HB 711 Evaluation Discussion

Daytona Beach, Florida / November 5th, 2012
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1. House Bill 711 requirements
HB 711

• The 2012 legislative session brought changes to Section 155.40, Florida Statues (general law governing rights and obligations of public hospitals related to their sale or lease) which became effective April 6, 2012

• Under the law, the governing body of a public hospital must undertake a process to determine:
  - “whether it is more beneficial to taxpayers and the affected community for the hospital to be operated by a governmental entity, or whether the hospital can be operated by a not-for-profit or for-profit entity with similar or better cost-efficiencies or measurable outcomes . . .
  - Comparison “must also determine whether there is a net benefit to the community to operate the hospital as a not-for-profit or for-profit entity and use the proceeds for economic development in the community”
  - If a county, district, or municipal hospital is sold or leased:
    ✓ 50 percent of the net proceeds of a lease or sale of a hospital will be deposited into a “health care economic development trust fund, which shall be under the control of the county commission of the county in which the property is located”
    ✓ The remaining 50 percent of the net proceeds will be used for funding the delivery of indigent care, including but not limited to primary care, physician specialty care, out-patient care, in-patient care and behavioral health, to hospitals within the boundaries of the district with consideration given to the levels of indigent care provided”
HB 711 (continued)

• The evaluation must begin by December 31, 2012

• In the course of evaluating the benefits of the sale or lease, the board shall:
  – Conduct a public hearing to provide interested persons the opportunity to be heard on the matter
  – Publish notice of the public hearing in one or more newspapers at least 15 days before the hearing is scheduled to occur
  – Contract with a certified public accounting firm or other firm that has substantial expertise in the valuation of hospitals to render an independent valuation of the hospital’s fair market value
  – Consider an objective operating comparison between a hospital operated by the district and other similarly situated hospitals, both not-for-profit and for-profit to determine whether there is a difference in the cost and quality of operation using publicly available data

✓ The comparison must determine whether it is more beneficial to taxpayers and the affected community for the hospital to be operated by a governmental entity, or whether the hospital can be operated by a not-for-profit or for-profit entity with similar or better cost-efficiencies or measurable outcomes

✓ The comparison must also determine whether there is a net benefit to the community to operate the hospital as a not-for-profit or for-profit entity and use the proceeds of the sale or lease for economic development and the provision of indigent care
HB 711 (continued)

- All documents used by the board in its evaluation must be made available to the public

- Within 160 days after the initiation of the evaluation, the governing board must publish notice of its findings in one or more newspapers

- If, upon completion of the evaluation of the benefits of the sale or lease, the governing board determines that it is no longer in the best interest of the affected community to own or operate a hospital and elects to consider a sale or lease of the hospital, the law provides specific guidelines for the process to ascertain whether there are any interested and qualified purchasers or lessees
2. Comparison of the Cost Structure of Halifax as Compared to Similarly Situated Health Systems
Peer Group Selection Methodology

• Halifax Health provides trauma and critical care services in a designated Trauma Center, which significantly impacts the economics and cost structure of the hospital

• The peer group includes hospitals with designated Trauma Centers that are most comparable in revenue and total operating expense to Halifax Health

• For comparison purposes, four of the peer group are public district hospitals and three of the peer group are for-profit hospitals:
  — Memorial Regional Hospital (South Broward Hospital District)
  — Lee Memorial Hospital (Lee Memorial Health System)
  — Holmes Medical Center (Holmes County Hospital District)
  — Broward General Medical Center (Broward Health)
  — Delray Medical Center (For-profit, Tenet)
  — St. Mary’s Medical Center (For-profit, Tenet)
  — Lawnwood Regional Medical Center (For-profit, HCA)
Methodology

• The cost metric used in the analysis is AHCA FY11 operating expense per adjusted admission, adjusted with FY10 Case Mix Index (“CMI”)
  — CMI adjustment is made to normalize expenses across facilities for the severity of the cases treated
  — Adjusted admission is a calculation used to account for different mixes of inpatient and outpatient cases across facilities

• The analysis utilizes total operating expense excluding bad debt and compares Halifax Health with acute care hospitals in the four nearest counties and with its previously defined peer group
  — Bad debt is excluded because it is not a true “operating” expense, but rather a measure of the level of accounts receivable for which no payment is expected
Summary of Findings

