Proposal to provide a Strategic Assessment of OCH Regional Medical Center on behalf of Oktibbeha County, Mississippi

July 18, 2016

Healthcare Management Partners

Listen. Evaluate. Implement

Contents

1. Executive Summary: *About HMP*

We would be honored for OCH Regional Medical Center and the Oktibbeha County Board of Supervisors to consider Healthcare Management Partners to conduct the Strategic Assessment of the hospital for the following reasons:

We Are Mission-Driven
We have deep respect for the healing mission of community hospitals and the front-line providers of healthcare services (doctors, nurses, etc.)

Knowledge of the Market in Mississippi
As experts in the Mississippi hospital market, we led Governor Bryant's recent Health Summit, working with key leaders across the state to strategize solutions to the significant challenges facing hospitals

We are Senior Hospital Executives
We are led by hospital executives (CEO/CFO) who have a consulting skill set. This means that we are always thinking of *implementation* practicalities when making our strategic recommendations

Communication & Feedback
We actively engage with physicians, hospital management and local community leaders to obtain the input of all key stakeholders in making our recommendations for the organization

Data-led Approach to Strategy
We utilize significant data sources, and combine different data sources, to build up a fact-based market position assessment from which different strategic options can be properly evaluated

Understand Mississippi Hospitals
Having led the turnaround and managed the sale of several Mississippi hospitals, we understand the dynamics and unique characteristics of Mississippi hospitals, in particularly government-owned hospitals

We Have a Good Understanding of OCH
We have put in significant time to understand the present position of OCH so when we commence we will "hit the ground running" and deliver our report and recommendation in a timely manner

County-Owned Community Hospitals
We specialize in the community hospital sector, and have extensive experience in providing strategic advisory services, facilitating sale transactions and conducting market valuations

Fast Results and Value for Money
Through dedicating small, experienced teams to our engagements, we quickly pinpoint problems and develop solutions. We will complete our Assessment within 45 days of receiving requested data

1. Executive Summary: *Scope of Services*

SERVICES REQUESTED as provided by § 41-13-15 (8) of the Mississippi Code.

(a) A review of the community's inpatient facility needs based on current workload, historical trends and projections, based on demographic data, of future needs.

(b) A review of the competitive market for services, including other hospitals which serve the same area, the services provided and the market perception of the competitive hospitals.

(c) A review of the hospital's strengths relative to the competition and its capacity to compete in light of projected trends and competition.

(a) An analysis of the hospital's options, including service mix and pricing strategies. If the study concludes that a sale or lease should occur, the study shall include an analysis of which option would be best for the community and how much revenues should be derived from the lease or sale.

Additional Services to be included in the assessment:

(a) A quality of care comparison of the hospital's performance with state, regional, and national benchmarks.

(b) The final consultant's report will provide the Board of Supervisors with actionable recommendations.

Hereafter we refer to the above Scope of Services as "Strategic Assessment".

1. Executive Summary: *Approach*

Approach

Our work plan would follow the following key phases in conducting a Strategic Assessment:

We utilize a fact-based approach to developing an understanding of the organization's strengths and key issues that need to be addressed. Our methodology for fact-finding includes the following:

1. Media Research - Desk-based research to understand key messages and perceptions being presented in the media. In implementing a change in strategy, public relations and effective communications are instrumental in gaining the support of key constituents.

2. Data Analysis – Significant "data mining" of large publicly available CMS data sets, including MedPAR (Medicare claims data) and HCRIS Cost Reports (provider-reported information) to build up a thorough understanding of market position, patient migration patterns, and the relative strength of competitors. Additionally, we review the hospital's UB-04 outpatient and inpatient claims data, to understand patient origin and define the hospital's market. We analyze the hospital's financials and load trial balances into one of HMP's template financial models from which we can observe trends and prepare financial forecasts.

3. Interviews – In the first week of the engagement we interview key leadership positions in the hospital, including management executives, department leaders, physicians, and board members. We also connect with community leadership to ensure their input is taken into account in our assessment.

4. Site Visits – It is important for us to "walk the halls" of the hospital to understand its current physical condition and make other observations around structure and operations. We also normally visit competitor facilities and ensure we tour the community to obtain an understanding of the demographics, available transportation options, and growth areas.

1. Executive Summary: *Key Deliverables*

Key Deliverables

Key Deliverables from the Scope of Services will include:

Analysis of OCH Operations:

- OCH's Activity and Volume Trend Analysis (1.2*)
- Quality & Operations benchmarking (1.3)
- Benchmarking of staffing levels (1.4)
- Financial Analysis (1.5)
- Balance Sheet Analysis (1.6)
- Review Capital Sources (1.7)

Market Analysis & Industry Context:

- Healthcare Market Overview for Community Hospitals in Mississippi (2.1)
- Demographic Analysis (2.2)
- Analysis of Patient Migration Patterns (2.3)
- OCH Patient Origin Study (2.4)
- Patient Outmigration Study (2.5)
- Demand Study: Review of the community's inpatient facility needs (2.6)
- Competitor Analysis including Market Perceptions (2.7)
- Market Share Analysis by specialty (A2.8)

Review & Assess Strategic Alternatives:

- Review and Assessment of Strategic Options including service mix and pricing (3.1)
- If sale/lease recommended, estimate Business Enterprise Valuation of OCH (3.2)
- Written Report of Findings and Recommended Actions (3.3)
- Presentation of Report to OCH and County Board members (3.4)

**Reference numbers in brackets refer to the workplan, as detailed on the following page.*

1. Executive Summary: *Workplan*

Work Plan

		Strategic Assessment						
	Week:	T-1	1	2	3	4	5	6
Ref	Work Streams	Preparation						
i)	**Administration & Project Kick Off**							
	Finalize engagement scope and execute engagement letter, submit data request							
	Interview key organizational leaders (All C-suite executives, Medical Directors, Chief of Staff)							
	Visit certain facilities and operating units							
	Meet any relevant consultants							
	Bi-weekly updates to governance boards							
1.0	**Analysis of OCH Operations**							
1.1	Meetings with key constituencies (board members & governing bodies, departmental directors, physicians, patient representatives and community leaders as appropriate)							
1.2	OCH's activity and volume trend analysis							
1.3	Quality & operations benchmarking							
1.4	Benchmarking of staffing levels							
1.5	Financial analysis							
1.6	Balance sheet analysis							
1.7	Review capital sources							
2.0	**Market analysis & industry context**							
2.1	Healthcare market overview for community hospitals in Mississippi							
2.2	Demographic analysis							
2.3	Analysis of patient migration patterns							
2.4	OCH patient origin study							
2.5	Patient outmigration study							
2.6	Demand study: review of the community's inpatient facility needs							
2.7	Competitor analysis including market perceptions							
2.8	Market share analysis by specialty							
3.0	**Review & assess strategic alternatives**							
3.1	Review and assessment of strategic options including service mix and pricing							
3.2	If sale/lease recommended, estimate business enterprise valuation of OCH							
3.3	Written report of findings and recommended actions							
3.4	**Presentation of report to OCH and County Board members**							

We will be on site for 2-3 days to commence our engagement and obtain the input of key constituencies. To deliver this engagement cost efficiently, we will work remotely on the data analysis and return to present our report in-person. We will maintain communication with you via phone and email throughout the process, and work through our ideas with you so that the there are no "surprises" in the final report. This structure has worked very well for our clients in the past.

