

Morgan Memorial matters.



Timeline of Milestones Achieved

Feb 2013: MMH CEO tasked to engage financial advisor to determine the financial feasibility of a hospital modernization project and research all available financing options.

Apr 2013: Candidates for the financial advisor interviewed.

Oct 2013: MMH engages InnoVative Capital as the financial advisor and hires an independent market assessment consultant.

Feb 2014: Market assessment and onsite/community interviews completed.

Mar 2014: MMH Board retreat held to review the market assessment, preliminary financial analysis, and various financing options.

Apr 2014: MMH begins clinical collaboration discussions with Athens Regional Health System.

Sep 2014: Letter of Intent signed between MMH and ARHS.

Oct 2014: MMH engages industry experts ADAMS Management Services, as Project Manager, Dixon Hughes Goodman, LLP, as C.P.A./Feasibility Firm Consultant, and local economist.

Timeline of Milestones Achieved, Cont'd

Jan 2015:

- Clinical Collaboration executed between MMH and ARHS.
- Financial forecast completed and presented to MMH Board.
- Project budget and hospital replacement option presented to MMH Board.
- Determination of required level of County subsidy for project.

Feb 2015:

- Interview architects.
- Economic impact analysis final report completed.

Apr 2015: MMH announces its intentions to finance a replacement hospital and need for additional County subsidy support.

May 2015:

- MMH makes formal request of County for \$1 million per annum to support MMH's project financing of a replacement hospital.
- MMH leads public forum to explain the project and subsidy request.

Timeline of Milestones Achieved, Cont'd

Jun 2015: Morgan County Board of Commissioners approves additional annual support.

Dec 2015: Morgan County Board of Commissioners approves Intergovernmental Agreement for annual subsidy of \$1 Million for 25 years – since 1999, the County subsidy has ranged from \$600,000 to \$1,243,300

Feb 2016: Eligibility Determination letter received from the USDA acknowledging the project and funding availability pending final approval.

Mar 2016:

- Received preliminary relocation determination from Centers for Medicare and Medicaid Services (CMS) regarding the relocation of our Critical Access Hospital to a new location.
- Financial Feasibility Study (draft version) presented to the Hospital Authority in public session with the opinion that the project is financially feasible.

To be completed in April 2016:

- Public meeting.
- Approval and release of the Financial Feasibility Study.

The Due Diligence Process

Completed over a period of twenty-nine months:

- Engage a leading financial advisory firm experienced in financing replacement critical access hospital projects.
- Initial and ongoing Board education.
- Review MMH's financial and operational performance.
- Determine Service Area healthcare needs and physician requirements.
- Assess budgetary impacts of renovating a 1950's era building versus replacement
- Generate financial forecast and debt capacity.
- Calculate funding requirement and need for revenue enhancement.
- Interview prospective clinical collaboration hospital partners.
- Competitively review and select project team members.
- Determine economic impact of hospital closure on the County.
- Analyze all available project funding options and select the optimal financing strategy.
- Retain a nationally recognized CPA / Financial Feasibility Consultant
- Complete a formal examination-level Financial Feasibility Study

Why USDA?

- Lowest available interest rate – currently at 2.875% as of 4/1/2016.
- Lower interest rate = substantial savings
- Lowest costs of issuance.
- Very borrower friendly terms and conditions.
- No prepayment penalty.
- Long-term fixed rate.
- Sufficient availability of funding.

ARHS & Piedmont Partnership

The possibility of Athens Regional Health System establishing a new partnership would not threaten the clinical collaboration with MMH. A nonnegotiable criterion for a partnership with a larger healthcare system is retaining local control of such decisions. We are going to continue with a strong commitment to you.

- Chuck Peck, MD, CEO, Athens Regional Health System, 09/01/2015, BOC meeting

Piedmont is in favor of the Athens Regional, Morgan Memorial collaboration. Kevin Brown, CEO, Piedmont Health, has told me that it is a model that makes sense, and that they are in full support of the collaboration.

- Chuck Peck, MD, CEO, Athens Regional Health System, 02/22/2016, ARHS meeting

County Populations (2013) Critical Access Hospitals in GA

<u>Hospital</u>	<u>Location</u>	<u>County</u>	<u>Population</u>
• Liberty Regional Medical Center	Hinesville	Liberty	64,135
• Effingham County Hospital	Springfield	Effingham	54,456
• Polk Medical Center	Cedartown	Polk	41,183
• Higgins General Hospital	Bremen	Haralson	28,495
• Peach Regional Medical Center	Ft. Valley	Peach	27,014
• Monroe County Hospital	Forsyth	Monroe	26,984
• Optim - Tattall	Reidsville	Tattall	25,526
• Wellstar Sylvan Grove Hospital	Jackson	Butts	23,361
• Archbold Mitchell County Hospital	Camilla	Mitchell	23,045
• Putnam General Hospital	Eatonton	Putnam	21,371
• Phoebe Worth Medical Center	Sylvester	Worth	21,291
• Warm Springs Medical Center	Warm Springs	Meriwether	21,232
• Morgan Memorial Hospital	Madison	Morgan	17,781
• Good Samaritan Hospital	Greensboro	Greene	16,321