• While hospital cost is an imperfect measure for efficiency and no two hospitals are alike, CMI-adjusted cost per adjusted admission is one of the best publicly available proxies for hospital efficiency
  
  — CMI-adjusted cost per adjusted admission attempts to measure the resources expended by a hospital on a typical patient visit
  
  — CMI = Case Mix Index, a proxy measure of severity, complexity, and costliness of cases at a hospital

• Halifax Health is competitive in cost efficiency compared to regional and peer group hospitals, particularly the higher revenue hospitals

  Given its ability to manage cost competitively, Halifax has continued to maintain service levels while reducing its tax burden to the district
Cost Efficiency: Four County Hospital Comparison

Total Operating Expense (less Bad Debt) per Adjusted Admission (Case Mix Adjusted)

- Halifax Health
- Seminole County
- Flagler County
- Volusia County
- Orange County

Halifax Health is significantly more cost effective than the large Orlando hospitals and right in line with Volusia County competition, even while providing the only trauma center and the most comprehensive set of healthcare services in Volusia County.

Source: AHCA FY11 Financial Data, Release Date - September 2012; Prepared by Florida Hospital Association;
Case Mix Index is from FY10 data
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Cost Efficiency: Halifax Peer Group Assessment

Total Operating Expense (less Bad Debt) per Adjusted Admission (Case Mix Adjusted)

Halifax Health performs very well in cost efficiency versus its trauma center peer group and is better than 2 of 3 for-profit hospitals.

Source: AHCA FY11 Financial Data, Release Date - September 2012; Prepared by Florida Hospital Association; Case Mix Index is from FY10 data
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Cost Efficiency: Nearby Hospitals and Peer Group Bad Debt and Charity Care Comparison

Halifax Health is cost-competitive despite being near the top in bad debt and charity care provided among nearby hospitals and its peer group.

Source: AHCA FY11 Financial Data, Release Date - September 2012; Prepared by Florida Hospital Association; Case Mix Index is from FY10 data

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Halifax Health has translated its cost efficiency to continued reduction of its tax burden to the district.
Halifax Health’s total gross tax levy is less than other Volusia County hospital districts, despite covering a larger healthcare population.

Source: Volusia County Property Appraiser

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# Cost Efficiency: Halifax Tax Revenue, Budget and Uses

## Halifax Health Medical Center

### Schedule of Uses of Property Taxes

**FY 2013 Preliminary Budget** *

<table>
<thead>
<tr>
<th>Description</th>
<th>FY 2012 Actual</th>
<th>FY 2013 Operating Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross property tax levy</strong></td>
<td>$21,933,756</td>
<td>$15,273,246</td>
</tr>
<tr>
<td>Less tax discounts and uncollectible taxes</td>
<td>(1,007,170)</td>
<td>(701,328)</td>
</tr>
<tr>
<td><strong>Net property taxes collected</strong></td>
<td>20,926,586</td>
<td>14,571,918</td>
</tr>
<tr>
<td><strong>Less amounts paid to Volusia County and Cities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax collector and appraiser commissions</td>
<td>(883,713)</td>
<td>(615,360)</td>
</tr>
<tr>
<td>Volusia County Medicaid matching assessment</td>
<td>(2,756,812)</td>
<td>(1,700,000)</td>
</tr>
<tr>
<td>Redevelopment taxes paid to cities</td>
<td>(1,136,628)</td>
<td>(791,474)</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>(4,777,153)</td>
<td>(3,106,835)</td>
</tr>
<tr>
<td><strong>Net taxes available for community health, wellness and readiness</strong></td>
<td>16,149,433</td>
<td>11,465,084</td>
</tr>
<tr>
<td><strong>Less amounts paid for community health and wellness services:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preventive health services (clinics, Healthy Kids, etc.)</td>
<td>(1,190,018)</td>
<td>(1,300,000)</td>
</tr>
<tr>
<td>Physician services</td>
<td>(6,795,806)</td>
<td>(6,750,000)</td>
</tr>
<tr>
<td>Trauma services</td>
<td>(5,466,305)</td>
<td>(5,900,000)</td>
</tr>
<tr>
<td>Pediatric and neonatal intensive care services</td>
<td>(1,192,252)</td>
<td>(1,200,000)</td>
</tr>
<tr>
<td>Child and adolescent behavioral services</td>
<td>(422,645)</td>
<td>(350,000)</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>(15,067,026)</td>
<td>(15,500,000)</td>
</tr>
<tr>
<td><strong>Net taxes available to fund hospital operating expenses</strong></td>
<td>1,082,407</td>
<td>(4,034,916)</td>
</tr>
<tr>
<td><strong>Less total uncompensated care provided by Halifax, at cost</strong></td>
<td>42,682,286</td>
<td>42,237,755</td>
</tr>
<tr>
<td><strong>Uncompensated care, at cost, not paid for by property taxes</strong></td>
<td>($41,599,879)</td>
<td>($46,227,671)</td>
</tr>
</tbody>
</table>