2. Our Understanding of OCH and Its Local Market: *Overview*

Mississippi Market Knowledge Overview

Currently Managing several Critical Access Hospitals in Mississippi

We are currently managing 5 critical access hospitals in the Pioneer Health Services, Inc. group (based in Magee, MS) as the Chief Restructuring Officer appointed by the Bankruptcy Court under Chapter 11 of the Bankruptcy Code. **We have a deep understanding of the present challenges in rural healthcare and community hospitals.**

Led the successful turnaround and sale of Mississippi acute care hospitals

In Mississippi, HMP spearheaded the successful turnarounds of Natchez Regional Medical Center (NRMC) in Natchez and Tri-Lakes Medical Center in Batesville. At NRMC, three years after we completed the turnaround we returned to assist the Board to successfully sell the hospital to Community Health Systems. We have provided case studies of these experiences in this proposal.

Extensive research into Mississippi hospital market, published White Paper

Our team has been working for over 18 months in conducting a research project on standalone community hospitals in Mississippi (and other southern states). The research has proven that there is significant and widespread strategic and financial distress among these hospitals due to changes in the structure of the acute care sector resulting in declining inpatient activity and as a result, an increasing over-supply of hospital beds. A copy of our Mississippi White Paper is provided as an appendix, and we have provided a summary of our findings below.

Led Governor Bryant's Mississippi rural healthcare summit in April 2016

After **we led a conference on our Mississippi White Paper in 2015**, the Governor invited us and our partners to **host a Health Summit on April 11, 2016 around the strategic solutions available to ensure the delivery of sustainable, high quality healthcare services** to the residents of Mississippi.

We believe that **Mississippi can continue to lead the way in healthcare initiatives**, such as through its pioneering work with telemedicine, and emphasize the importance of communication and building relationships with key stakeholders.

The Summit reinforced our firm belief in the need for us to continue to facilitate a collaborative conversation among healthcare providers in order to continue building a sustainable healthcare delivery system.

Preliminary Analysis of OCH's Operational and Financial Performance

Included in this proposal is a high-level study where we have analyzed publicly available information to understand:

- the specific financial and operational challenges facing OCH
- OCH's Patient Service Area
- OCH's Key Competitors

These analyses arm us with a good preliminary understanding of OCH's market that we can utilize to "hit the ground running" upon commencing the engagement.

Our research and data analysis, combined with our experience at Pioneer, NRMC and Tri-Lakes, affords us an in-depth working knowledge of the Mississippi hospital market. We understand how important the local hospital is to protecting jobs and the local economy. **We are eager to work with OCH to identify options and formulate actionable recommendations that will optimize OCH's financial and strategic position, protect healthcare services for local residents and take into account the ~600 hospital employees.**

2. Our Understanding of OCH and Its Local Market:
Preliminary assessment of financial issues

Healthcare Management Partners

Key Issues Facing OCH Reginal Medical Center

- **Revenue growth** OCH has seen strong recent growth in net patient service revenues, which increased 10.4% in 2015 (5.4% in 2014). *(FS)*[1]
    - **Persistent low occupancy.** There is a national trend of declining occupancy that is financially impacting providers, who must evaluate their service mix. OCH's occupancy rate in 2014 was 36.5%, below both national and state benchmark averages[2] (37.4% and 42.6% respectively). Revenues per AOB were above the average peer benchmark, while Costs per AOB are marginally below the average. *(CR)*
    - **Existing focus on Outpatient services could present a strategic opportunity.** Outpatients currently account for 73.5% of gross revenues. (FS)
- **Operating income**
    - **Discrepancies in reported data;** the hospital reported a positive Operating Income in the financial statements (2015: $1.5 million), but an operating loss in the cost reports (2015: -$1.7 million). We would need to understand the differences in reported financials.
    - **Operating margin better than peers, but still reported negative.** Using benchmarked Cost Report data, OCH's Operating Profit Margin at -5.5% was significantly better than the peer group mean of -17.1%. *(CR)*
- **Operating expenses**
    - **Labor Costs were marginally above benchmark levels, and forecast to increase in 2016.** OCH's labor cost percentage of Total Operating Revenue was 56.6%, compared to the peer group mean of 55.2%. *(CR)*
    - **FTE per AOB is in line with benchmark.** From 2008 to 2013, the number of FTEs per AOB remained significantly higher than the peer benchmark and the hospital was in the fourth quartile. However in 2014, the FTE per AOB fell from 5.4 to 4.7 and the hospital is now in the third quartile. *(CR)*
- **Cash flow and balance sheet**
    - **Accounts Receivable days are high and may suggest other issues** with revenue recognition or collection. AR days have been rising over the last five years to 93 in 2015 (2014: 92 days), and this puts OCH in the bottom quartile against benchmark hospitals.
    - **The days cash on hand for 2015 were 35.6,** an improvement from 21.2 in 2013 however still could present a working capital issue given the high levels of Accounts Receivable. *(CR)*
    - **Balance sheet position.** Operating activities provided a healthy positive cash flow of $7.9 million in 2015, (2014: $4.9 million). Much of the excess cash is being used to pay down debt and OCH is well placed to repay the principal coming due in the coming years. However we cannot tell if recent levels of capital expenditure are sustainable as these have been lower than annual depreciation on the asset base. *(FS)*

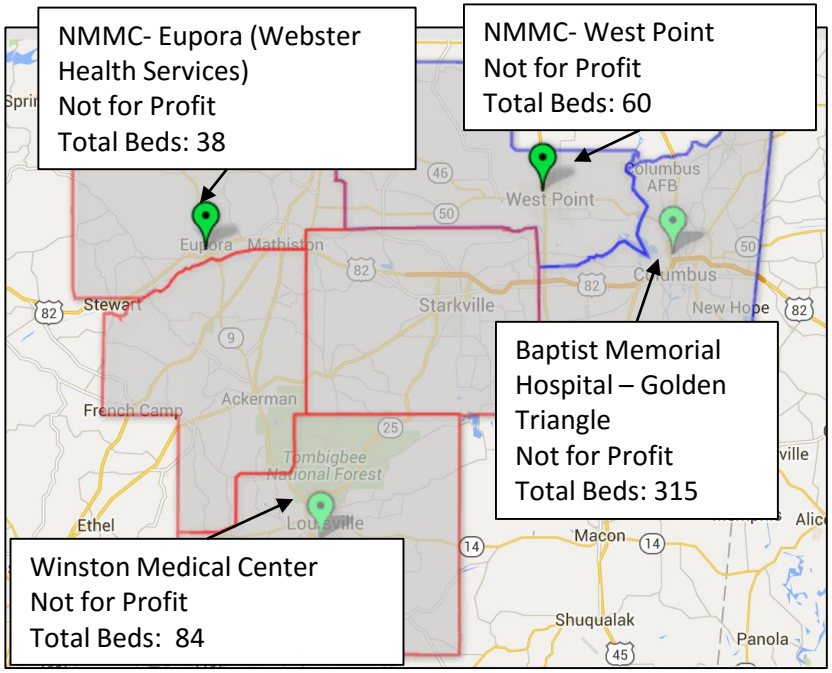
Sources:
(1) 2015 Audited Financial Statements ('FS'),
(2) CMS Cost Reports to September 30, 2014 ('CR') here OCH is benchmarked against Peer Group 9 in the HMP metrics report; Mississippi, Short Term, Government (non-Federal), Between 26 and 100 Total Beds'.
Note: The consolidated financial statements include information for OCH/SCW Mammography, LLC, (a Mississippi entity) of which the Hospital owns fifty one percent.

