% of the population is under the age of 18 and approximately 18% of the population over the age of 65. Approximately 67.4% of its population is White, 27.2% African American, 4.4% Hispanic/Latino and 1% other.

For the quarter ended December 31, 2009, approximately 25% of the Beaufort County workforce was engaged in education; 19% in trade, transportation and utilities; 18% in manufacturing; 9% in professional and business services, and 8% in leisure and hospitality. Manufactured products in the county include diesel fuel pumps, acrylic yarn, powerboats, phosphoric acid, and precision-machined parts. The top five employers in the county for the same period were (i) Beaufort County Schools; (ii) PCS Phosphate Company; (iii) Beaufort County Hospital Association; (iv) Flanders Airpure, and (v) Wal-Mart.

City of Washington. The city of Washington, with a population of approximately 12,000, was recently dubbed the "Heart of the Inner Banks." It is complimented by its historical buildings and landmarks, some dating back to colonial times. Recent efforts to construct condominiums and townhouses on the city's waterfront were reviewed by the Historic Preservation division and are up to spec with historic requirements and guidelines. The Turnage Theatre, a restored historic vaudeville and movie theater, has opened in the downtown area and hosts plays and other types of live entertainment. The North Carolina Estuarium, located in Washington on the Pamlico River, describes the ecology of North Carolina's estuaries, especially the Tar-Pamlico River and Pamlico Sounds. It houses more than 200 scientific and historic exhibits, and features a scenic $\frac{3}{4}$ mile boardwalk along the Pamlico River. People from all over eastern North Carolina enjoy Washington's

many activities including fishing, boating along the Pamlico River, and dining in the downtown restaurants.

Beaufort Regional Health System

Beaufort Regional Health System (*i.e.*, BRHS), formerly Beaufort Regional Medical Authority, was incorporated on November 2, 2001 and is a North Carolina governmental hospital authority organized under state statute. BRHS owns and operates a healthcare network, including Beaufort County Hospital Association, Inc. d/b/a Beaufort County Medical Center (the "Hospital"). The Hospital, a 142-bed, acute healthcare facility and 501(c)(3) corporation, is the operational arm of BRHS and provides hospital operations on a day-to-day basis. Hospital has an active medical staff of more than 50 physicians, representing more than 20 specialties, as well as more than 700 nurses, technicians and support staff. BRHS also owns Beaufort Regional Physicians, LLC, which directly employs or contracts with more than 30 physicians.¹

Creation of BRHS expands the Hospital's ability to incur debt independently of the County of Beaufort. Any new debt incurred after November 2001 is incurred under the name of BRHS, but the Hospital provides debt payments. The Beaufort County Commissioners' oversight of BRHS is limited to appointing Commissioners for Beaufort Regional Health System, and those Commissioners of BRHS serve, by virtue of their office, as members of the Board of Directors of the Hospital. BRHS has independent budgeting and accounting functions and is reported as an independent reporting entity.

The Hospital provides inpatient, outpatient, and emergency care services for residents of Beaufort County and surrounding areas. Admitting physicians are primarily practitioners in the local area. Services provided by the Hospital include the following:

¹ These (30 physicians of Beaufort Regional Physicians, LLC are part of Hospital's medical staff of 50 physicians).

- Acute Hospitalization
- Aesthetics
- Anesthesiology
- Bariatric Surgery
- Behavioral Health – Inpatient and Outpatient
- Cardiopulmonary
- Cardiac Rehab
- Emergency Medicine
- Endoscopy
- Family Medicine
- Gastroenterology
- General Surgery
- Gynecology
- Home Health
- Hospitalists
- Internal Medicine
- Medical Equipment
- Nutritional Services
- Obstetrics
- Oncology
- Ophthalmology
- Orthopedics
- Pathology
- Pediatrics
- Psychiatry
- Pulmonary Medicine
- Pulmonary Rehab
- Radiology
- Radiation Oncology
- Rehabilitation
- Rheumatology
- Physical Therapy
- Sleep Clinic
- Speech Therapy
- Urgent Care
- Urology
- Wellness, education and prevention programs

The Hospital offers a full array of state-of-the-art diagnostic testing, including ERCP and Video Capsule Endoscopy to assist in the evaluation and management of GI disorders. Its radiology services include the latest technology in CT scanning as well as nuclear medicine cameras. In addition, through a partnership with Pitt County Memorial Hospital, Hospital also offers a full-range of diagnostic MRI services.

Quality cancer care for the Hospital is provided at the Marion L. Shepard Cancer Center (the “Cancer Center”), whose mission is to offer the highest quality of care for patients with cancer and blood disorders. The Cancer Center and highly regarded medical oncologists provide quality cancer diagnosis and treatment as well as an array of complementary therapies that help patients and caregivers better deal with the struggles of having cancer. Also located within the Cancer Center is an IMRT-capable linear accelerator that provides radiation treatment. Professional radiation oncology services are provided through a partnership with the ECU Brody School of Medicine.

