



October 18, 2010

Attorney General Mike Cox  
Office of the Attorney General  
Charitable Trust Division  
G Mennen Williams State Office Building  
Lansing, MI 48909

Dear General Cox,

At the request of your Office, we are writing to provide examples of recent hospital acquisitions that involved a request-for-proposal ("RFP") or bidding process, which brought an array of attractive offers from which these hospitals could choose. We firmly believe that an equally transparent and competitive process would ensure that Detroit Medical Center ("DMC") receives fair market value for its assets.

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#### EXAMPLES OF REQUESTS FOR PROPOSALS

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**BEAUFORT REGIONAL HEALTH SYSTEM ("BRHS")**, a government hospital authority, owns and operates a 142-bed hospital in North Carolina. The facility had been experiencing "fiscal and operational challenges" and retained Healthcare Appraisers Incorporated ("HAI") to "evaluate its strategic options."<sup>1</sup>

The process undertaken by BRHS is an example of a highly transparent process, with all documents publicly available on the hospital authority's website.<sup>2</sup> According to the executive summary prepared by HAI, one month after being retained by BRHS on April 20, 2010, a letter of interest was issued to 37 possible affiliation partners, 15 of whom expressed an interest and subsequently entered into a confidentiality agreement with BRHS. Fifteen parties received a Request for Proposal on July 21 with a deadline of September 4, and BRHS received four responses from a mix of nonprofit and for-profit entities.

An interesting component of BRHS' RFP is the request that respondents suggest two options. The first option must address BRHS' preferred leasing structure but the second option invited respondents to "be creative."<sup>3</sup> We have enclosed the executive summary and the request for proposal so that your Office can further understand what an RFP process might entail.

**CLINTON MEMORIAL HOSPITAL ("CMH")** is a standalone county hospital in Wilmington, Ohio that had been losing money since 2007. The hospital announced that it was considering a sale or merger in December 2008. Requests

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<sup>1</sup> Healthcare Associates Incorporated. Executive Summary of Proposals Concerning the July 21 2010 Request for Proposal for Long-Term Lease of BRHS. September 16, 2010.

<sup>2</sup> Documents are posted on the health systems' website at <http://www.beaufortregionalhealthsystem.org/>

<sup>3</sup> Beaufort Regional Health System. Requested for Proposal. July 21, 2010. p.2.

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for proposals were sent to “eight or nine systems”<sup>4</sup> and yielded four competitive bids from a mix of for-profit and nonprofit hospital operators.<sup>5</sup> Interestingly, two for-profit hospital operators, Lifepoint and Health Management Associates, each teamed up with nonprofit partners to submit bids.<sup>6</sup> The proposals submitted included an alternative to selling the hospital, proposed by Tri-Health Inc, which offered to “lease the hospital, property and equipment pursuant to a long-term lease with the county, equivalent to a \$109 million investment over 10 years.”<sup>7</sup>

RegionalCare, a private equity owned hospital operator, emerged as the highest bidder. Additionally, the company committed to capital improvements, donations to the local YMCA, providing care to uninsured prisoners and also agreed to pay property taxes.<sup>8</sup>

Because DMC is a system with significant market share in Detroit and is also financially sound, we believe that executing an RFP process may yield compelling offers from multiple interested parties. We also believe that potential bidders may be able to propose alternatives to selling the system while still adhering to DMC’s strategic goals.

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## EXAMPLES OF BIDDING / AUCTION

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**SUMNER REGIONAL MEDICAL CENTER (“SUMNER”)**, a three-hospital nonprofit system in Tennessee filed for bankruptcy and announced a proposed sale to Lifepoint Hospitals (“Lifepoint”) on April 30, 2010.<sup>9</sup> Sumner’s Board of Directors worked “diligently to explore all strategic options available to HighPoint Health System to achieve our goal of becoming a viable, sustainable, high-quality health system for the long-term” which included an “exhaustive review of 10 bids.”<sup>10</sup> When the hospital system decided to put itself up for sale earlier in the year, the Board reportedly “reached out to 27 potential buyers from across the country.”<sup>11</sup>

In addition to pursuing a competitive process to attain the best offer for Sumner, there were several other favorable outcomes. First, Lifepoint paid \$145 million or 100 percent of revenue for the bankrupt system, more than three times what Vanguard offered for DMC. Additionally, the nonprofit system will become a tax-paying entity -- a Lifepoint’s official estimated that the company expects “to pay around \$1.2 million to \$1.6 million in city and county taxes, with the county itself receiving \$800,000 to \$1 million of that — in property taxes alone.”<sup>12</sup>