2. Our Understanding of OCH and Its Local Market:
Market Position

Healthcare Management Partners

Map of Short-term General Acute Care Competitors

Short-term General Acute Care Hospitals within a 30-mile radius of OCH



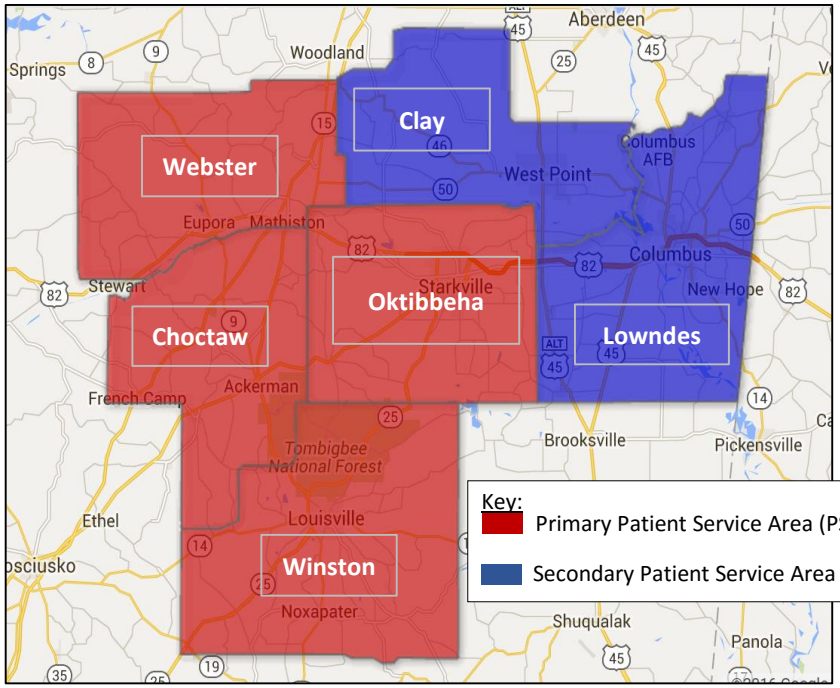
There are 4 Short-term General Acute Care Hospitals within a 30-mile radius of OCH. 2 of them are in OCH's Primary Patient Service Area and 2 of them are in OCH's Secondary Patient Service Area. All 4 hospitals are not for profit, and 3 out of the four belong to a system.

Source: AHD.com

Overview of Patient Service Area

OCH's Patient Service Area (PSA):

Source: MedPar data (2014)



Almost 85% of Medicare admissions at OCH in 2014 came from the four Primary Patient Service Area counties: Oktibbeha (making up nearly 60% of admissions), Webster, Choctaw, Winston and Webster. Clay and Lowndes counties, cumulatively with the Primary PSA counties, made up over 92% of OCH admissions. Clay and Lowndes are in OCH's Secondary Patient Service Area.

2. Our Understanding of OCH and Its Local Market:
Benchmarking OCH Operating Performance

Healthcare Management Partners

Using our proprietary benchmarking reports, we compare the performance of OCH against similar hospitals on key operational metrics, and analyze the data over time to understand trends, identify potential issues and opportunities.

- Below is an extract from the HMP Metrics™ report generated for OCH (the full report for is attached as a supplement to this proposal).
- HMP Metrics™ analyzes over 35,000 CMS cost reports to enable individual hospitals to compare their performance on key metrics against relevant state and national benchmarks. The relevant benchmark depends on the purpose of the analysis, but the data is grouped into detailed categories by state, hospital type, ownership type, multi-hospital system status and number of beds (to separate large hospitals from smaller hospitals).

Healthcare Management Partners, LLC
HMP Metrics
Oktibbeha County Hospital Profile - General Acute Care Hospitals Total Labor Cost by Ownership Type

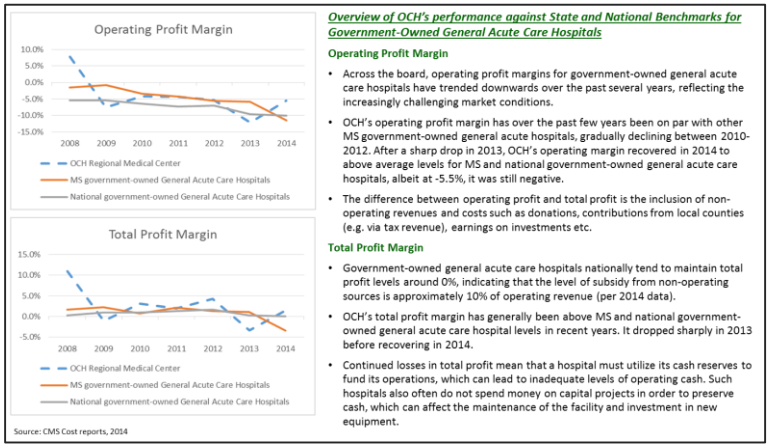
	National				OKTIBBEHA COUNTY HOSPITAL	Mississippi			
Metric	**Gov't**	**Not-for-profit**	**For profit**	**Total**	**250050**	**Gov't**	**Not-for-profit**	**For profit**	**Total**
Average Hospital Profile									
Number of Hospitals (before any exclusions)	***455***	***1,825***	***905***	***3,185***	***1***	***23***	***20***	***20***	***63***
Average Bed Size (total beds)	180	208	151	188	88	149	199	154	166
Average Bed Size (acute only)	128	180	135	160	88	122	172	127	140
Average Occupancy Rate (acute only)	53.5%	59.7%	53.7%	57.6%	36.5%	47.0%	50.9%	33.8%	44.8%
Average Daily Census (acute only)	68	108	72	92	32	58	88	43	63
Adjusted Occupied Beds (AOB)	202	244	144	208	118	157	209	122	163
Average Annual Operating Revenue	$ 120,972,742	$ 202,161,584	$ 112,575,355	$ 166,190,337	$ 64,323,004	$ 111,440,309	$ 141,622,581	$ 65,379,922	$ 106,989,458
Revenue Per AOB (weighted avg)	$ 1,613	$ 2,305	$ 2,149	$ 2,197	$ 1,502	$ 1,870	$ 1,862	$ 1,499	$ 1,782
Average Annual Operating Expense	$ 128,652,081	$ 202,407,120	$ 104,402,885	$ 165,173,753	$ 67,836,628	$ 119,307,340	$ 136,679,338	$ 65,520,943	$ 108,249,937
Total FTEs	372,418	2,063,242	489,818	2,925,477	551	16,463	16,680	6,849	39,992
Average Full Time Equivalent Staff (FTE)	820	1,132	550	924	551	716	834	360	645
Revenue per FTE	$ 141,242	$ 176,853	$ 203,710	$ 176,816	$ 116,781	$ 148,918	$ 169,812	$ 186,647	$ 164,094
FTE (Inc. Contract Labor) per AOB (Mean)	5.3	5.0	4.1	4.8	4.7	5.6	4.4	3.2	4.5
Labor Cost as a % of Revenue									
Number of Hospitals (after any exclusions)	***404***	***1,717***	***809***	***2,941***	**Labor Cost:**	***22***	***19***	***20***	***61***
1st Quartile (Top)	37.3%	32.0%	25.5%	29.5%	56.6%	38.1%	26.2%	25.0%	26.2%
2nd Quartile	47.9%	40.5%	31.3%	38.1%		44.2%	41.6%	30.1%	39.5%
3rd Quartile	57.3%	48.9%	38.6%	47.4%		58.1%	57.1%	38.5%	46.0%
4th Quartile (Bottom)	73.4%	61.5%	50.0%	61.4%		70.6%	66.8%	50.1%	62.0%
Mean	50.8%	43.8%	36.6%	43.1%		45.2%	39.8%	30.9%	40.1%
Median	54.2%	45.5%	36.0%	44.1%		49.4%	46.7%	33.1%	43.4%
% in Bottom 50% of all Hospitals	78.7%	52.3%	24.2%	48.3%		54.5%	52.6%	20.0%	42.6%
Mean Top 50%	46.8%	39.9%	33.0%	39.0%		44.6%	37.8%	29.5%	37.4%
Mean Bottom 50%	64.0%	54.3%	43.1%	53.0%		59.3%	62.3%	40.9%	51.1%

