

Proposal for:

Kenai Peninsula Borough

Health System Advisory Services



November 19, 2015

Submitted by:



November 19, 2015

Ms. Angela Ramponi
Special Assistant to the Mayor – Healthcare
Kenai Peninsula Borough - Mayor's Office
144 North Binkley Street
Soldotna, Alaska 99669

Dear Angela:

We appreciated the opportunity to speak with you and Mayor Navarre about the Kenai Peninsula Borough's interest in evaluating both its current health system, as well as potential alternate delivery models. Per your request, Stroudwater Associates proposes a tailored process for exploring the Kenai Peninsula's health system strategy and options. As you may know, Stroudwater is uniquely qualified in many ways, including the following:

- Having proudly advised on numerous flourishing rural affiliations across the country, Stroudwater is familiar with the rural market from an operational, regulatory, valuation and transaction advisory perspective.
- We have a deep understanding of both the challenges and opportunities facing rural communities through our work with hundreds of rural hospitals, including our past experience serving both the Central Peninsula Hospital and South Peninsula Hospital on prior engagements.
- Stroudwater brings a multidisciplinary perspective to all its engagements and an understanding of the operational, financial, clinical, and strategic implications of various affiliation structures and partners under consideration.
- Our approach is founded in our belief that affiliation is not an objective in itself, but is a means to achieving a larger objective and preserving our client's mission.

Thank you for the opportunity to outline our process and submit a proposal. If you have any questions or feedback, please do not hesitate to contact me.

Sincerely,



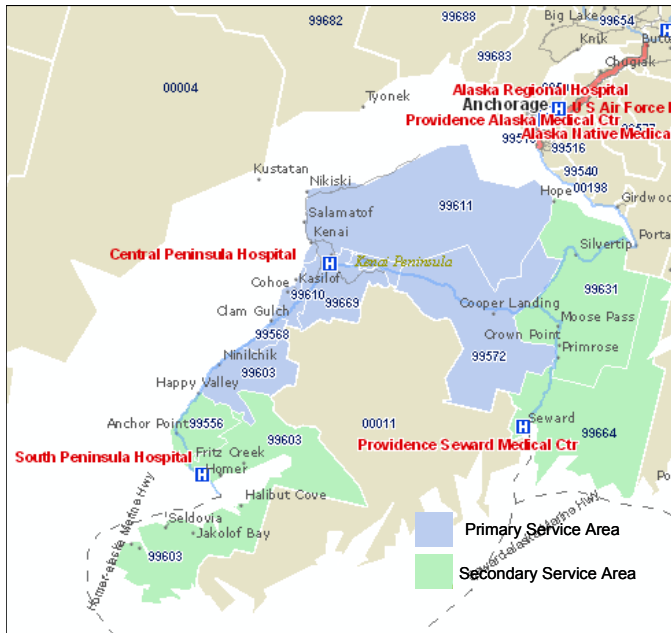
Eric K. Shell, CPA, MBA
Director

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OUR UNDERSTANDING OF THE SITUATION

The Kenai Peninsula Borough (KPB) is an organized governmental entity with oversight of the Kenai Peninsula located in the south-central region of Alaska between Cook Inlet and the Gulf of Alaska. Health care services are provided to the residents of the KPB primarily through three independent hospitals serving the area as depicted in Figure 1 – Central Peninsula Hospital (CPH), South Peninsula Hospital (SPH), and Providence Seward Medical Center (PSMC).



CPH, a 49-bed not-for-profit acute care hospital located in Soldotna, AK, is owned by the KPB and maintains both a Service Area and Operating Board. SPH, a 22-bed not-for-profit Critical Access Hospital (CAH) located in Homer, AK, is also owned by the KPB and maintains a separate Service Area and Operating Board. Both CPH and SPH receive tax millage to support capital and operational programs. PSMC, a 6-bed not-for-profit CAH located in Seward, AK, is managed by Providence Health and Services. Although PSMC is not technically located within a borough hospital service area, it still serves a population segment of the Kenai Peninsula.