* Based on Preliminary assessed total taxable value

Source: Halifax Health financial team analysis
# Cost Efficiency: Halifax Taxes and Community Benefits

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net property taxes collected</strong></td>
<td>$36,594</td>
<td>$44,119</td>
<td>$50,921</td>
<td>$48,977</td>
<td>$39,835</td>
<td>$32,982</td>
<td>$26,382</td>
<td>$20,927</td>
<td>$14,572</td>
</tr>
<tr>
<td><strong>Less</strong> amounts paid to Volusia County and Cities:</td>
<td>(4,521)</td>
<td>(5,768)</td>
<td>(6,636)</td>
<td>(6,685)</td>
<td>(6,634)</td>
<td>(5,572)</td>
<td>(4,610)</td>
<td>(4,777)</td>
<td>(3,106)</td>
</tr>
<tr>
<td><strong>Net taxes available for community health, wellness and readiness</strong></td>
<td>32,073</td>
<td>38,351</td>
<td>44,286</td>
<td>42,292</td>
<td>33,202</td>
<td>27,410</td>
<td>21,771</td>
<td>16,149</td>
<td>11,465</td>
</tr>
<tr>
<td><strong>Less</strong> amounts paid for community health and wellness services:</td>
<td>(14,755)</td>
<td>(16,210)</td>
<td>(16,158)</td>
<td>(16,609)</td>
<td>(14,783)</td>
<td>(15,303)</td>
<td>(14,331)</td>
<td>(15,067)</td>
<td>(15,500)</td>
</tr>
<tr>
<td><strong>Net taxes available to fund hospital operating expenses</strong></td>
<td>17,317</td>
<td>22,140</td>
<td>28,128</td>
<td>25,683</td>
<td>18,419</td>
<td>12,107</td>
<td>7,441</td>
<td>1,082</td>
<td>(4,035)</td>
</tr>
<tr>
<td><strong>Less</strong> total uncompensated care provided by Halifax, at cost</td>
<td>38,553</td>
<td>36,557</td>
<td>40,739</td>
<td>39,140</td>
<td>31,766</td>
<td>32,311</td>
<td>39,384</td>
<td>42,682</td>
<td>42,238</td>
</tr>
<tr>
<td><strong>Uncompensated care, at cost, not paid for by property taxes</strong></td>
<td>($21,235)</td>
<td>($14,417)</td>
<td>($12,612)</td>
<td>($13,458)</td>
<td>($13,347)</td>
<td>($20,204)</td>
<td>($31,943)</td>
<td>($41,600)</td>
<td>($46,273)</td>
</tr>
</tbody>
</table>

**FY11 hypothetical “for-profit” tax burden if Halifax paid taxes**

- Net uncompensated care community benefit less hypothetical taxes paid
  - Not Applicable
  - ($20,833) ($30,590) ($35,263)

Halifax is budgeted to provide $46M in uncompensated care. This net benefit far exceeds what Halifax would pay in taxes if it were to become a taxable entity.