Source: CMS Cost reports, 2014 for OCH and All General Acute Care Hospitals

2. Our Understanding of OCH and Its Local Market:
Examples of our Benchmarking reports

Healthcare Management Partners

Full commentary on the benchmarking report will be provided as one of our Key Deliverables.



Overview of OCH's performance against State and National Benchmarks for Government-Owned General Acute Care Hospitals

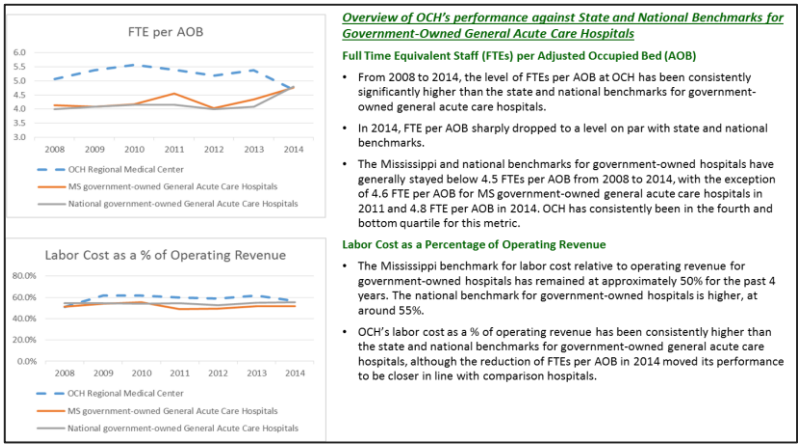
Operating Profit Margin

- Across the board, operating profit margins for government-owned general acute care hospitals have trended downwards over the past several years, reflecting the increasingly challenging market conditions.
- OCH's operating profit margin has over the past few years been on par with other MS government-owned general acute hospitals, gradually declining between 2010-2012. After a sharp drop in 2013, OCH's operating margin recovered in 2014 to above average levels for MS and national government-owned general acute care hospitals, albeit at -5.5%, it was still negative.
- The difference between operating profit and total profit is the inclusion of non-operating revenues and costs such as donations, contributions from local counties (e.g. via tax revenue), earnings on investments etc.

Total Profit Margin

- Government-owned general acute care hospitals nationally tend to maintain total profit levels around 0%, indicating that the level of subsidy from non-operating sources is approximately 10% of operating revenue (per 2014 data).
- OCH's total profit margin has generally been above MS and national government-owned general acute care hospital levels in recent years. It dropped sharply in 2013 before recovering in 2014.
- Continued losses in total profit mean that a hospital must utilize its cash reserves to fund its operations, which can lead to inadequate levels of operating cash. Such hospitals also often do not spend money on capital projects in order to preserve cash, which can affect the maintenance of the facility and investment in new equipment.

Source: CMS Cost reports, 2014



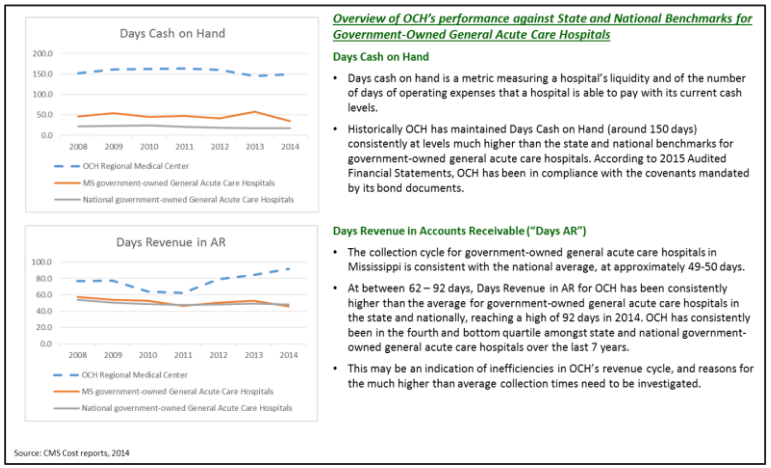
Overview of OCH's performance against State and National Benchmarks for Government-Owned General Acute Care Hospitals

Full Time Equivalent Staff (FTEs) per Adjusted Occupied Bed (AOB)

- From 2008 to 2014, the level of FTEs per AOB at OCH has been consistently significantly higher than the state and national benchmarks for government-owned general acute care hospitals.
- In 2014, FTE per AOB sharply dropped to a level on par with state and national benchmarks.
- The Mississippi and national benchmarks for government-owned hospitals have generally stayed below 4.5 FTEs per AOB from 2008 to 2014, with the exception of 4.6 FTE per AOB for MS government-owned general acute care hospitals in 2011 and 4.8 FTE per AOB in 2014. OCH has consistently been in the fourth and bottom quartile for this metric.