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<sup>4</sup> Ritchie, James. The Business Courier (Cincinnati). “Clinton Memorial seeking merger with larger system” December 18, 2008. Retrieved from: <http://cincinnati.bizjournals.com/cincinnati/stories/2008/12/15/daily42.html>

<sup>5</sup> Cooper, Rose. Wilmington News Journal. “RegionalCare to purchase Clinton Memorial Hospital” May 19, 2010. Retrieved from: <http://www.wnewsj.com/print.asp?ArticleID=184148&SectionID=49&SubSectionID=156>

<sup>6</sup> Modern Healthcare Business News. May 31, 2010. Retrieved from: <http://www.modernhealthcare.com/article/20100531/MAGAZINE/305319985/-1>

<sup>7</sup> Cooper, Rose. Wilmington News Journal. “RegionalCare to purchase Clinton Memorial Hospital” May 19, 2010. Retrieved from: <http://www.wnewsj.com/print.asp?ArticleID=184148&SectionID=49&SubSectionID=156>

<sup>8</sup> Ibid.

<sup>9</sup> Sumner Regional Medical Center Press Release. June 25, 2010. Retrieved from: <http://www.sumner.org/news/news-releases/court-approval.html>

<sup>10</sup> Sumner Regional Medical Center Press Release. April 30, 2010. Retrieved from: <http://www.sumner.org/news/news-releases/lifepoint-hospitals.html>

<sup>11</sup> Wortham, April. Nashville Business Journal. “LifePoint executive: Sumner buy ‘right in our sweet spot’” July 16, 2010. Retrieved from: </nashville/stories/2010/07/19/story3.html>

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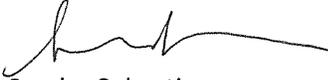
Finally, in order to clear a hurdle to closing the transaction, Lifepoint agreed to provide care for the county's inmates, which was one of the major reasons that Sumner County objected to the transaction.<sup>13</sup> We believe that having a pool of potential buyers for the facility was likely advantageous in helping the county meet the needs of its community. Approvals from United States Bankruptcy Court for the Middle District of Tennessee and Attorney General Robert Cooper<sup>14</sup> were obtained respectively on June 25 and July 30 this year.

**FORUM HEALTH ("FORUM")** is a nonprofit system that filed for bankruptcy on March 16, 2009 and retained Houlihan, Lokey, Howard & Zukin Capital Inc. "to shop its assets."<sup>15</sup> In June this year, it appeared that for-profit operator Ardent Health Services would be the prospective new owner, having submitted an offer of \$69.8 million, "the best bid of the 21 parties that had signed confidentiality agreements."<sup>16</sup> Ardent received approval from Attorney General Richard Cordray after a 53-day review.

Just before the August 3 final deadline to submit proposals, set by US bankruptcy court, another for-profit hospital Community Health Systems ("CHS") stepped in with a higher bid of \$100 million. The auction ended with a final purchase price of \$120 million offered by CHS, almost double what Ardent initially offered.<sup>17</sup> CHS also pledged to \$80 million in capital improvements, compared to Ardent's initial pledge of \$50-70 million.<sup>18</sup> Attorney General Richard Cordray approved the deal on September 20.

The above are four of many examples where a transparent and competitive bidding process helped to ensure the best possible outcome for public and nonprofit hospitals. The current environment is also more favorable -- as stated in earlier memo to your office, the pace of hospital acquisition activity is high and many bidders could be available. We urge the Attorney General to advocate for a fairer and more transparent process because we believe that DMC's has many qualities that make it a compelling acquisition candidate and the system should secure the best possible terms to ensure its sustainability and continue its commitment to the citizens of Detroit.

Sincerely,



Sandra Sebastian  
Research Coordinator  
Service Employees International Union

CC: Tracy A. Sonneborn, Assistant Attorney General  
Michigan Attorney General's Office, Consumer Protection and Charitable Trusts

Marge Faville, RN President SEIU Healthcare Michigan

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<sup>13</sup> Wortham, April. Nashville Business Journal. "LifePoint executive: Sumner buy 'right in our sweet spot'" July 16, 2010. Retrieved from: /nashville/stories/2010/07/19/story3.html

<sup>14</sup> Hleb, Dan. Nashville Business Journal. "Attorney General approves Sumner Regional Health Systems' sale to LifePoint" July 30, 2010. Retrieved from: <http://nashville.bizjournals.com/nashville/stories/2010/07/26/daily38.html?t=printable>

<sup>15</sup> Fidler, Ben. Daily Deal/The Deal "Forum Health auction will have at least two bidders" August 4, 2010.

<sup>16</sup> Ibid.

<sup>17</sup> Alcorn, William. Youngstown Vindicator. "Community Health Systems' \$120 million bid wins Forum nod" August 6, 2010.

<sup>18</sup> Ibid.