Figure 1 – Area Providers Serving Residents of Kenai Peninsula Borough

Hospital	Dist. from Soldotna (miles)	General Med/Surg Beds	Management Type	Facility Type	System Affiliation
Central Peninsula Hospital <i>Soldotna, AK</i>	-	49	Voluntary Nonprofit	STAC	none
South Peninsula Hospital <i>Homer, AK</i>	75 mi S	22	Gov't / City	CAH	none
Providence Seward Hospital <i>Seward, AK</i>	93 mi SE	6	Voluntary Nonprofit, Church	CAH	Providence Health and Services
Providence Alaska Medical Center <i>Anchorage, AK</i>	147 mi N	270	Voluntary Nonprofit, Church	STAC	Providence Health and Services
Alaska Regional Hospital <i>Anchorage, AK</i>	147 mi N	85	For Profit	STAC	HCA

The healthcare industry is changing rapidly, and will prove to challenge all rural hospitals—even the best. Federal healthcare reform was passed in March 2010 with sweeping modifications to healthcare systems, payment models, and insurance benefits/programs. Many of the substantive changes are currently being implemented. Healthcare providers throughout the country are attempting to project what these changes means to them and how best to position currently for a successful future. These changes relate primarily to payment systems transitioning from volume- to value-based, quality

becoming a payment and market differentiator, and reimbursement cuts that will force providers to do more with less.

The KPB, under the leadership of Mayor Mike Navarre, recognizes the important role that rural providers play both now and in the future, and recently convened a Healthcare Task Force to examine both the current and future state of healthcare in the region. The Task Force was specifically charged with evaluating various scenarios for area hospitals to operate as a health system with the goal of determining the best option for long-term viability. Kenai Peninsula Borough's Healthcare Task Force is seeking technical assistance in evaluating its current health system, as well as gaining insight into alternate health system models and strategies used in other communities that could be applicable within the KPB. This engagement will also entail a financial analysis evaluating the current health system, as well as the costs and savings associated with alternate health system models. This proposal responds to that request.

PROPOSED APPROACH

Stroudwater proposes to build a comprehensive understanding of your situation and to facilitate stakeholder participation in the consideration of your strengths and weaknesses relative to the transformation happening in the industry. The health system strategic options assessment that we propose will assess the current and potential future readiness of the KPb's health system to prepare for:

1. Reduced payments that will result in doing more with less (i.e., increasing efficiency) as well as potentially increased competition from neighboring providers trying to expand market share to compensate for lower reimbursement;
2. Increased emphasis on quality as a payment and market differentiator; and
3. Payment systems transitioning from volume-based to value-based (and ultimately population-based) approaches.

Health System Strategic Options Assessment

Stroudwater will conduct an assessment of the KPb's current health system that considers available resources, structure and market dynamics. The assessment will also entail the review of the KPb Task Force's proposed strategy and system structure, as well as identification of alternative models for consideration.

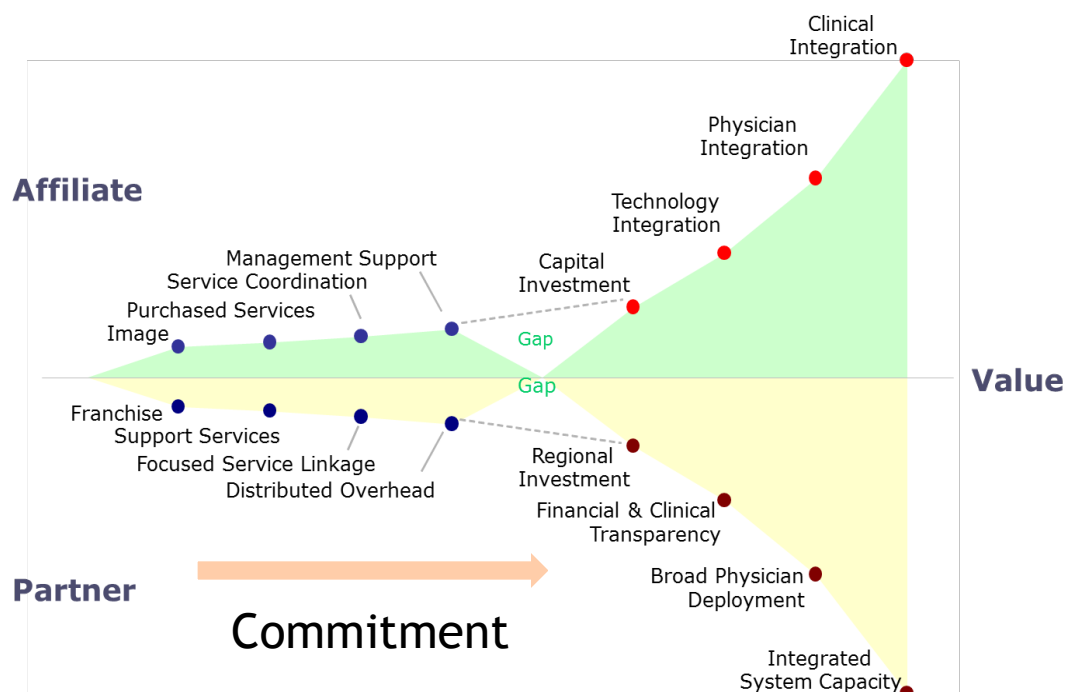
Stroudwater will work with the KPb's Healthcare Task Force to further clarify the overarching goals, constraints, benefits and expectations of its health system strategy. This work serves as an important guidepost for engaging area hospitals around the following strategic considerations as generally framed below:

- **Why are you considering an affiliation?**
 - To ensure long-term viability?
 - To achieve efficiencies in operations?
 - To develop as a seamless system of care?
 - To improve managed-care contracts?
 - To obtain access to capital?
 - To respond to a competitive threat?
- **What do you need or want out of an affiliation?**
 - Better access to services?
 - Capital?
 - Economies of scale?
 - Managed-care contracts?
 - Shared services?
- **What are you willing to cede to the "partner" organization?**
 - Some degree of control?
 - Governance?
 - Services?
 - Management?
 - Ownership of assets?
 - Budgetary control?

- **What are you unwilling (or unable) to agree to in an affiliation?**
 - Merger of Boards?
 - Assets, particularly those owned by Authorities or Districts?
 - Exclusive contracting authority?
 - Merger of medical staffs?
- **What are the constraints to an affiliation?**
 - Legal and regulatory?
 - Financial?
 - Physicians?
 - Management?
 - Competition?
 - Existing contracts?

Stroudwater has developed the Affiliation Value Curve, a model of affiliations that reflects the wide variety of partnerships between community hospitals and referral hospitals, health systems, and/or hospital companies. We use the model for educational purposes early in the engagement, particularly with stakeholders who may believe that the process for evaluating potential partners is a veiled effort to “sell the hospital,” or that any relationship with third parties is a risk to the hospital’s autonomy.

The Affiliation Value Curve, shown below, reveals a variety of potential aspects of affiliation and the value that accrues for each party as the parties become more interconnected. The orange arrow indicates the increased degree of commitment required by both parties as they move forward on the affiliation curve. The contractual relationships underpinning these areas range from interdependence—where all parties preserve their independence but work closely together in partnership on a shared vision of the future—to joint ventures and full-asset mergers.



The Health System Strategic Options Assessment will provide an understanding of the KPB's current health system's sustainability, as well as identify the goals, needs, and constraints confronting the KPB that result in a common understanding of its available strategic options. Using the quantitative basis developed from our findings and analyses, we will assist the Healthcare Task Force in reaching consensus on the optimal health system strategy that best positions the KPB for long-term sustainability.

Following a thorough review of hospital data, Stroudwater will work with the KPB administration to schedule a site visit to interview stakeholders including but not limited to KPB leaders, hospital leaders, Board members, medical providers and community members (and other stakeholders as necessary), and to interact with you as we make observations. It is anticipated that our consulting team will be on site for two visits generally structured as follows:

Site Visit One

Day One:

- Meeting with KPB leadership and task force members to clarify business issues, priorities, and desired health system objectives;
- Interviews with task force members, leadership of area hospitals, and medical providers

Day Two:

- Continued stakeholder interviews with area hospitals

Day Three:

- Continued stakeholder interviews with area hospitals
- Facilitated planning session with KPB leadership and task force members using the Affiliation Value Curve to identify optimal health system criteria
- Exit interview with KPB leadership and task force members summarizing initial observations and next steps

Site Visit Two

Day One:

- Facilitated planning session with KPB leadership and task force members to discuss summary of findings and recommendations

Day Two:

- Continued facilitated planning session with KPB leadership and task force members to seek consensus on the preferred health system model
- Identification of next steps

HEALTH SYSTEM STRATEGIC OPTIONS PROCESS STEPS

Stroudwater will bring a unique perspective on how the Triple Aim—population health, quality, and per capita cost—is being played out in the KPB. We will use this perspective to review the KPB’s position, and we will conduct additional analyses as needed to develop a broad understanding of your strategic options, needs, goals, and constraints. The strategic options assessment will be generally organized into the following 7 steps:

- Step 1. Project Organization and Data Request** – Stroudwater will coordinate with the Kenai Peninsula Borough leadership on identifying relevant background information, as well as to initiate a data request of area hospitals.
- Step 2. Demographic and Market Need Analysis** – Healthcare utilization data from the state, Truven Analytics (formerly Thomson Reuters), Applied Geographic Solutions, and other sources will be compiled to understand the current state of the market. The potential volume of services for the entire market will be projected based on the location, access, population draw area, competition, and demographics of that population.
- Step 3. Physician Analysis and Requirements** – Stroudwater Associates will analyze the provider-to-population ratios using the latest industry and rural benchmarks to assess existing and future capacity.
- Step 4. High-level Assessment of Hospitals** – Stroudwater Associates will conduct a high-level assessment of the status of the current financial, operational and strategic state of the regional hospitals that operate within the Kenai Peninsula Borough.
- Step 5. Delivery Model Alternatives and Strategies** – Stroudwater will develop an overview of alternate health system models and strategies used in other communities that could be applicable within the KPB. These models and strategies would consider varying arrangements of primary care services, emergency service, outpatient procedures, diagnostic services, inpatient, and long-term care.
- Step 6. Financial Analysis** – Stroudwater will conduct a financial pro forma analysis of the current hospital system in an effort to assess the cost impact on the KPB. This analysis will also include forecasted costs /potential savings of alternative systems and strategies, as well as the financial impact associated with the outmigration of services that could be delivered in the KPB.
- Step 7. Planning Session and Reporting** – Stroudwater will develop a written report of findings and recommendations in a PowerPoint format for a presentation to KPB Healthcare Task Force, as well as other stakeholders. Stroudwater will utilize the report during a facilitated planning session to assist stakeholders in identifying the optimal strategy and determining next steps.

ABOUT STROUDWATER ASSOCIATES

Stroudwater Associates is a private healthcare consulting firm, with corporate offices in Portland, Maine, and Atlanta, Georgia. We serve a national healthcare market consisting of government and quasi-government agencies, community-based organizations, major academic and tertiary centers, rural and community hospitals, physician groups and provider organizations. Our consulting teams offer deep expertise and broad experience in strategic, financial, clinical, and operational areas.

The Stroudwater Associates Rural Team is passionate about the health of rural people and places, and the relationships therein. We believe in relationship development, collaborative strategies, and commitment to personal learning and growth. The Stroudwater Associates Rural Team offers a rigorous, scientific approach to clinical, financial, and organizational improvement to ensure service viability for rural and/or underserved communities. We deliver action-oriented strategies and hands-on assistance.

Stroudwater has active engagements and client relationships in over thirty states encompassing every region of the country. Our expert service complement is comprehensive for meeting the needs of rural and underserved communities:

- Hospital operational assessments
- Quality/Performance Improvement
- Strategic planning
- Master facility planning
- Balanced Scorecard implementation
- Hospital/RHC/FQHC financial analysis
- Access to capital options analysis
- Post-acute strategies
- CAH feasibility studies
- FQHC/CHC feasibility
- Primary care options analysis
- 330 and 340B program development
- RHC development
- Delivery system integration
- Clinical service planning
- Network development

Stroudwater Associates is assisting dozens of rural providers to improve operational performance and meet the needs of underserved populations more effectively. To that end, Stroudwater has worked with Federal Office of Rural Health Policy and National Rural Health Resource Center to develop a national program to improve rural hospital performance. The result of this effort is the Mississippi Rural Hospital Performance Improvement Project, for which Stroudwater Associates has been the lead consulting firm during the past eight years. In addition, Stroudwater Associates has worked with the Federal Office of Rural Health Policy, the Department of Housing and Urban Development, and the United States Department of Agriculture to implement financing vehicles that would enable rural hospitals access to capital markets.

Stroudwater consultants are active in the movement to improve rural quality and operational performance, including developing models of collaboration between FQHCs and rural hospitals, participation on the Institute of Medicine's committee on rural health, as well as participation on the National Rural Health Association's Rural Health Congress and Governmental Affairs Committee, and the Federal Office of Rural Health Policy's Rural Hospital Issues Group. We present regularly at national, regional, and state conferences offering thought leadership in rural hospital operations,

financial improvement, clinical service development, Balanced Scorecard implementation, physician practice management, and FQHC operations.

PROJECT TEAM

The project team will consist of Eric Shell and Matt Mendez. Their biographical summaries are available in Appendix A. Additionally, the team has access as needed to the broad range of multidisciplinary expertise of the entire Stroudwater team. Client references are provided in Appendix B.

APPENDIX A: PROJECT TEAM BIOS

ERIC K. SHELL, CPA, MBA Director

Eric Shell has over 27 years of experience in healthcare financial management and consulting. Since joining Stroudwater in October 1997, his areas of responsibility have been to assist rural hospitals and rural health systems improve financial and operational performance and developing strategic and operational plans.