Labor Cost as a Percentage of Operating Revenue

- The Mississippi benchmark for labor cost relative to operating revenue for government-owned hospitals has remained at approximately 50% for the past 4 years. The national benchmark for government-owned hospitals is higher, at around 55%.
- OCH's labor cost as a % of operating revenue has been consistently higher than the state and national benchmarks for government-owned general acute care hospitals, although the reduction of FTEs per AOB in 2014 moved its performance to be closer in line with comparison hospitals.



Overview of OCH's performance against State and National Benchmarks for Government-Owned General Acute Care Hospitals

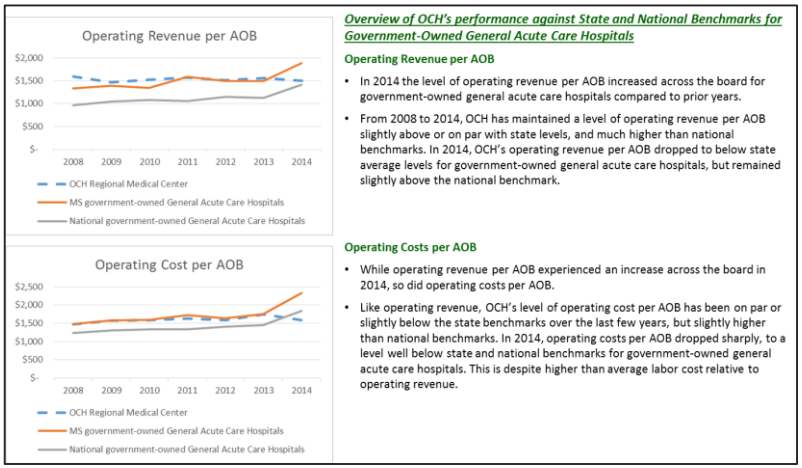
Days Cash on Hand

- Days cash on hand is a metric measuring a hospital's liquidity and of the number of days of operating expenses that a hospital is able to pay with its current cash levels.
- Historically OCH has maintained Days Cash on Hand (around 150 days) consistently at levels much higher than the state and national benchmarks for government-owned general acute care hospitals. According to 2015 Audited Financial Statements, OCH has been in compliance with the covenants mandated by its bond documents.

Days Revenue in Accounts Receivable ("Days AR")

- The collection cycle for government-owned general acute care hospitals in Mississippi is consistent with the national average, at approximately 49-50 days.
- At between 62 – 92 days, Days Revenue in AR for OCH has been consistently higher than the average for government-owned general acute care hospitals in the state and nationally, reaching a high of 92 days in 2014. OCH has consistently been in the fourth and bottom quartile amongst state and national government-owned general acute care hospitals over the last 7 years.
- This may be an indication of inefficiencies in OCH's revenue cycle, and reasons for the much higher than average collection times need to be investigated.

Source: CMS Cost reports, 2014



Overview of OCH's performance against State and National Benchmarks for Government-Owned General Acute Care Hospitals

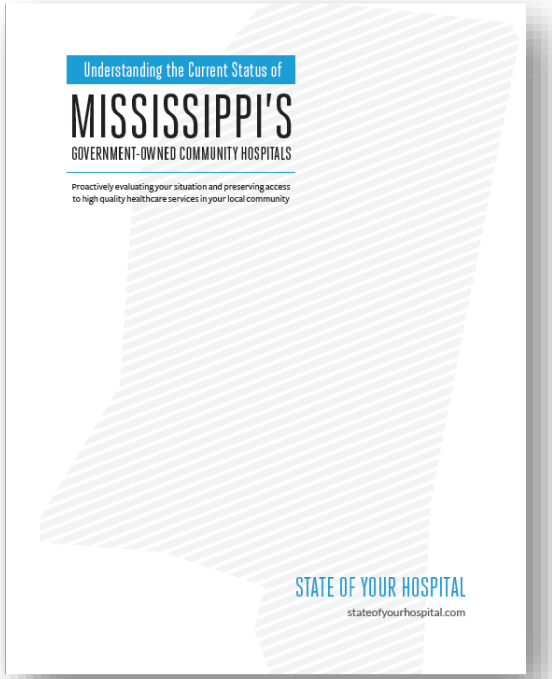
Operating Revenue per AOB

- In 2014 the level of operating revenue per AOB increased across the board for government-owned general acute care hospitals compared to prior years.
- From 2008 to 2014, OCH has maintained a level of operating revenue per AOB slightly above or on par with state levels, and much higher than national benchmarks. In 2014, OCH's operating revenue per AOB dropped to below state average levels for government-owned general acute care hospitals, but remained slightly above the national benchmark.

Operating Costs per AOB

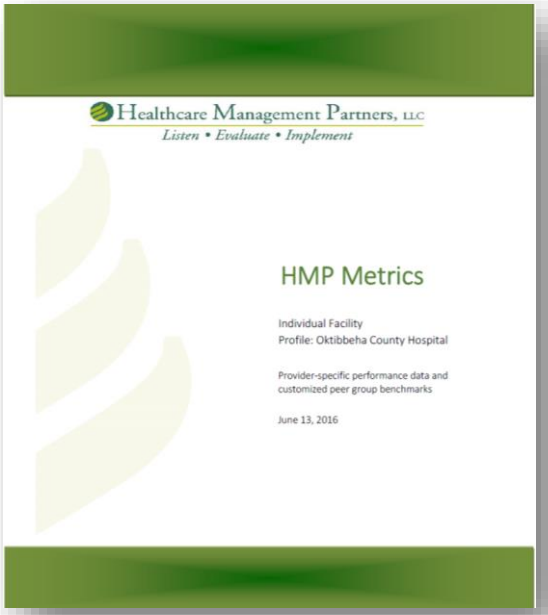
- While operating revenue per AOB experienced an increase across the board in 2014, so did operating costs per AOB.
- Like operating revenue, OCH's level of operating cost per AOB has been on par or slightly below the state benchmarks over the last few years, but slightly higher than national benchmarks. In 2014, operating costs per AOB dropped sharply, to a level well below state and national benchmarks for government-owned general acute care hospitals. This is despite higher than average labor cost relative to operating revenue.