County Populations (2013)
Critical Access Hospitals in GA, Cont'd

<u>Hospital</u>	<u>Location</u>	<u>County</u>	<u>Population</u>
• Mountain Lakes Medical Hosp.	Clayton	Rabun	16,235
• Archbold Brooks County Hosp.	Quitman	Brooks	15,516
• Jeff Davis Hospital	Hazlehurst	Jeff Davis	15,004
• Optim - Screven	Sylvania	Screven	14,240
• Jasper Memorial Hospital	Monticello	Jasper	13,601
• Bleckley Memorial Hospital	Cochran	Bleckley	12,771
• Bacon County Hospital	Alma	Bacon	11,216
• Candler County Hospital	Metter	Candler	10,937
• Chatuge Regional Hospital	Hiawasse	Towns	10,771
• Pioneer Comm Hosp. of Early	Blakely	Early	10,542
• Louis Smith Memorial Hosp.	Lakeland	Lanier	10,408
• Wills Memorial Hospital	Washington	Wilkes	10,010
• Optim - Jenkins	Millen	Jenkins	9,269

County Populations (2013) Critical Access Hospitals in GA, Cont'd

<u>Hospital</u>	<u>Location</u>	<u>County</u>	<u>Population</u>
• SW Georgia Regional Medical Center	Cuthbert	Randolph	7,197
• Clinch Memorial Hospital	Homerville	Clinch	6,795
• Miller County Hospital	Colquitt	Miller	5,932

Why is an Urgent Care Center not a viable alternative?

Urgent care is not a substitute for emergency care. In general, an emergency condition is one that can permanently impair or endanger the life of an individual.

Some examples of conditions that require emergency medical care include:

- Severe chest pain or difficulty breathing
- Compound fracture (bone protrudes through skin)
- Convulsions, seizures or loss of consciousness
- Fever in newborn (less than 3 months old)
- Heavy, uncontrollable bleeding
- Deep knife wounds or gunshot wounds
- Any type of trauma incident
- Moderate to severe burns
- Poisoning
- Serious head, neck or back injury
- Pregnancy-related problems
- Severe abdominal pain
- (Signs of) Heart attack (i.e.. chest pain lasting longer than two minutes)
- (Signs of) Stroke (e.g. loss of vision, sudden numbness, weakness, slurred speech, or confusion)

Did you know?

Morgan Memorial Hospital is currently one of only two CAHs in the state of Georgia, designated as a Level IV Trauma Center.

Emergency Department Visits – FY 2015

<u>County of Origin</u>	<u>Volume</u>	<u>% of Total</u>
Morgan	6,170	76%
Other	412	5%
Walton	289	3%
Newton	279	3%
Jasper	230	3%
Greene	216	3%
Putnam	211	2%
Out of State	134	2%
Oconee	82	1%
Rockdale	46	1%
Clarke	<u>39</u>	<u>1%</u>
Total	8,108	100%

Swingbed Discharges – FY 2015

<u>County of Origin</u>	<u>Discharges</u>
Morgan	117
Barrow	1
Bibb	1
Clarke	2
Cobb	1
Fayette	1
Greene	4
Gwinnett	1
Jasper	21
Madison	1
Marion	1
Newton	57
Putnam	5
Rockdale	24
Spalding	1
Walton	<u>29</u>
TOTAL	267

How Can We Afford a New Hospital?

Question:

I understand that Morgan Memorial Hospital has performed better financially in the last couple of year's than in year's past, but I still don't see how we can afford a new \$35 million project loan that has annual debt service of \$2.2 million a year?

Answer:

This is a certainly a logical question. There are some unique rules that apply to Critical Access Hospitals that you may not be aware of that absolutely help us make this project viable. We plan to pay for the new hospital as follows:

- Increased revenue from new physicians
- \$1 million Intergovernmental Agreement approved by the County in Dec 2015
- Impact of Cost Based Reimbursement on the annual Cost Report

We will try to explain the last bullet point on the next few slides.

Healthcare Definitions

Critical Access Hospital

A Critical Access Hospital (CAH) is a hospital certified under a set of Medicare Conditions of Participation (CoP), which are structured differently than the acute care hospital CoP. Some of the requirements for CAH certification include having no more than 25 inpatient beds; maintaining an annual average length of stay of no more than 96 hours for acute inpatient care; offering 24-hour, 7-day-a-week emergency care, and being located in a rural area, at least 35 miles drive away from any other hospital or CAH (MMH deemed a Necessary Provider by the State of GA). Certification allows CAHs to receive “cost-based reimbursement” from Medicare, instead of standard fixed reimbursement rates. – U.S. Department of Health and Human Services

Cost Based Reimbursement

As a Critical Access Hospital, MMH is reimbursed at 101% of allowable cost on the annual Medicare Cost Report. Two of the bigger expenses, or costs, related to building a new hospital are depreciation on the new building & equipment and interest on the long term debt. Fortunately, both depreciation and interest expense are considered allowable costs by the Centers for Medicare & Medicaid Services (CMS) and are therefore reimbursable on the annual Medicare Cost Report.