To enhance medical care and to meet the changing needs of the region, BRHS constantly seeks ways to expand and improve its spectrum of services. In 2008 it opened a 38,612 square foot expansion project that provides a new and expanded surgical department and recovery area as well as a modernized visitors lobby and admissions area (the “2008 Improvements”). The new surgical suite includes five new operating rooms, an 8-bay inpatient recovery area, a 24-bay outpatient recovery area and surgical support areas. This comes after the completion of several

other renovation and expansion projects including the opening of Lifestyles Medical Fitness Center as well as the modernization and expansion of the labor and delivery department and radiology department.

BRHS recognizes the need to partner more closely with local physician practices to ensure that a broad range of healthcare services remain an integral part of the local healthcare delivery system. As a result, BRHS includes physician practices in the areas of family medicine, internal medicine, orthopedics, mental health, gastroenterology, obstetrics and gynecology, urology, rheumatology and surgical services. In an effort to improve the overall health of our community, BRHS offers several cancer screenings as well as a number of support groups and educational programs. Preventive care can be found at the LifeStyles Medical Fitness Center, which offers physical fitness, health education and wellness programs.

Fundraising efforts in support of BRHS include an ongoing Lights of Love fundraising campaign. Lights of Love was established in 1985 to promote health care excellence. Over the years, donations to Lights of Love have been used to fund projects that promote health care education, improve community wellness, support and enhance patient care, and provide amenities that make our hospital more comfortable for patients and visitors. The Beaufort County Hospital Foundation, a separate 501c3 organization, once coordinated Lights of Love, however the Foundation dissolved in 2009. Its assets were transferred to the North Carolina Community Foundation into two endowments whose earnings benefit BRHS.

The Shepard Cancer Foundation (the Cancer Foundation) was established in 2008 and its mission is to financially support and promote the Marion L. Shepard Cancer Center in its efforts to improve the mind, body and spirit of cancer patients, survivors and caregivers. The Cancer Foundation is a 501c3 non-profit organization with a separate governing board from BRHS. The Cancer Foundation has been instrumental in raising funds so the Cancer Center can offer educational programs, support groups and complementary therapies free of charge to its patients and their families. The Cancer Foundation also provides support to cancer patients who may have become financially burdened by their cancer diagnosis. In July 1998, BRHS became a member and holds a 50% capital interest in DME Ventures, LLC. The LLC operates a durable medical equipment business in Washington, North Carolina. For financial and tax purposes, the entity is reported as a partnership with each member owning a 50% interest in assets and profits. Initially, capital contributions of \$200,000 were planned by each of the members. During the fiscal years ended September 30, 2000 and 1999, both parties made capital contributions of \$35,000 and \$75,000, respectively. BRHS routinely incurs expenses on behalf of the LLC that are reimbursed on a monthly basis. BRHS's share of profits is included in nonoperating revenues, and the investment in DME Ventures, LLC has been adjusted accordingly and is included in other assets. BRHS's equity interest in DME Ventures, LLC amounted to \$434,877 and \$450,515 at September 30, 2009 and April 30, 2010; respectively, and is included in other assets on the combined balance sheet.

BRHS is also a member and holds a 50% interest in EastPointe Health, LLC. This LLC was formed to acquire a certificate of need for a Magnetic Resonance Imaging (MRI) scanner, to be leased and operated under the license of BRHS. Organized on February 11, 1999, EastPointe

Health, LLC did not become operational until October 2001. The MRI was acquired upon executing a capital lease agreement with First Citizens Bank. BRHS and the other member have guaranteed the lease and signed a Lease Guaranty Agreement dated September 26, 2001. At the end of each fiscal year, BRHS makes an accounting for the operation of the MRI, allocating all direct expenses and overhead to determine the net profit from operations. One-half of the net profits of the venture are distributable, if available, to BRHS and the other member. The LLC reported a profit for the periods ended September 30, 2009 and 2008 of \$581,446 and \$578,608, respectively. BRHS has a payable to the other member in the amount of \$396,201 and \$450,640 at September 30, 2009 and 2008; respectively, which includes \$289,304 and \$161,336 of the payable remaining from 2008 and 2007 for their portion of the net profit, and is included with accounts payable on the combined balance sheet.

BRHS's equity interest in EastPointe Health, LLC is \$308,090 as of April 30, 2010 and is included in other assets on the combined balance sheet.

BRHS Properties

The Hospital owns capital assets with a depreciated book value of \$31.0 million at April 30, 2010.

