

# **Whole Hospital Joint Venture For Portage Health, Inc. and LifePoint Hospitals**

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**Submitted by Portage Health, Inc.**

**September 5, 2013**



## INTRODUCTION

Portage Health, Inc. (“Portage Health”) has entered into a definitive agreement with LifePoint Hospitals (“LifePoint”) to form a whole hospital joint venture. The newly-created joint venture entity, to be co-owned by Portage Health and a wholly-owned subsidiary of LifePoint, would acquire and operate Portage Health Hospital. The proposed transaction is subject to the review and approval of the State of Michigan Department of Attorney General (“Attorney General”).

Portage Health submits this Memorandum to assist the Attorney General in understanding the background, motivation and expected benefits of the partnership with LifePoint. Section I introduces the parties having an interest in the proposed transaction. Section II provides a brief history of Portage Health. Section III provides a detailed chronology of the transaction process, beginning with Portage Health’s decision to initiate a comprehensive strategic review of ownership and governance structures to position the hospital for success in the changing healthcare marketplace. Portage Health ultimately concluded that a whole hospital joint venture with LifePoint would expand the availability of high-quality, local medical services over the long run, while upgrading physical facilities, maintaining local governance rights and generating very substantial proceeds for a community foundation. Section IV establishes that the process leading to the proposed transaction was fair. Portage Health’s Board of Directors conducted careful due diligence, was well-informed and well-advised, and acted consistent with its fiduciary duties to Portage Health in pursuing the proposed transaction. Section V demonstrates that the substantive terms of the proposed transaction protect the charitable assets of Portage Health and serve the broader public interest. The Section elaborates on the many benefits that the proposed transaction will deliver to Portage Health, to the constituencies that it serves, to a reconstituted Portage Health Foundation and to the Hancock-Houghton community. For the reasons described more fully below, Portage Health respectfully requests that the Attorney General approve the proposed whole hospital joint venture with LifePoint.

## I. THE PARTIES

### A. Portage Health

Portage Health is a Michigan nonprofit corporation. Portage Health operates a 96-bed hospital (36 general acute beds and 60 skilled nursing beds) located in Hancock, Michigan. Portage Health primarily serves residents of Houghton, Baraga, Ontonagon and Keewenaw Counties. Portage Hospital is a Level III ACS verified trauma center, with an emergency department and an Express Care walk-in clinic. Portage Health and its medical staff also provide a range of services in family medicine, pediatrics, women's health, orthopedics, surgery and internal medicine, with sub-specialties in neurology and cancer care. Portage Health offers ancillary services including radiology, laboratory, cardiopulmonary, sleep disorder treatment, dialysis, rehabilitation, wellness, audiology and home health, including hospice. Portage Health operates outreach clinics in Calumet, Houghton, Lake Linden and Ontonagon. Portage Health operates a 60-bed skilled nursing center known as PortagePointe. Portage Health operates a facility at University Center, which offers primary care, sports medicine and rehabilitation services to Michigan Technological University ("Michigan Tech") students, staff and the community. Portage Health provides teaching and research space to the Michigan Tech Department of Kinesiology and Integrative Physiology. Portage Health also operates pharmacies in Hancock and Houghton.

Portage Health has more than 65 physicians and other health professionals on its active and consulting medical staff. Portage Health directly employs over two-thirds of its professional medical staff. Portage Health employs over 700 individuals across its facilities.

Fifteen leaders (nine independent, five physicians and the CEO) from the Copper Country area serve on the Portage Health Board of Directors. Steve Zutter is Chairman. Dr. Michael Neuman, a past Chairman of the Biomedical Engineering Department at Michigan Tech, is Vice Chairman. Kristine Weidner is Secretary. Tim Baroni is Treasurer. The Board includes Jim Bogan, who has served 24 years as President, CEO and Board member. Other Board members include Dr. Wade Liston, Medical Staff President; Dr. Tim Sears, Past Medical Staff

President; Ellen Horsch; Marty Iskra; Jay Martineau; Dave Mechlin; Dr. Dawn Nulf; Nicholas Stevens; and, Dr. Bruce Trusock.