Cost Based Reimbursement Example

	Without New Hospital	New Hospital		
	<u>FY 2019</u>	<u>FY 2019</u>	<u>Change</u>	<u>Source</u>
Projected Depreciation	105,621	2,149,530	2,043,909	FY 2015 Future Depreciation Report & Feasibility Study
Projected Interest	-	1,292,399	1,292,399	FY 2015 Future Depreciation Report & Feasibility Study
Allowable Costs	105,621	3,441,929	3,336,308	
Times: % of Cost-Based Reimbursement Costs	52.82%	52.82%	52.82%	FY 2015 Medicare Cost Report
Reimbursed on Medicare Cost Report	<u>55,789</u>	<u>1,818,027</u>	<u>1,762,238</u>	

Note: As a Critical Access Hospital, MMH is reimbursed 101% of allowable costs on the annual Medicare Cost Report. Depreciation and Interest expense are allowable costs per CMS. See CMS Provider Reimbursement Manual.

Note: After FY 2019, CMS will increase the interim payments to MMH as to not have a big Cost Report payable in FY 2020. This will increase Cash on the Balance Sheet and Cash Flow for the organization. In turn, this will help MMH service the future debt payments.

Cost Based Reimbursement Example, Cont'd

Additional Information

Additional information about depreciation and interest being allowable costs on the Medicare Cost Report can be found in the CMS Provider Reimbursement Manual located at <https://www.cms.gov/Regulations-and-Guidance/Guidance/Manuals/Paper-Based-Manuals-Items/CMS021929.html>.

Also, at the link to the Code of Federal Regulations on cost reimbursement:

http://www.ecfr.gov/cgi-bin/text-idx?SID=8ae11e6e2447d844ef5123db7c12357f&mc=true&node=pt42.2.413&rqn=div5#se42.2.413_15

Financial Feasibility Study

- A draft version of the Financial Feasibility Study has been completed and was presented by Dixon Hughes Goodman, LLP to the Hospital Authority Board in open session at the regularly scheduled meeting on Thursday, March 31st.
- The Financial Feasibility Study clearly shows, using conservative projections, that the project is realistically achievable and can be maintained long term.
- The report will be marked final, voted on by the Hospital Authority Board and be made available to the public after the Dixon Hughes Goodman, LLP quality control process is completed.
- MMH Management will hold a Q&A session on the Financial Feasibility Study on Thursday May 5th beginning at 2 p.m. and ending no later than 5 p.m. Location is the DFCS conference room. Please mail, or hand-deliver your questions to the Hospital Administration building prior to the meeting.

Economic Impact and Return on Investment

Comparing the Present Hospital to the Replacement Project

- The Replacement Hospital Facility Project is projected to have a major positive economic impact on Morgan County, creating 84 new jobs and generating \$3.8 million of additional annual Output (“GNP”).
- The new permanent jobs to be created because of the Replacement Facility will represent a 48.27% increase over present levels. With the new hospital, MMH’s level of yearly contributed Output to Morgan County would increase by 36.18% per annum.

ECONOMIC IMPACT OF CURRENT & REPLACEMENT HOSPITAL							
	<u>Current Hospital (2015)</u>			<u>Replacement Hospital Facility Project (2018)</u>			<u>Impact</u>
	<u>Direct</u>	<u>Indirect</u>	<u>Total</u>	<u>Direct</u>	<u>Indirect</u>	<u>Total</u>	
Jobs (FTEs)	126	48	174	187	71	258	84
Output (“GNP”)¹	\$7,611,425	\$2,899,591	\$10,511,016	\$10,375,057	\$3,939,193	\$14,314,250	\$3,803,234

¹ Represents sum of all goods and services.

Source: NCDS, ESC, Input/Output model for Morgan County. IMPLAN data for Morgan County.

ESa

MORGAN
MEMORIAL
HOSPITAL

MMH – BUILDING NOW FOR OUR FUTURE
THIS IS OUR FUTURE : EXTERIOR VIEW



Facts About the New Hospital

Location: 1740 Lions Club Road, Madison, GA 30650

Size: Approximately 67,000 square feet

Services: 25 Bed Critical Access Hospital – offering additional specialties like cardiology, general surgery, gynecology, gastroenterology, orthopedics, ophthalmology, urology, and ENT that we currently either don't offer and have limited offerings.

How long will it take to build? Approximately 18 months depending on weather.

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