Beaufort County holds legal title to the real estate upon which BRHS is located. The County provides the property to the Hospital in a rent-free exchange for the Hospital's agreement to operate and maintain the facilities. The Hospital also holds legal title to approximately 11 acres of land immediately adjacent to the Hospital property.

BRHS Debt

As of April 30, 2010, BRHS has \$18.1 million in debt outstanding, including \$106,000 in capital lease obligations, of which \$2.7 million is current. The majority of this debt is attributable to two separate completed capital improvement projects as further described below.

On November 8, 1999, the County of Beaufort secured the first construction loan above for BRHS's expansion and renovation project in the amount of \$5,000,000. On June 13, 2001, the County secured an additional \$1,500,000 construction loan. The outstanding balance of such debt as of April 30, 2010 is approximately \$3.45 million.

In September 30, 2006, BRHS was approved for two loans, one for \$10,000,000 and one for \$3,000,000 by the County of Beaufort for the previously mentioned 2008 Improvements to the Hospital facility. The outstanding balance of such debt as of April 30, 2010 is approximately \$10.6 million.

BRHS Operating Results

As reflected in the financial statements provided, as of September 30, 2009, net assets of BRHS are approximately \$23.5 million, of which \$14.9 million is invested in capital assets, net of related debt. BRHS incurred a deficit of revenues over expenses of approximately \$1.3 million during the year ended September 30, 2009. For the seven months ended April 30, 2010, BRHS incurred a deficit of revenues over expenses of approximately a \$1.25 million. Unfortunately, the timing of the required 2008 Improvements coincided with a major downturn in the economy. As a result, despite numerous cost-cutting initiatives, BRHS has posted a \$3.8 million loss for the three year, seven month period ended April 30, 2010.

Accordingly, BRHS has maintained low relative historical cash position levels of \$1.75 million, \$1.81 million and \$1.51 million at September 30, 2008 and 2009, and April 30, 2010, respectively.. As of April 30, 2010, debt obligations of BRHS were approximately \$18.1 million, with an annual debt service of requirement of approximately \$1.6 million. With annual BRHS operating expenses reaching \$77 million, and an average cash position of approximately \$1.8 million, the BRHS is functioning with less than 9 days of cash on hand. BRHS is in the process of procuring up to an additional \$3.0] million in borrowings to supplement operating cash flow during 2010.

Finally, BRHS is dependent upon the Medicaid program in North Carolina for approximately 11% of its business. The aforementioned factors, as well as the uncertainty with the North Carolina Medicaid Program having a shortfall in the State Budget, creates an uncertainty about BRHS's ability to continue as a viable entity.

Other Considerations

Declining Market Share. Despite its ongoing efforts at modernization, expansion and physician recruitment, BRHS's market share continues to erode. From the five zip codes that make up the majority of its business (*i.e.*, Washington, Chocowinity, Williamston, Belhaven and Bath), BRHS's market share has declined from 39% to 30% for the quarters ended September 30, 2009 and 2008, respectively.

Capital Needs. While modernization efforts are ongoing, the following improvements have been identified (based on estimated 2010 dollars).

- Expand Emergency Department ("ED:"). The current ED is 4,876 square feet and was last remodeled and expanded over twenty years ago. Current design protocols would indicate the need for 10,000 square feet based on current volume levels (which allows for growth). Total improvement budget is estimated at \$3.0 to \$5.0 million.
- Modernize Patient Rooms. Patient rooms are outdated, furniture and beds need to be replaced, bathrooms need to be enlarged and nursing stations need to be updated. Total improvement budget is estimated at \$1.0 - \$2.0 million.

- Implementation of Electronic Health Records. Consultants have determined that it will cost from \$3.5 million to \$5.0 million to upgrade BRHS's current information system to meet the "meaningful use" definition of an electronic health record that is now required under federal regulation. The upgrade will potentially result in federal stimulus payments, but such funding will not be available to Hospital until two to three years post-implementation. In addition, while some of its physician practices have electronic health records that can be upgraded to meet *meaningful use* criteria, BRHS needs to install MIS improvements in its physician practice offices at an estimated cost of \$1.2 million.
- Reconfigure ICU Floor Plan. Relocation of ICU from the 4th floor to the original surgical suite location is desired. This would allow for a modern circular "pod" design to replace the current linear layout. The State of North Carolina will no longer approve construction of ICU beds that do not allow nursing staff to maintain visual contact with the patient. Total improvement budget is estimated at \$2.0 - \$3.0 million.
- Move Education Department to ICU. Total improvement budget is estimated at \$500,000
- Expansion of the Marion L. Shepard Cancer Center. The Cancer Foundation has formed a committee that is working to raise funds to expand the Cancer Center at an estimated cost of \$3.4 million. The Cancer Foundation has pledged to raise the necessary funds, but projects of this nature typically require borrowing with a short maturity that is then refunded as pledges are paid. If they fall short on their fundraising, BRHS would be required to fund the shortfall. The Cancer Foundation requests that the Partner honor the existing BRHS' board commitment to the Cancer Center Expansion campaign which includes a commitment to cover the fundraising costs associated with the campaign..
- Parking Lot Expansion. BRHS needs to pave additional land for parking. Total improvement budget is estimated at \$500,000.
- Medical Office Building for New Physicians.
- Demolish Building D located at the corner of 12th and Brown streets..
- New Shop Building/Demolish Yellow Building. See the BRHS campus map included in the RFP data book.
- New/replacement linear accelerator. Total budget is estimated at \$1.7 - \$2.0 million.
- MRI replacement. Total budget is estimated at \$2.0 million.
- PET scanner needed as oncology program grows. Total budget is estimated at \$2.3 million.
- Recruitment of Primary Care Physicians to the Region.