Eric is often a featured speaker at state, multi-state, and national rural conferences presenting on the future of rural healthcare, CAH financial, and reimbursement issues, as well as rural-hospital performance improvement. He has worked with the Department of Housing and Urban Development to implement a financing vehicle that enables rural hospitals access to capital markets; he also assisted in the development of a national program for rural hospital performance improvement and performance measurement. Further, he has helped develop new rural demonstration payment programs for frontier clinics and hospitals. Eric currently serves on the National Rural Health Association's Rural Health Congress and Governmental Affairs Committee and has recently served on the Federal Office of Rural Health Policy's Rural Hospital Issues Group.

Prior to joining Stroudwater, Eric was the Director of Finance and Administration for Rochester Community Individual Practice Association, Inc. in Rochester, New York. In this capacity, he provided leadership and financial management to a 2,500-provider community-based IPA that contracted with a local HMO to provide physician services to nearly 500,000 enrollees. Prior to his work with the IPA, Eric was a Manager of Accounting and Tax Services for a local public accounting firm and a healthcare Audit Division Senior for Arthur Andersen & Company.

Representative Accomplishments

Eric's recent work includes:

- Improving financial and operational performance of CAHs and other rural hospitals
- Assisting rural hospitals in developing an affiliation strategy with larger urban hospitals
- Assessing the financial feasibility of CAHs accessing significant capital under HUD or USDA programs
- Facilitating strategic-plan development for small and rural hospitals taking into account the rapidly changing rural-healthcare landscape

Education

Eric earned his Bachelor's Degree in Accounting from The Pennsylvania State University and his Master's in Business Administration (Beta Gamma Sigma) from the W.E. Simon Graduate School at the University of Rochester. He is a member of the American Institute of Certified Public Accountants and the Maine Society of Accountants.

MATTHEW F. MENDEZ, MHA Senior Consultant

Matt Mendez is a healthcare professional with over 18 years of executive and consulting experience. He has worked in a variety of settings, ranging from an academic medical center to a small community hospital within an integrated delivery system.

Before joining Stroudwater, Matt consulted within the North Carolina Hospital Association, PricewaterhouseCoopers' healthcare practice, and on an independent basis. Matt also served as CEO and COO of two not-for-profit community hospitals, where he was responsible for strategy and overall operations prior to his consulting roles.



Throughout his career, Matt has been drawn to challenging opportunities that required transformational change across the service, quality, people, and finance dimensions. He is a passionate leader who finds great satisfaction in helping others achieve extraordinary results. When not serving his clients, Matt enjoys mountain biking, boating, kayaking, and camping with his family.

Representative Accomplishments

- Orchestrating successful turnarounds of two community hospitals, resulting in improved financial and operational performance
- Conducting a strategic, operational, and financial assessment for a Critical Access Hospital
- Facilitating the development of strategic plans for community hospitals, and a multi-hospital group purchasing exchange
- Guiding the planning, design, and construction of an emergency department, surgery center, and free-standing diagnostic center for a community hospital within a health system
- Coordinating a two-state collaborative focused on driving a Lean improvement culture across 25 hospitals
- Leading the redesign and development of a facility space plan resulting in reduced patient wait times for the emergency department, patient access, and laboratory at a community hospital within a large integrated delivery network

Education

Matt earned his Bachelor's Degree in Biology from Hampden-Sydney College and his Master of Health Administration from the Medical College of Virginia campus of Virginia Commonwealth University. He is a member of the American College of Healthcare Executives.

APPENDIX B: REFERENCES

Lewis County General Hospital

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Lowville, NY 13367
Eric Burch, CEO
(785) 263-6610

Hardin Medical Center

Nicholas Lewis, Chief Executive Officer
935 Wayne Road
Savannah, TN 38372
(731) 926-8121

Marcum and Wallace Memorial Hospital

Susan Starling, President/CEO
60 Mercy Court
Irvine, Kentucky 40336
(606) 726-2168

Baptist Medical Center - Leake

310 Ellis Street
Carthage, Mississippi 39051
Daryl Weaver, CEO
(601) 267-1191

Charles A. Dean Memorial Hospital

Pritham Ave.
Greenville ME 04441
Geno Murray, CEO
(207) 695-5215

Fairview Hospital

29 Lewis Street
Great Barrington, MA 01230
Anthony Rinaldi, Executive Vice President
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Carthage Area Hospital

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