Mr. Bogan is an experienced, hands-on executive and operator. His current management team includes Brian Donahue, Vice President – Finance and Chief Financial Officer; Diane Gadowski, Vice President – Medical Group; Betty MacInnes, Vice President – Quality Management; and Deb Young, Vice President – Patient Services.

#### **B. Portage Health Foundation**

The Portage Health Foundation is a charitable, non-profit Michigan corporation established in 1990 to support the mission of Portage Health. The Portage Health Foundation raises and administers funds to further education, purchase new medical equipment and enhance the provision of health care services at Portage Health. A fifteen-member Board of Directors governs the Portage Health Foundation. Lennon Mattila Hughes is Chairman of the Portage Health Foundation. Kevin Store is Executive Director.

As discussed later, the Portage Health Foundation will take on new and expanded responsibilities as a result of the proposed Portage Health joint venture with LifePoint. The Portage Health Foundation will receive the net proceeds from the proposed transaction. The Portage Health Foundation will also receive units constituting a 20% membership interest in the joint venture. The units entitle the Portage Health Foundation to receive future distributions from the joint venture. The Portage Health Foundation will revise its mission and dedicate its future efforts and resources to serving broader community needs.

#### **C. LifePoint Hospitals**

LifePoint Hospitals is a Delaware corporation that owns and operates fifty-seven hospital campuses in twenty states. LifePoint specializes in operating community hospitals in non-urban areas. LifePoint has made a substantial commitment to health care in the Upper Peninsula. Through DLP Healthcare, LLC (“DLP Healthcare”), a Delaware limited liability corporation, operating as Duke LifePoint Healthcare, an innovative joint venture between LifePoint and a

wholly-controlled affiliate of Duke University Health System, Inc. (“Duke Health”), LifePoint owns Marquette General Health System (“Marquette General”), a 315-bed hospital system located in Marquette, Michigan. The acquisition of Marquette General was effective as of September 1, 2012. LifePoint has publicly announced an intention to acquire Bell Hospital, a community hospital located in Ishpeming, Michigan.

## **II. HISTORY OF PORTAGE HEALTH**

Portage Health traces its origins to the St. Mary’s Hospital, founded in 1896 at the home of the local Catholic Bishop. To meet expanding community needs, the Catholic Sisters of St. Joseph of Carondelet built a new St. Joseph’s Hospital, which opened in 1904. In 1922, the Sisters built a replacement facility on Water Street. In 1950, the Sisters replaced the old hospital with a new and enlarged St. Joseph’s Hospital located on Michigan Avenue in West Hancock. In 1972, as lay members began to serve on the hospital Board of Directors, the hospital was renamed as St. Joseph’s Community Hospital. In 1976, the Sisters transferred ownership of the hospital to the community. The hospital was renamed Portage View Hospital.

In 1995, the hospital was renamed to Portage Health. In 1997, Portage Health broke ground for a new hospital on Quincy Hill. The new campus opened in March 2000. In 2002, Portage Health constructed a new addition with 28,000 square feet of patient care, medical office and administrative space. The new space included offices for traveling physicians from Marquette General Hospital to provide oncology, neurology and cardiology locally at Portage Health. Portage Health also renovated 12,000 square feet of existing space for additional patient care services.

In 2006, Portage Health expanded its senior living community to five distinct “homes” with a capacity of 60 beds. In 2009, Portage Health opened an Express Care and a fitness center in Houghton. In 2012, Portage Health opened expanded facilities at the University Center, with new space for student health services, physician offices, sports medicine and the pharmacy.

As noted above, Portage Health provides a range of clinical services to its patient population. In Fiscal Year 2012, Portage Health had 1,807 inpatient admissions and 124,151

outpatient visits. Outpatient and professional services account for 80% of Portage Health's gross revenue. Government Medicare and Medicaid programs account for 50% of Portage Health's gross revenue. Blue Cross Blue Shield of Michigan is by far the largest commercial health insurer for Portage Health's patients.