Other BRHS Requirements

- Provide high quality care to all in the community, regardless of ability to pay.
- Maintain and develop core services for the benefit of the community.
- Operate efficiently and in a fiscally responsible manner.
- Stay current with advancing medical technology.
- Develop strong regional health care partnerships.
- Provide an environment in which health care professionals are challenged and supported in their efforts to provide compassionate care to each and every patient.
- Improve the local public perception of BRHS relative to other providers in the area.
- Seek to aggressively improve BRHS's market share.
- Establish structures and processes that facilitate efficiencies in operations and resulting performance. Minimize bureaucratic inefficiencies.

An important consideration in evaluating responses to this RFP will be the prospective Partner's commitment to understand and effectively address these matters.

III. Terms and Conditions of Lease Desired by BRHS

The terms of the underlying Lease is to be negotiated by BRHS and Partner; however, it is contemplated that such agreement will at a minimum incorporate the following terms and conditions:

1. Governmental Purposes. Please keep in mind that BRHS must continually meet its governmental purposes. Accordingly, the Partner will be required to continue all services provided at the Hospital on the effective date of the lease. Partner will be required, as a condition of closing, to develop a strategic plan for BRHS acceptable to the BRHS Board.
2. Services. Partner will maintain existing core services and seek to develop new services that enhance growth of BRHS, contribute to quality patient care, and will operate BRHS as a community-based, full service acute care facility.
3. Physician Recruitment. The Partner will commit to a physician recruitment plan, approved by BRHS's Board, based upon community, physician and BRHS input and needs.
4. Employee Matters. The Partner will offer employment to all employees of BRHS who are actively employed as of the Closing Date at their current salaries. Partner and BRHS shall develop a benefit transition plan for current BRHS employees as a condition of closing.
5. Reserved Powers. The following actions of the Partner shall be subject to the approval of the BRHS Board:

- Assignment or sublease of the Lease.
- Substantial delegation of Partner's duties under the Lease.
- Amendment to the Lease.

6. Financial Covenants.

The Partner shall provide BRHS with audited financial statements within 120 days of the fiscal year end and other financial and operational reports as may be requested from time to time by the BRHS Board.

The Partner will be required to comply with all financial and operational covenants pursuant to the existing debt agreements of BRHS. In addition, the Partner may be subject to additional covenants to be mutually agreed upon by BRHS and the Partner.

7. Term of Lease.

The desired initial term of this Lease shall begin on or about December 1, 2010 (the "Commencement Date") and end at midnight on December 31, 2030 (the "Expiration Date").

Lessee shall have the option to extend the term of this Lease for two (2) ten (10) year periods (individually, an "Option Period") by providing written notice of extension to BRHS of its election to extend the term, such notice to be given at least 120 days prior to the expiration of the then-current term.

8. Termination. The Lease shall contain standard termination provisions for breach.

9. Additional Terms and Conditions.

- a. Indigent Care. **Lessee will commit to a charity care program consistent with historical charity care practices of BRHS.** The amount of care provided shall be dictated by the needs of the community and not fixed or limited by Partner.

IV. Proposal Requirements

Preamble

Access to health care for those unable to pay is an important community value and one the community wishes to maintain. While there may be opportunities for additional cost savings, the consensus is that the major emphasis must be on (i) growth and investment; and (ii) capital investments in facilities, IT and routine capital equipment. The County of Beaufort considers BRHS to be a valuable asset and the lease to provide substantial value to the successful bidder.

RFP Proposal Requirements

The following sections discuss the major topics and issues expected to be addressed in the proposals. They include:

- 1) Lease Structure, Governance and Management,
- 2) Market share and Growth; Service Needs
- 3) Physician Recruitment, Retention and Satisfaction
- 4) Financial Issues
- 5) Information Technology
- 6) Facilities
- 7) Retention of Employees
- 8) Information About Your Organization

Please respond to each topic set forth under for each category with as much detail as possible. Also, please add any additional topics or issues you deem relevant for purposes of providing as much information and insight to facilitate our evaluation of your submitted proposal.