Source: Halifax Health financial analysis
3. Comparison of the Quality of Halifax as Compared to Similarly Situated Health Systems
Methodology

The following industry standard Centers for Medicare and Medicaid Services (“CMS”) quality and outcomes metrics were used to compare Halifax with its peer group:

• Process of Care Aggregate Scores:
  — Heart Attack or Chest Pain
  — Heart Failure
  — Pneumonia
  — Surgical Care Improvement

• Outcomes for Heart Attack, Heart Failure and Pneumonia patients:
  — 30-day Mortality Rates
  — 30-day Readmission Rates

• Hospital Consumer Assessment of Healthcare Providers & Systems (“HCAHPS”) for key communication and overall satisfaction measures
Summary of Findings

- Across the latest available CMS quality metrics, Halifax Health performs well and is very competitive with its trauma center public hospital peer group.

- When quality is viewed in aggregate across the CMS metrics, there is not conclusive evidence that peer group for-profit hospitals deliver higher quality care.

Even with relatively high levels of uncompensated and charity care (especially compared to the for-profit hospitals), Halifax Health has been able to maintain competitive performance in key quality metrics.
CMS Core Measures: Halifax Peer Group Assessment

Heart Attack or Chest Pain
Process of Care Aggregate Score

<table>
<thead>
<tr>
<th>Hospital</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Halifax Health</td>
<td>97.4%</td>
</tr>
<tr>
<td>Memorial Regional</td>
<td>99.6%</td>
</tr>
<tr>
<td>Lee Memorial</td>
<td>96.5%</td>
</tr>
<tr>
<td>Holmes Medical Center</td>
<td>97.0%</td>
</tr>
<tr>
<td>Broward General</td>
<td>97.8%</td>
</tr>
<tr>
<td>Delray Medical Center</td>
<td>100.0%</td>
</tr>
<tr>
<td>St. Mary’s Medical Center</td>
<td>95.7%</td>
</tr>
<tr>
<td>Lawnwood Regional</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

US Avg: 98.1%

Halifax Health is competitive with peer group in overall Heart Attack care and near the national average.

Source: Most recent available CMS Hospital Compare data; data.medicare.gov, accessed 8/22/12;
Data collection period = calendar year 2011

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CMS Core Measures: Halifax Peer Group Assessment

Heart Failure Process of Care Aggregate Score

<table>
<thead>
<tr>
<th>Hospital</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Halifax Health</td>
<td>98.1%</td>
</tr>
<tr>
<td>Memorial Regional</td>
<td>98.4%</td>
</tr>
<tr>
<td>Lee Memorial</td>
<td>84.9%</td>
</tr>
<tr>
<td>Holmes Medical Center</td>
<td>98.5%</td>
</tr>
<tr>
<td>Broward General</td>
<td>91.5%</td>
</tr>
<tr>
<td>Delray Medical Center</td>
<td>100.0%</td>
</tr>
<tr>
<td>St. Mary's Medical Center</td>
<td>99.2%</td>
</tr>
<tr>
<td>Lawnwood Regional</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

US Avg: 94.5%

Halifax Health is very competitive with peer group in overall Heart Failure care and well above the national average.

Source: Most recent available CMS Hospital Compare data; data.medicare.gov, accessed 8/22/12;
Data collection period = calendar year 2011
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Halifax Health is better than most of the peer group in overall Pneumonia care and well above the national average.

Source: Most recent available CMS Hospital Compare data; data.medicare.gov, accessed 8/22/12;
Data collection period = calendar year 2011
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CMS Core Measures: Halifax Peer Group Assessment

**Surgical Care Improvement**

<table>
<thead>
<tr>
<th>Process of Care Aggregate Score</th>
<th>Halifax</th>
<th>Memorial Regional</th>
<th>Lee Memorial</th>
<th>Holmes Medical Center</th>
<th>Broward General</th>
<th>Delray Medical Center</th>
<th>St. Mary's Medical Center</th>
<th>Lawnwood Regional</th>
</tr>
</thead>
<tbody>
<tr>
<td>50.0%</td>
<td>97.9%</td>
<td>98.7%</td>
<td>94.9%</td>
<td>96.3%</td>
<td>95.9%</td>
<td>99.5%</td>
<td>98.4%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Halifax Health is competitive with peer group in overall Surgical Care Improvement and above the national average.