2. Our Understanding of OCH and Its Local Market:
Wider Context – the Mississippi White Paper



The Current Status of Mississippi's Government-Owned Community Hospitals

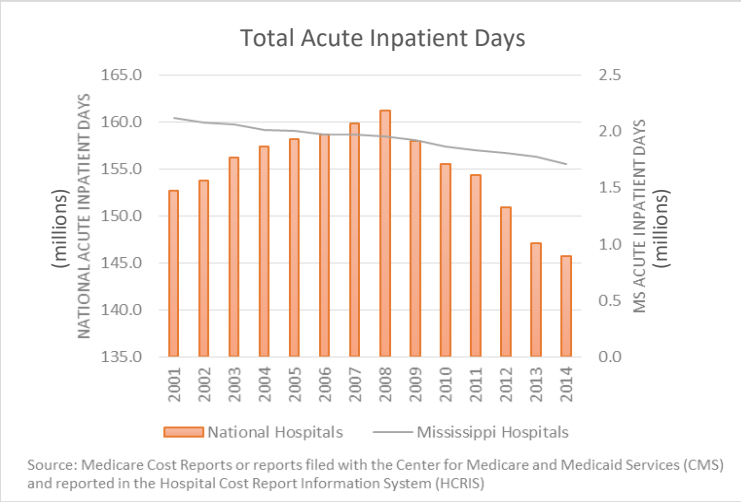
- HMP together with our strategic partners, have conducted extensive research on the financial status of government-owned community hospitals across the nation, from 2008 to 2014.
- Using over 35, 000 hospital cost reports filed with the Centers for Medicare and Medicaid (CMS) and an internally-generated analysis tool called HMP Metrics™, the study looks at the state-by-state and national trends in general acute care hospitals. A copy of the White Paper for Mississippi is attached to this proposal (*front cover shown at left*).
- We also benchmark performance on key operating metrics against state and national averages. An individual hospital report for OCH is provided with this proposal (*front cover shown below*).
- In addition, we created a website (www.stateofyourhospital.com) where the White Paper and all associated data tables can be accessed.
- An overview of some of the key findings and trends identified in the White Paper, together with a comparison to OCH's performance, is provided on the following pages.



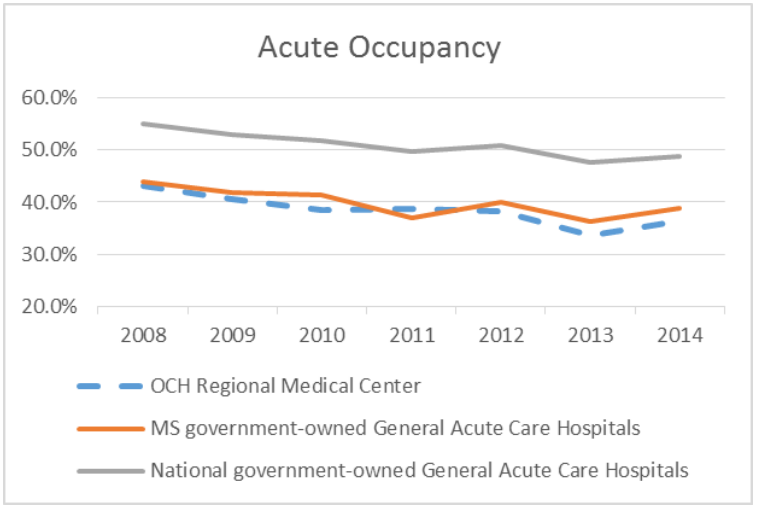
Our White Paper research was presented to Governor Phil Bryant in mid-2015. Following the presentation, he invited us together with our strategic partners to host a Rural Health Summit with the intention of commencing a dialogue around the building of a collaborative solution for the delivery of acute care in Mississippi. The Rural Health Summit was held in Jackson on April 11, 2016.

2. Our Understanding of OCH and Its Local Market:
Wider Context - Mississippi White Paper cont'd

Healthcare Management Partners



Source: Medicare Cost Reports or reports filed with the Center for Medicare and Medicaid Services (CMS) and reported in the Hospital Cost Report Information System (HCRIS)



The Current Status of Mississippi's Government-Owned Community Hospitals

Economic Overview:

- In 2014, Mississippi's 39 non-university government-owned general acute care and critical access hospitals had combined annual **net patient revenues of over $2.7 billion**, directly employed nearly **20,000 full-time equivalent staff (FTE),** and generated on average, the **indirect employment of another 11,600 non-healthcare jobs** in their local communities.
- For the last available reporting period (a single year), **these 39 non-university government-owned hospitals in Mississippi had an aggregate net loss from hospital operations in excess of $200 million**. More than 60% of all Mississippi government-owned hospitals have reported an operating loss in each of the past two years. Absent effective strategic changes, these negative trends are likely to intensify for these hospitals and accelerate their financial decline.

Market Forces:

- **Continued decline in demand for inpatient services** due to scientific advances in the diagnosis and treatment of disease. Hospital use rates, as measured by the number of inpatient days per 1,000 population, have been declining for decades and are expected to continue to decline into the future.
- **Significant and growing excess inpatient capacity**: **Mississippi currently has 3,000 to 6,000 more inpatient beds than conventional bed need formulas would indicate are necessary.** The average rate of occupancy in Mississippi's government-owned general acute care hospitals was less than 40% in 2014, well below the national average of almost 50%, which is also below a desired average occupancy rate for a general acute care hospital of 65% to 75%. As a predominantly fixed cost business, declining revenues because of declining inpatient occupancy always translate into significant loss of marginal profits.

2. Our Understanding of OCH and Its Local Market:
Market Context - Mississippi White Paper cont'd

Healthcare Management Partners

The Current Status of Mississippi's Government-Owned Community Hospitals

Payment System & Structural Factors:

- **Healthcare Has Become a Knowledge Business:** Assembling and maintaining the stream of knowledge and skills necessary to provide not only the clinical expertise, but also the billing and corporate functions required to operate an acute care hospital are increasingly complex and expensive. It is a practical impossibility for most small standalone, government-owned hospitals to meet this challenge effectively.
- **A Profitable Hospital Tends to have Low Average Costs:** The Hospital payment system (i.e. CMS reimbursement rates) is largely based on national average costs**,** which means that hospitals with **costs below the computed average or with rapidly increasing patient volumes** (those in the first and second statistical quartiles) **will be generally profitable and thrive.** Those with above average costs or declining patient volumes will find it increasingly difficult to maintain their ability to provide quality care which, in turn, will drive their volumes lower and the average unit costs higher.
- **Hospitals in Multi-hospital Systems Perform Better Financially** due to their ability to more effectively manage or spread cost versus "standalone" hospitals, that bear the full cost of back office and support functions and have lower purchasing power and leverage in contract negotiations. The HMP Metrics™ cost report analysis clearly supports this finding. Approximately 50% of all hospitals are owned and operated by multi-hospital systems, but only 21% of government-owned hospitals in the United States are part of a multi-hospital system.
- **Government-Owned Hospitals Are Structurally Disadvantaged in their Ability to Compete Effectively with Large Multi-hospital Systems:** Government-owned hospitals are unable to select the geographic markets which they serve and are generally restricted by law from organizing into multi-hospital systems across jurisdictional lines or entering into various types of entrepreneurial ventures. Government ownership also carries unique fiduciary duties and levels of public accountability and scrutiny that often inhibit their ability to compete effectively in a highly competitive national market for healthcare services.

3. HMP Company Profile
Overview

Background

HMP is a healthcare-specialist consulting and advisory firm led by a team of C-Level executives that has successfully reorganized dozens of hospitals and healthcare organizations throughout the nation, both inside and outside the bankruptcy process.

Our executives are highly experienced healthcare operators who understand the delivery of community-based healthcare across the continuum: from specialty and general acute care to post-acute, long-term care and general practice. Most of our Managing Directors have been CEOs of large academic medical centers during their careers.