PART 1 - Preferred Lease Structure

1. Lease Structure, Governance and Management

- a) Describe the specifics of the Lease structure your organization contemplates based upon the requirements of BRHS and State of North Carolina, including all relevant financial and legal terms.
- b) Via a chart and brief commentary, illustrate how your organization intends to meet its performance requirements under the Lease, including the financial, management and strategic provisions described in Section III of this RFP.
- c) Indicate legal form of ownership, development and operating entities.
- d) Identify provisions to protect BRHS's long-term interest against Partner bankruptcy and/or default on service standards.
- e) Describe your proposed new governance structure for BRHS' facilities, the local board (if applicable), and the relationship of the local board will have with your governing board.
- f) How will you preserve and enhance the Mission of BRHS? What commitments will you make?
- g) How will you preserve the relative levels of BRHS charity care?
- h) What are your plans to improve patient, physician and employee satisfaction levels?
- i) What level of input will the county have over the new organization's strategy, relations with executive management and budgets?
- j) What are your commitments and plans with respect to retaining the existing employees of BRHS, including management of BRHS? Provide detailed examples of your experience with this aspect of the affiliation including pre and post-affiliation results.

2. Market Share and Growth; Service Needs

- a) Growth in volume for both inpatient and outpatient services is a priority goal for the Hospital and prospective lessees should address their approach to growth. Cite examples of successful growth strategies and tactics implemented at other facilities; willingness to invest in satellite communities in the county; and experience with patient satisfaction enhancement and improved image.
- b) Describe how do you plan to grow inpatient and outpatient volumes, increase market share and/or reverse current levels of out-migration?
- c) Describe your plans for both existing services and new services?
- d) Describe the County's input into the decisions to add or cut programs.
- e) Describe your guarantees to preserve existing services.
- f) Describe your plans to improve the quality of services and the integration of quality initiatives.
- g) What cost saving initiatives can you offer in your proposal?

3. Physician Recruitment, Retention and Satisfaction

- a) Provide or describe the results of any available physician surveys your organization has conducted over the past several years.
- b) Describe your policies and practices for including physicians in governance, planning and operations.
- c) Describe your plans for medical staff development, recruitment and retention, including desired financial arrangements (employment, income guarantees, etc.) your organization utilizes in your physician development and retention efforts.
- d) Describe your plans for the existing physicians' contracts and compensation.
- e) BRHS offers numerous subspecialty services, as previously discussed. What additional subspecialty placements does your organization offer our community?
- f) Describe your experience in this area in your other affiliates.
- g) Describe your organization's experience with Rural Health Centers.
- h) How would you propose to structure the BRHS medical staff relative to the medical staff of your organization?
- i) BRHS has acquired 18 practices since 1997. What are your proposals for the organizational relationship for these BRHS-owned practices?

4. Financial Issues

- a) Describe your corporate margin requirements.
- b) Describe your proposed treatment of BRHS's current assets such as cash and equivalents, receivables and the assumption of liabilities.
- c) What are your policies regarding routine replacement of capital?
- d) Describe your organization's financial capability or capacity to fund capital improvements at the Hospital.
- e) What level of capital investment are you prepared to make over the next five years?
- f) Describe your organization's specific commitment to the projects previously identified as needed by BRHS over the next ten years.
- g) Does your organization intend to allocate a portion of its home office or corporate expenses to the Hospital?
- h) Specifically describe your organization's experience and expectations for engaging the community in capital campaigns.
- i) What resources will your organization bring to improve BRHS's revenue and operating efficiency and to enhance BRHS's profitability?
- j) How will your organization assist BRHS in negotiating third-party contracts?
- k) Based on the actual experience of a hospital that has affiliated with your organization in the last five years, please compare and contrast the hospital's budgeting process (pre- and post-affiliation). Identify (by name, title and role) the key individuals now involved in developing and implementing such hospital's budget and describe their contributions to the budgeting process.
- l) What cost-savings initiatives will your organization bring to BRHS?
- m) What managed care or Medicare supplemental insurance coverage does your organization accept?

- n) Describe your organization's overall commercial insurance program for risk management, and how BRHS would benefit from participation in your insurance program.
- o) Is your organization self-insured? If so, how?
- p) What is your organization's self-insured retention?
- q) What reinsurance is available to your organization?
- r) How would BRHS come under your organization's professional liability insurance coverage and describe how this would be accomplished.
- s) What is your organization's bond rating, if applicable?
- t) What is your organization's commitment to keep BRHS services current by providing the Hospital with up-to-date equipment?