Source: Most recent available CMS Hospital Compare data; data.medicare.gov, accessed 8/22/12;
Data collection period = calendar year 2011
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| Heart Attack Care                          | Heart Attack Patients Given Aspirin at Arrival |
|                                         | Heart Attack Patients Given Fibrinolytic Medication Within 30 Minutes of Arrival |
|                                         | Heart Attack Patients Given PCI Within 90 Minutes of Arrival |
|                                         | Heart Attack Patients Given ACE Inhibitor or ARB for Left Ventricular Systolic Dysfunction (LVSD) |
|                                         | Heart Attack Patients Given Smoking Cessation Advice/Counseling |
|                                         | Heart Attack Patients Given Aspirin at Discharge |
|                                         | Heart Attack Patients Given Beta Blocker at Discharge |
|                                         | Heart Attack Patients Given a Prescription for a Statin at Discharge |
| Heart Failure Care                      | Heart Failure Patients Given Discharge Instructions |
|                                         | Heart Failure Patients Given an Evaluation of Left Ventricular Systolic (LVS) Function |
|                                         | Heart Failure Patients Given ACE Inhibitor or ARB for Left Ventricular Systolic Dysfunction (LVSD) |
|                                         | Heart Failure Patients Given Smoking Cessation Advice/Counseling |
| Pneumonia Care                          | Pneumonia Patients Given Initial Antibiotic(s) within 6 Hours After Arrival |
|                                         | Pneumonia Patients Whose Initial Emergency Room Blood Culture Was Performed Prior To The Administration Of The First Hospital Dose of Antibiotics |
|                                         | Pneumonia Patients Given the Most Appropriate Initial Antibiotic(s) |
|                                         | Pneumonia Patients Given Smoking Cessation Advice/Counseling |
|                                         | Pneumonia Patients Assessed and Given Pneumococcal Vaccination |
|                                         | Pneumonia Patients Assessed and Given Influenza Vaccination |
| Surgical Care Improvement              | Surgery Patients Who were Taking Heart Drugs called Beta Blockers Before Coming to the Hospital, Who were Kept on the Beta Blockers during the Period just Before and After their Surgery |
|                                         | Surgery Patients Who were Given the Right Kind of Antibiotic to Help Prevent Infection |
|                                         | Heart Surgery Patients Whose Blood Sugar (Blood Glucose) is Kept Under Good Control in the Days Right after Surgery |
|                                         | Surgery Patients Needing Hair Removed from the Surgical Area Before Surgery, who had Hair Removed Using a Safer Method (Electric Clippers or Hair Removal Cream – Not a Razor) |
|                                         | Surgery Patients Whose Urinary Catheters were Removed on the First or Second Day after Surgery. |
|                                         | Patients having Surgery Who were Actively Warmed in the Operating Room or Whose Body Temperature was Near Normal by the End of Surgery. |
|                                         | Surgery Patients Whose Doctors Ordered Treatments to Prevent Blood Clots after Certain Types of Surgeries |
|                                         | Surgery Patients Who were given an Antibiotic at the Right Time (Within One Hour Before Surgery) to Help Prevent Infection |
|                                         | Surgery Patients Whose Preventive Antibiotics were Stopped at the Right Time (Within 24 Hours After Surgery) |
|                                         | Patients Who got Treatment at the Right Time (Within 24 Hours Before or After Their Surgery) to Help Prevent Blood Clots After Certain Types of Surgery |

Source: Hospital Compare website, hhs.gov
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Mortality Rates: Halifax Peer Group Assessment

Mortality Rate for Heart Attack Patients

Halifax Health is competitive with peer group in Heart Attack mortality and not significantly different than the national average.

Source: Most recent available CMS Hospital Compare data; data.medicare.gov, accessed 8/22/12
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Mortality Rates: Halifax Peer Group Assessment

Mortality Rate for Heart Failure Patients

Halifax Health is competitive with peer group in Heart Failure mortality and not significantly different than the national average.

Sample size: 493
Observation Period: 7/08-6/11

Source: Most recent available CMS Hospital Compare data; data.medicare.gov, accessed 8/22/12

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Mortality Rates: Halifax Peer Group Assessment

Mortality Rate for Pneumonia Patients

Halifax has reviewed this area in detail and found that a high number of patients are transferred from nursing home settings in a critical state and many of the patients in the sample size had “Do Not Resuscitate (“DNR”)” orders. We can provide more detail upon request, but achieving a 12% average would involve a reduction of 16 cases for the period from the current 80.