HMP's executives use a data-led approach combined with stakeholder collaboration to quickly identify, define and solve problems that range from financial restructuring to strategic positioning to staff/management reorganization, cost reduction, site configuration, and beyond. We have consistently delivered exceptional results for our clients.

On average, our Managing Directors have over 25 years of experience specializing in the turnaround, restructuring, and strategic positioning of healthcare organizations. All our professionals are healthcare experts.

HMP was founded in 1997 by Scott Phillips. We have offices in Birmingham (AL), Philadelphia (PA), Phoenix (AZ), and San Antonio (TX) and Nashville (TN).

Description of Services

HMP's core services include senior executive turnaround management (CEO, CFO, COO, Chief Restructuring Officer etc.), operational & financial restructuring, strategic planning, financial advisory, and litigation support services to hospitals and other healthcare organizations and their creditors, investors and business partners. Additional information on our services is provided in our Statement of Qualifications, provided as an appendix.

Strong Network of Healthcare Professionals

We have very good working relationships with top healthcare attorneys with extensive knowledge and experience in negotiating hospital transactions. These relationships enable us to provide hospitals with a comprehensive quantitative and qualitative analysis of their situation and a multi-dimensional assessment of the options available to them and their impact.

We have teamed up with some of these professionals to co-author the Mississippi White Paper:

waller

TAGGART, RIMES & GRAHAM, PLLC
ATTORNEYS AT LAW
Wise Counsel. Proven Advocacy. Real Solutions.

3. HMP Company Profile

b. Summary Team Biographies

Healthcare Management Partners

***Detailed biographies provided in the attached Statement of Qualifications**

Scott Phillips, Managing Director sphillips@hcmpllc.com; (267) 804-3885
Scott has more than 30 years of healthcare industry management and consulting experience. Prior to founding Healthcare Management Partners in 1997, he served as the president and chief executive officer of an academic medical center and as the chief financial officer of a faith-based multi-hospital system operating 12 hospitals across seven states. Scott has significant management and consulting experience with governmental, tax exempt and investor-owned healthcare service providers.

Scott has expert knowledge of the bankruptcy process as well as its implications and obligations for an operating provider of healthcare services. He recently led the successful financial turnaround and Chapter 9 reorganization of a 179-bed county-owned hospital.

Scott is a bona-fide technical expert but also brings a uniquely creative approach to problem solving and strategic planning. He has a palpable passion for healthcare delivery and is the driving force behind our Government-Owned Community Hospitals White Paper research, which has resulted in HMP's working closely with state leaders and hospital associations in determining the best way forward to ensure the continued delivery of high quality healthcare in rural parts of the USA.

Bruce Buchanan, Managing Director bbuchanan@hcmpllc.com; (602) 363-1140
Bruce has more than 30 years of experience in the healthcare field and is a senior healthcare executive with a successful track record in both the not-for-profit and investor-owned sectors. He possesses multimarket experience at the chief executive officer level in hospitals, skilled nursing facility operating companies, and health systems. He has deep experience and expertise in organizational development, productivity improvement, quality enhancement, revenue growth, physician collaboration and system integration.

Since joining HMP as Managing Director in 2008, Bruce has served as CRO for a rehabilitation hospital company with two facilities. He successfully led the company through a Chapter 11 bankruptcy process and a Section 363 sale to a new, privately held owner. He has served as CEO of a county hospital and guided it through a Chapter 9 bankruptcy, which resulted in all unsecured creditors receiving three-year notes for full payment plus interest.

Bruce has also served as a secured creditor advisor, debtor financial advisor, and testified in federal bankruptcy court. He has been a member of numerous boards throughout his career.

3. HMP Company Profile

b. Summary Team Biographies

Healthcare Management Partners

***Detailed biographies provided in the attached Statement of Qualifications**

Michael Morgan, Managing Director mmorgan@hcmpllc.com; (214) 701-9990
Michael is a former hospital chief executive officer with more than 30 years of experience in healthcare management. He brings expertise for turning around ailing healthcare providers, optimizing healthy organizations, and has a natural talent for physician engagement.

In his 25-year career at the Sisters of Mercy Health System, Michael was responsible for turning around five of the system's 19 hospitals. His trademark is developing capable management teams that in turn increased service quality, employee and medical staff satisfaction, patient volume, profitability and maximized cash flow. Following his tenure with the Sisters of Mercy system, Michael served as the chief restructuring officer and CEO for a two-hospital investor-owned system in Texas.

In his most recent engagements, Michael worked with senior leadership, board, physicians, and all key stakeholders of a community-owned 2-hospital system in Alabama to develop and implement a 3-year strategic plan. Michael subsequently held the position of interim-CEO position and over a period of several months, “groomed” an internal candidate as the replacement permanent CEO. While he was CEO the hospital returned to profitability and has since maintained its improved performance. Michael also led the strategic assessment of Coleman County Medical Center in Texas.

Clare Moylan, Managing Director cmoylan@hcmpllc.com; (202) 258-8847
Clare is a healthcare professional with a broad base of experience, including operations management, strategy formation and implementation planning, restructuring and crisis management, critical business analysis and performance improvement. Her experience covers the public, private and not-for-profit sectors across the spectrum of healthcare organizations: primary care, acute care hospitals, nursing homes, hospice and home health care.

Recently, Clare took a lead role in the development of a three-year strategic and turnaround plan for a multi-site $250 million regional hospital in Alabama. She worked with board members, executive management, team leaders and physicians to build consensus around the plan and to generate detailed project plans. Successful implementation of the first initiative increased annual EBITDA by $5 million alone.

Clare is a CFA Charterholder (Chartered Financial Analyst). She has a Bachelor of Business Administration/Bachelor of Laws (First Class Honors) from Macquarie University (Sydney, Australia) and a Master Certificate in Healthcare Leadership from Cornell University.

3. HMP Company Profile

b. Summary Team Biographies

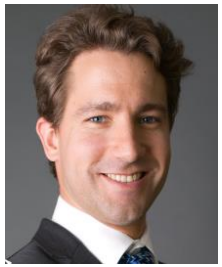
Healthcare Management Partners

***Detailed biographies provided in the attached Statement of Qualifications**

Aaron Wells, Director awells@hcmpllc.com; (615) 417-5476

Aaron has 15 years of professional experience in the analysis of large volumes of data, financial modelling, and valuation. He is an expert in applying econometric and financial models to complex issues across multiple industries, including academic, environmental valuation, public project assessment, building products and healthcare. For the past 10 years, he has dedicated himself to the healthcare sector, focusing on costing, pricing, outcomes evaluation and advancement of total population health programs.

Prior to joining Healthcare Management Partners, Aaron held the position of Principal Investigator for the Center for Health Research at Healthways. In this position, Aaron was the senior leader responsible for developing state-of-the-art statistical, financial, and econometric measurement methodologies and advancing the tools and techniques used in Healthways programs. Aaron is a graduate of the University of Tennessee and Northern Arizona University with two Master's Degrees and a Ph.D.