5. Information Technology

- a) Provide a description of your current MIS system and capabilities, including electronic medical record capabilities.
- b) Who is your current IT vendor?
- c) Describe how you would transition BRHS to your IT platform, including timing requirements and benefits of your systems.
- d) What Electronic Medical Record System will be proposed for use in both the hospital and in the practices? Will there also be a lab interface?
- e) What sort of billing system would be used and could it interface for both the hospital and the practices to better capture charges?
- f) Provide narrative discussion regarding your past efforts at converting other hospital MIS platforms to your platform, including time required and lessons learned.
- g) Describe the information technology features that your organization could offer to the Hospital.
- h) Can your organization's system be extended to, or communicate with, the BRHS's existing information technology system? If so, how?
- i) What information technology enhancements can your organization offer to BRHS to maintain and improve its information technology services?
- j) What is your organization's financial capability or capacity to fund information technology improvements at BRHS?
- k) Based on the actual experience of a hospital that has affiliated with your organization in the last five years, please identify how affiliation with your organization has resulted in a more rapid adoption of innovation. Identify clinical innovation, management innovation and technology-based innovations that your organization has successfully deployed to affiliate hospitals. Compare and contrast quality and cost pre-and post-deployment. Clearly identify outcomes associated with such innovation. Indicate the potential for such innovations or others within BRHS.

6. Facilities

- a) Describe your process for assessing the feasibility of improvements and renovations to BRHS's facilities.
- b) Who in your organization will lead this effort?
- c) Describe your experience in facility modification/renovation efforts, construction management and implementing this kind of project. Include information regarding typical time requirements.
- d) What is the timeline for the facility upgrades we have requested? (*e.g.*, ER, ICU, patient rooms, etc).
- e) Do facility upgrades include new elevators?

7. Retention of Employees

The community generally has a high regard for the employees of BRHS and is concerned about their treatment in the event an outside organization affiliates with the hospital.

- a) Describe your plans for existing BRHS medical and administrative staff, and how you will transition the employees to the new affiliation. Specifically address who will employ the staff, your current benefit structure and, if applicable, how you expect to transition BRHS employees to such structure.
- b) How would the affiliation preserve existing commitments to current BRHS employees and administration?
- c) Describe how you will preserve all current tenure, PTO and retirement plan vesting rights of the BRHS employees.
- d) How will staffing levels be determined?
- e) How will your organization treat BRHS's employees regarding pay scales, opportunities for advancement within BRHS, and opportunities for advancement within your organization?
- f) Will any functions currently provided by BRHS employees be removed or consolidated to the "home office" or a corporate office? If so, please describe how your organization would address the needs of the affected employees; *e.g.*, offers of comparable jobs at BRHS, if any; transfers; outplacement services; and the like.
- g) Describe your proposed retirement program and how it will compare to BRHS's defined contribution employee benefit plan.
- h) What considerations might be offered to any the Hospital employee whose position might be eliminated?
- i) What programs do you offer for the professional development of employees to include, but not limited to, tuition assistance? Share your most recent employee satisfaction data.
- j) What provisions might be made available for employee assistance, counseling and grievances associated with the affiliation?

8. Information About Your Organization

Please use the following list of questions to demonstrate your organization's capabilities regarding this partnership and the integrity of your commitments to a successful affiliation.

- a) Provide a detail narrative describing your organization, its affiliates, geographic scope, corporate initiatives, etc.
- b) Describe why an affiliation with our hospital is important to you.
- c) Provide biographies of the leadership or your organization, and those that would be directly involved in and responsible for the ongoing relationship between your company and the Hospital.
- d) Provide a description of the way in which these individuals would interface with our local board and other hospital personnel and how their specific work plan and performance criteria would be developed.
- e) Provide the location from which BRHS would be served.
- f) Provide copies of audited financials for the past three years, and the most recent interim stub period.
- g) Describe your organization's experience in leasing and/or managing hospitals in communities similar to Beaufort County.
- h) Describe your ability to attract and retain a high quality medical staff.
- i) Describe your successes in initiating and growing clinical services.
- j) Describe any and all internal approval processes and related timing needs to assess, negotiate, approve and effectuate an affiliation with BRHS. Prove examples of similar arrangements with other hospitals and resulting time required.
- k) Provide documented information relative to your ability to provide leadership in the field of hospital quality management. Please provide your most recent quality, patient satisfaction and safety data.
- l) Describe how you will keep the board and medical staff informed of facility operations.
- m) Describe your approach to strategic planning and marketing for your clients.
- n) Provide a prototype Lease services agreement from a lease affiliation in which you are currently involved.
- o) Provide copies of any collateral material, press releases, media coverage, etc relating to successes you have enjoyed with respect to other hospital affiliations in which you are involved.
- p) Provide any additional general information you believe would be helpful in describing your qualifications and capabilities.