Sample size:
Halifax Health 533
Memorial Regional 439
Lee Memorial 974
Holmes Medical Center 779
Broward General 109
Delray Medical Center 722
St. Mary’s Medical Center 70
Lawnwood Regional 218

US Avg: 12.0%

Source: Most recent available CMS Hospital Compare data; data.medicare.gov, accessed 8/22/12
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Readmission Rates: Halifax Peer Group Assessment

**Readmission Rate for Heart Attack Patients**

Halifax Health is competitive with peer group in Heart Attack readmission rate and not significantly different than the national average.

**Sample size:**
- Halifax Health: 355
- Memorial Regional: 308
- Lee Memorial: 649
- Holmes Medical Center: 673
- Broward General: 142
- Delray Medical Center: 582
- St. Mary’s Medical Center: 19
- Lawnwood Regional: 465

Observation Period: 7/08-6/11

Source: Most recent available CMS Hospital Compare data; data.medicare.gov, accessed 8/22/12

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Readmission Rates: Halifax Peer Group Assessment

Readmission Rate for Heart Failure Patients

Halifax Health is competitive with peer group in Heart Failure readmission rate and not significantly different than the national average.

Sample size:
- Halifax Health: 615
- Memorial Regional: 824
- Lee Memorial: 1,351
- Holmes Medical Center: 1,320
- Broward General: 282
- Delray Medical Center: 1,373
- St. Mary's Medical Center: 57
- Lawnwood Regional: 744

Observation Period: 7/08-6/11

Source: Most recent available CMS Hospital Compare data; data.medicare.gov, accessed 8/22/12
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Readmission Rates: Halifax Peer Group Assessment

Halifax Health is competitive with peer group in Pneumonia readmission rate and not significantly different than the national average.

Source: Most recent available CMS Hospital Compare data; data.medicare.gov, accessed 8/22/12
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HCAHPS: Halifax Peer Group Assessment

HCAHPS
Patients Who Gave A Rating of 9 or 10 (high)

Halifax Health is near the middle of the peer group range in HCAHPS “high” ratings and their rating improved to 65.5% in the first six months of CY12.

Data collection period = Calendar year 2011
Source: Most recent available CMS Hospital Compare data; data.medicare.gov, accessed 8/22/12
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HCAHPS: Halifax Peer Group Assessment

HCAHPS
Doctors Always Communicated Well

Halifax Health is competitive with peer group hospitals in the doctor communication score and their rating improved to 78% in the first six months of CY12.

US Avg: 81%
FL Avg: 77%

Data collection period = Calendar year 2011
Source: Most recent available CMS Hospital Compare data; data.medicare.gov, accessed 8/22/12
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HCAHPS: Halifax Peer Group Assessment

HCAHPS
Nurses Always Communicated Well

Halifax Health is near the middle of the peer group in nurse communication ratings and their rating improved to 73.5% in the first six months of CY12.

US Avg: 77%
FL Avg: 73%

Data collection period = Calendar year 2011
Source: Most recent available CMS Hospital Compare data; data.medicare.gov, accessed 8/22/12
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4. Fair Market Valuation
Purpose and Valuation Premise

• Pursuant to the requirements of House Bill 711, Halifax Health ("Halifax") has engaged Kaufman Hall to perform a fair market valuation of Halifax as of September 30, 2012 (the “Valuation Date”)

• For purposes of this report, “Fair Market Value” is equal and equivalent to Business Enterprise Value (“BEV”)
  
  – Further, BEV is defined as the most probable price that the net tangible and intangible operating assets (or business enterprise) of a business may bring, in a competitive and open market under all conditions requisite to a fair sale, with buyer and seller each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus as of a valuation date; implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer

  – BEV assumes the enterprise is delivered without debt, long-term liabilities or excess cash but with a level of working capital sufficient to run the business

• Estimated proceeds to the seller before transaction costs are calculated by subtracting from BEV all long-term liabilities and adding/ subtracting excess/ deficient working capital amounts, including cash

  – Additional detail regarding this calculation is provided in the following slides
Purpose and Valuation Premise (continued)