Robert Anderson, Senior Associate, randerson@hcmpllc.com; (615) 917-0250

Robert is an experienced consultant in the healthcare industry and qualified accountant (ACA). Before joining HMP he worked on a variety of financial, strategic and operational assignments in the sector for both government and private providers, largely in the United Kingdom.

Recent healthcare experience includes:

- Operational review of medical departments in several hospitals (including surgical, outpatient led and clinical support services) each of which identified savings between $0.5 million and $2.5 million.
- Executive support for CFO, CQO and CEO in a distressed acute provider.
- Strategy consulting within the healthcare sector in each of the fields of emergency, acute and integrated care. He has worked with both public and private acute services, creating presentations and facilitating workshops at executive and board level.
- Business planning and modelling to supported acquisition of a portfolio of nursing homes.
- Advising a public hospital in the UK as it considered partnership with the private sector to construct a new hospital.

Before moving into healthcare, Robert worked in financial advisory and litigation support at LECG (now FTI Consulting), and in the finance team at the Bank of England. His areas of expertise include financial modeling, valuation, strategy, operational turnaround, simulation modeling and data analytics. Robert has a First Class (Honors) degree from Cambridge University in the United Kingdom, and is a qualified chartered accountant with the Institute of Chartered Accountants of England and Wales.

3. HMP Company Profile

b. Summary Team Biographies

***Detailed biographies provided in the attached Statement of Qualifications**

Tal Gurevich, Associate tgurevich@hcmpllc.com; (267) 761-8666

Tal is a healthcare professional highly skilled in research, litigation support, business analysis, and communications. Her recent experience includes:

- Analyzing the strategic market position of Coleman County Medical Center;
- Leading the research and comprehensive data analysis to support a White Paper analyzing the performance of short-term government-owned hospitals nationally;
- Providing litigation support in the preparation of expert testimony for:
  - ✓ a lender in the nursing home sector that was successful in defeating a series of lender-liability claims totaling more than $1 billion;
  - ✓ a hospital regarding professional malpractice by a national hospital management company;
- Analyzing workforce productivity as part of an organizational restructuring process;
- Leading employee satisfaction research for a client with 250+ employees, and compiling the findings into a report that was shared with staff as part of a turnaround project.

Tal has previously worked within the United Kingdom healthcare industry and has a background in change management and communications. She has a Bachelors (Honors) degree in Philosophy, Politics and Economics from Warwick University (United Kingdom) and a CIMA Diploma in Management Accounting and is a Prince2 Registered Practitioner.

3. HMP Company Profile

c. Summary Credentials and References (Other)

Healthcare Management Partners

Client / Project Name	Ownership during project	Size	Services provided	Referee Contact Information
Regional Medical Center (Anniston, AL)	Government, County	2-hospital system with 300 general acute-care beds	1st engagement: • Operations assessment • Strategic planning • Detailed implementation planning • Progress monitoring against strategic plan 2nd engagement: • Interim CEO	Name: Louis Bass Role: CEO Ph: (256) 235-5646
SoutheastHEALTH (Cape Girardeau, MO)	Voluntary, non-profit	•4-hospital system with 288 acute care beds •$300+ million net patient revenue	• Market position assessment • Identify strategic strengths and opportunities • Operations benchmarking	Name: David B. Kurzweil Role: Co-Chair, National Financial Institutions Group Greenberg Traurig, LLP Ph: (678) 553-2680
Coleman County Medical Center (Coleman, TX)	Government-owned	Critical Access Hospital	• Market position assessment • Operations benchmarking • Identify strategic strengths and opportunities • Provide recommendations for cost-appropriate future health care service strategies	Name: Wayne Moore Role: Coleman County Medical Center District Board Chairman Ph: (325) 636-3152

3. HMP Company Profile

c. Summary Credentials and References (MS)

Healthcare Management Partners

Client / Project Name	Ownership during project	Size	Services provided	Referee Contact Information
Tri-Lakes Medical Center (now Merit Health Batesville) (Batesville, MS)	Government, County	112-bed general acute care hospital	• Court-appointed Chief Restructuring Officer • Operations assessment • Turnaround planning • Turnaround management	Name: Craig M. Geno Role: Bankruptcy Counsel Ph: (601) 427-0048
Natchez Regional Medical Center (Natchez, MS)	Government, County	179-bed general acute-care hospital	1st engagement: • Operations assessment • Turnaround planning • Turnaround management • Led through bankruptcy process 2nd engagement: • Expert testimony in litigation against former management company for negligence 3rd engagement: • Manage the sale of the hospital	Name: Reverend LeRoy White Role: Former Chairman, NRMC Board of Trustees Ph: (601) 597-0416
Pioneer Health Services, Inc. (and subsidiaries) (Magee, MS)	For-profit	• 8 Critical Access Hospitals • 1 Therapy Services Company	• Court-appointed Financial Advisor *(April, 2016)* • Court-appointed Chief Restructuring Officer *(June, 2016)* • Develop the plan of reorganization • Facilitate marketing and sale of assets	Name: Craig M. Geno Role: Bankruptcy Counsel Ph: (601) 427-0048

4. Cost of Services

Strategic Assessment - Estimate of Hours & Fees	Managing Director	Director	Associate	Total Hours
2-3 days on site for interviews & inspection	16.00	16.00	16.00	48.00
Analysis & Report Writing		20.00	80.00	100.00
Review and Revise Report	6.00	8.00	8.00	22.00
In-person Presentation of Report	4.00			4.00
Working hours	**26.00**	**44.00**	**104.00**	**174.00**
Travel	12.00	6.00	6.00	24.00
Total hours	**38.00**	**50.00**	**110.00**	**198.00**

Hourly Rate	$ 525	$ 475	$ 240	
Travel Hourly Rate	$ 263	$ 238	$ 120	
Work fees	$ 13,650	$ 20,900	$ 24,960	$ 59,510
Travel fees	$ 3,150	$ 1,425	$ 720	$ 5,295
Total	**$ 16,800**	**$ 22,325**	**$ 25,680**	**$ 64,805**
		Discount	**-20%**	**$ (12,961)**
			Total	**$ 51,844**
Rounded fee cap* for the Scope of Services as described (excluding expenses)				**$ 50,000**

* Fee Cap is for HMP professional fees only. It does not include out-of-pocket expenses. To the extent that specialist legal advice is required in order for HMP to provide its services (for example, an assessment of legal issues related to strategic options), HMP will work with OCH to define the scope of work and OCH will directly engage such legal expertise without it being charged through HMP. Additionally, OCH will need to purchase certain data sets in order for HMP to conduct its market analysis and valuation. HMP will obtain separate OCH approval for such expenses.
Note: OCH will compensate HMP for out-of-pocket expenses (no mark up), not to exceed 15% of billed fees.

5. Appendices

1. White Paper: *Understanding the Current Status of Mississippi's Government-owned Community Hospitals*
2. HMP Metrics™ Individual Facility Profile: OCH Regional Medical Center
3. Healthcare Management Partners Statement of Qualifications