Part 2: Alternative Structure(s)

Please make recommendations about what alternative structure(s) or terms your organization might recommend or prefer with regard to future affiliation with BRHS. Please include supporting documentation and use a format that best suits your suggested considerations.


V. Conclusion


On behalf of the County of Beaufort, we appreciate your interest in a potential affiliation with the Beaufort Regional Health System and look forward to receiving your proposal.

Copy of N.C.G.S. §131E-13

West's North Carolina General Statutes Annotated [Currentness](#)

Chapter 131E. Health Care Facilities and Services [\(Refs & Annos\)](#)

 [Article 2.](#) Public Hospitals [\(Refs & Annos\)](#)

 [Part 1.](#) Municipal Hospitals

→ § 131E-13. Lease or sale of hospital facilities to or from for-profit or nonprofit corporations or other business entities by municipalities and hospital authorities

(a) A municipality or hospital authority as defined in [G.S. 131E-16\(14\)](#), may lease, sell, or convey any hospital facility, or part, to a corporation, foreign or domestic, authorized to do business in North Carolina, subject to these conditions, which shall be included in the lease, agreement of sale, or agreement of conveyance:

- (1) The corporation shall continue to provide the same or similar clinical hospital services to its patients in medical-surgery, obstetrics, pediatrics, outpatient and emergency treatment, including emergency services for the indigent, that the hospital facility provided prior to the lease, sale, or conveyance. These services may be terminated only as prescribed by Certificate of Need Law prescribed in Article 9 of Chapter 131E of the General Statutes, or, if Certificate of Need Law is inapplicable, by review procedure designed to guarantee public participation pursuant to rules adopted by the Secretary of the Department of Health and Human Services.
- (2) The corporation shall ensure that indigent care is available to the population of the municipality or area served by the hospital authority at levels related to need, as previously demonstrated and determined mutually by the municipality or hospital authority and the corporation.
- (3) The corporation shall not enact financial admission policies that have the effect of denying essential medical services or treatment solely because of a patient's immediate inability to pay for the services or treatment.
- (4) The corporation shall ensure that admission to and services of the facility are available to beneficiaries of governmental reimbursement programs (Medicaid/Medicare) without discrimination or preference because they are beneficiaries of those programs.

- (5) The corporation shall prepare an annual report that shows compliance with the requirements of the lease, sale, or conveyance.

The corporation shall further agree that if it fails to substantially comply with these conditions, or if it fails to operate the facility as a community general hospital open to the general public and free of discrimination based on race, creed, color, sex, or national origin unless relieved of this responsibility by operation of law, or if the corporation dissolves without a successor corporation to carry out the terms and conditions of the lease, agreement of sale, or agreement of conveyance, all ownership or other rights in the hospital facility, including the building, land and equipment associated with the hospital, shall revert to the municipality or hospital authority or successor entity originally conveying the hospital; provided that any building, land, or equipment associated with the hospital facility that the corporation has constructed or acquired since the sale may revert only upon payment to the corporation of a sum equal to the cost less depreciation of the building, land, or equipment.

This section shall not apply to leases, sales, or conveyances of nonmedical services or commercial activities, including the gift shop, cafeteria, the flower shop, or to surplus hospital property that is not required in the delivery of necessary hospital services at the time of the lease, sale, or conveyance.

- (b) In the case of a sale or conveyance, if either general obligation bonds or revenue bonds issued for the benefit of the hospital to be conveyed are outstanding at the time of sale or conveyance, then the corporation shall agree to the following:

By the effective date of sale or conveyance, the corporation shall place into an escrow fund money or direct obligations of, or obligations the principal of and interest on which, are unconditionally guaranteed by the United States of America (as approved by the Local Government Commission), the principal of and interest on which, when due and payable, will provide sufficient money to pay the principal of and the interest and redemption premium, if any, on all bonds then outstanding to the maturity date or dates of such bonds or to the date or dates specified for the redemption thereof. The corporation shall furnish to the Local Government Commission such evidence as the Commission may require that the securities purchased will satisfy the requirements of this section. A hospital which has placed funds in escrow to retire outstanding general obligation or revenue bonds, as provided in this section, shall not be considered a public hospital, and [G.S. 159-39\(a\)\(3\)](#) shall be inapplicable to such hospitals.

No bonds, notes or other evidences of indebtedness shall be issued by a municipality or hospital authority to finance equipment for or the acquisition, extension, construction, reconstruction, improvement, enlargement, or betterment of any hospital facility if the facility has been sold or conveyed to a corporation, foreign or domestic, authorized to do business in North Carolina.