- Consistent with the of estimating BEV it is assumed that the buyer will have complete control of the organization post-transaction. In this specific case, the Halifax Board would have no meaningful ongoing participation in:
  - Governance
  - Services offered
  - Level of charity care
  - Employment and pension
  - Community health programs sponsored by the hospital

- Any meaningful participation in governance and decision making post-transaction can be expected to reduce consideration received in a hypothetical transaction

- We have adjusted the financial performance of Halifax to remove tax revenue and associated expenses when valuing the organization, as we understand these fund flows will cease in the event of a sale
Valuation Methodologies

A valuation range was determined for Halifax using the following three valuation methodologies:

1. Discounted Cash Flow Analysis (“DCF”)
   - Demonstrates the potential value of Halifax if certain financial projections are achieved

2. Public Market Comparables Analysis
   - Demonstrates the potential freely-traded value in the public marketplace based on comparable hospital management company multiples

3. Comparable Transactions Analysis
   - Demonstrates the potential value of Halifax based upon purchase multiples developed from recent acquisitions of comparable companies

Kaufman Hall has assumed, for purposes of this report, that the businesses and operations of Halifax shall be ongoing. Therefore, we have not evaluated or appraised the current physical assets used in these operations. This type of “cost” approach to valuation is of limited use when valuing health care companies, since these entities acquire value not from assets, but only when operated as businesses.
Factors Affecting Valuation

*Kaufman Hall considered the following factors in its valuation analysis:*

**Key Strengths**
- Leading provider in service area
- Large scale attractive to market participants and new market entrants
- Florida is a relatively attractive market to operators with a long-term outlook
- Historical financial performance

**Key Challenges**
- Near-term conditions in local economic environment
- Utilization trends
- Payor mix
- Near-term financial performance
- Market demographics, particularly as it relates to bad debt
Valuation Summary – BEV

- Based on the valuation analysis performed by Kaufman Hall, Halifax has a range of BEV between $370 and $440 million
Valuation Summary – Estimated Net Proceeds (Before Trans. Costs)

- After adding back cash and subtracting long term liabilities, the total net proceeds arising from a hypothetical sale of Halifax (before transaction costs) is estimated to be between:

$262 and $332 million

Net Proceeds Calculation (excluding transaction costs)

<table>
<thead>
<tr>
<th></th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concluded BEV</td>
<td>$370</td>
<td>$440</td>
</tr>
<tr>
<td>Plus: Cash and Equivalents</td>
<td>(1)</td>
<td>$416</td>
</tr>
<tr>
<td>Less: Long-Term Debt</td>
<td>(2)</td>
<td>($360)</td>
</tr>
<tr>
<td>Less: Debt Defeasance Costs</td>
<td>(3)</td>
<td>($43)</td>
</tr>
<tr>
<td>Less: Swap</td>
<td>(4)</td>
<td>($35)</td>
</tr>
<tr>
<td>Less: Unfunded Pension Liability</td>
<td>(5)</td>
<td>($86)</td>
</tr>
</tbody>
</table>

Estimated Net Proceeds (excluding transaction costs) $262 - $332

Notes:
(1) Cash and Equivalents equals Cash, Investments and Board-Designated Funds as of June 30, 2012.
(2) Long-Term Debt at par value as of September 30, 2012.
(3) Debt Defeasance Costs based on Kaufman Hall analysis.
(4) Swap liability as of June 30, 2012.
(5) Unfunded Actuarial Accrued Liability balance per Halifax Management, as reported by actuary.
5. Discussion
Key Takeaways

1. There is no significant difference in the cost and quality profile of Halifax compared to similar organizations in both the district, private not-for-profit and for-profit ownership groups.

2. Halifax has managed this competitive cost and quality position while reducing its tax burden year over year since 2007, maintaining service levels and continuing to provide significant community benefit to uninsured and underinsured populations.

3. There is no doubt that the underlying market demographic realities and new healthcare operating business imperatives will challenge Halifax’s ability to maintain its competitive performance over the long-term. However, Halifax has put the organization in a strong position to control its destiny and fully evaluate all of its strategic options. This is not the case with other organizations who only have limited options due to a distressed competitive and financial position.
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