(c) In the case of a lease, the municipality or hospital authority shall determine the length of the lease. No lease executed under this section shall be deemed to convey a freehold interest. Any sublease or assignment of the lease shall be subject to the conditions prescribed by this section. If the term of the lease is more than 10 years, and either general obligation bonds or revenue bonds issued for the benefit of the hospital to be leased are outstanding at the time of the lease, then the corporation shall agree to the following:

By the effective date of the lease, the corporation shall place into an escrow fund money or direct obligations of, or obligations the principal of and interest on which, are unconditionally guaranteed by the United States of America (as approved by the Local Government Commission), the principal of and interest on which, when due and payable, will provide sufficient money to pay the principal of and the interest and redemption premium, if any, on all bonds then outstanding to the maturity date or dates of such bonds or to the date or dates specified for the redemption thereof. The corporation shall furnish to the Local Government Commission such evidence as the Commission may require that the securities purchased will satisfy the requirements of this section.

No bonds, notes or other evidences of indebtedness shall be issued by a municipality or hospital authority to finance equipment for or the acquisition, extension, construction, reconstruction, improvement, enlargement, or betterment of any hospital facility when the facility is leased to a corporation, foreign or domestic, authorized to do business in North Carolina.

(d) The municipality or hospital authority shall comply with the following procedures before leasing, selling, or conveying a hospital facility, or part thereof:

(1) The municipality or hospital authority shall first adopt a resolution declaring its intent to sell, lease, or convey the hospital facility at a regular meeting on 10 days' public notice. Notice shall be given by publication in one or more papers of general circulation in the affected area describing the intent to lease, sell, or convey the hospital facility involved, known potential buyers or lessees, a solicitation of additional interested buyers or lessees and intent to negotiate the terms of the lease or sale. Specific notice, given by certified mail, shall be given to the local office of each state-supported program that has made a capital expenditure in the hospital facility, to the Department of Health and Human Services, and to the Office of State Budget and Management.

(2) At the meeting to adopt a resolution of intent, the municipality or hospital authority shall request proposals for lease or purchase by direct solicitation of at least five prospective lessees or buyers. The solicitation shall include a copy of G.S. **131E-13**.

- (3) The municipality or hospital authority shall conduct a public hearing on the resolution of intent not less than 15 days after its adoption. Notice of the public hearing shall be given by publication at least 15 days before the hearing. All interested persons shall be heard at the public hearing.
- (4) Before considering any proposal to lease or purchase, the municipality or hospital authority shall require information on charges, services, and indigent care at similar facilities owned or operated by the proposed lessee or buyer.
- (5) Not less than 45 days after adopting a resolution of intent and not less than 30 days after conducting a public hearing on the resolution of intent, the municipality or hospital authority shall conduct a public hearing on proposals for lease or purchase that have been made. Notice of the public hearings shall be given by publication at least 10 days before the hearing. The notice shall state that copies of proposals for lease or purchase are available to the public.
- (6) The municipality or hospital authority shall make copies of the proposals to lease or purchase available to the public at least 10 days before the public hearing on the proposals.
- (7) Not less than 60 days after adopting a resolution of intent, the municipality or hospital authority at a regular meeting shall approve any lease, sale, or conveyance by a resolution. The municipality or hospital authority shall adopt this resolution only upon a finding that the lease, sale, or conveyance is in the public interest after considering whether the proposed lease, sale, or conveyance will meet the health-related needs of medically underserved groups, such as low income persons, racial and ethnic minorities, and handicapped persons. Notice of the regular meeting shall be given at least 10 days before the meeting and shall state that copies of the lease, sale, or conveyance proposed for approval are available.
- (8) At least 10 days before the regular meeting at which any lease, sale, or conveyance is approved, the municipality or hospital authority shall make copies of the proposed contract available to the public.
- (e) Notwithstanding the provisions of subsections (c) and (d) of this section or [G.S. 131E-23](#), a hospital authority as defined in [G.S. 131E-16\(14\)](#) or a municipality may lease or sublease hospital land to a corporation or other business entity, whether for profit or not for profit, and may participate as an owner, joint venturer, or other equity participant with a corporation or other business entity for the development, construction, and operation of medical office buildings and other health care or hospital facilities, so long as the municipality, hospital authority, or other entity continues to maintain its primary community general hospital facilities as required by subsection (a) of this section.

(f) A municipality or hospital authority may permit or consent to the pledge of hospital land or leasehold estates in hospital land to facilitate the development, construction, and operation of medical office buildings and other health care or hospital facilities. A municipality or hospital authority also may, as lessee, enter into master leases or agreements to fund for temporary vacancies relating to hospital land or hospital facilities for use in the provision of health care.

(g) Neither [G.S. 153A-176](#) nor Article 12 of Chapter 160A of the General Statutes shall apply to leases, subleases, sales, or conveyances under this Chapter.