Portage Health does not offer the same breadth and depth of specialized medical services as Marquette General. Marquette General is the only tertiary-care hospital in the Upper Peninsula. Portage Health contracts with a number of Marquette General physicians to provide services on certain days of the month in Hancock to Portage Health patients. Portage Health and Marquette General jointly provide oncology and hematology services. Portage Health physicians often refer complex cases -- such as neurology, invasive cardiology and oncology patients -- to Marquette General. In addition to making referrals to Marquette General, Portage Health, like other Upper Peninsula hospitals, loses patient volume and revenue to hospitals in Wisconsin, Minnesota and other states.

### **III. PORTAGE HEALTH'S STRATEGIC DECISION TO PARTNER WITH A MULTI-HOSPITAL SYSTEM**

The proposed joint venture with LifePoint is the result of a three-year strategic undertaking, initiated by Executive Management and supported by the Portage Health Board of Directors, to secure Portage Health's long-term future in a changing healthcare regulatory environment, assure the delivery of high-quality patient care and expand medical services in the community.

#### **A. Portage Health Prepares for Health Care Reform**

Within the last few years, Portage Health came to foresee that national and local changes in healthcare delivery practices, technology, physician recruiting, regulation and reimbursement soon would pose very significant business challenges to independent community hospitals. Portage Health anticipated that health care reform legislation and regulation would lead to lower reimbursement levels from government payors. Portage Health foresaw similar pressure on reimbursements from commercial insurers. Concurrently, Portage Health expected that it would

be pressured to increase the quality of care and bear greater financial responsibility for the cost of serving its patient population through Accountable Care Organizations and other risk-sharing arrangements. Portage Health also desired to enhance quality of care by participating in a multi-hospital system, as Portage Health perceived an opportunity to benefit from best practices, data sharing, patient safety and other established quality programs within the system.

Portage Health believed that electronic medical records, new high-technology medical equipment and information technology infrastructure demands would require significantly higher capital investments. Portage Health hoped to increase the proportion of employed doctors on its medical staff, as it believed a fully-integrated and aligned staff would further high-quality, cost-effective care. Physician and practice integration would likewise demand additional capital.

Portage Health faced a growing shortage of physicians and other healthcare professionals. Portage Health believed that providers in the Western Upper Peninsula generally, and Portage Health specifically, needed to expand local medical services by recruiting additional specialists in family medicine, internal medicine, psychiatry, ophthalmology, cardiology, urology and other practices. But physician recruitment to rural areas and independent community hospitals was proving more difficult and more costly, as physicians showed preference for urban markets and for hospitals that were part of larger, multi-hospital systems.

Rather than risk maintaining the status quo in a rapidly-changing healthcare environment, Portage Health determined that it would proactively evaluate whether partnership with another hospital system would best secure its future, meet the medical needs of the community and further its charitable purposes. Portage Health has been well-managed, with a stable balance sheet and positive operating results. Portage Health believed that it was better to explore partnership opportunities presently and from a position of financial strength, so it could attract interest from compatible partners willing to make important commitments to meeting future community healthcare needs. Accordingly, the Portage Health Board of Directors authorized Mr. Bogan to explore potential affiliation opportunities.

In February 2012, Mr. Bogan sent a letter to Marquette General and three other hospitals and hospital systems inquiring of their interest in discussing potential affiliation with Portage Health. Mr. Bogan described the ideal partner as supporting:

“(a) the continued provision of quality health care services to the residents of the Western Upper Peninsula of Michigan including integration into an integrated health delivery system and enhance patient experience and outcomes; (b) a long-term commitment to Portage; (c) a shared strategic vision for Portage; (d) assistance with physician recruiting and other ways to expand and enhance Portage’s range of services; (e) access to sufficient capital to allow Portage to maintain high quality care for its patients.”

Portage Health’s overtures to the potential partners did not result in the type of energetic, engaged response that Portage Health was seeking. At the time, unbeknown to Mr. Bogan, Marquette General was discussing a potential transaction of its own with DLP Healthcare.

## **B. Portage Health Retains Juniper Advisory**

As part of Juniper Advisory LLP’s (“Juniper Advisory”) services to Marquette General in its acquisition by LifePoint, two members of Juniper -- James Burgdorfer and Rex Burgdorfer -- described the Marquette General transaction to a Superior Health Partners meeting in mid-March 2012. Juniper Advisory is a specialized, independent, privately-held investment banking firm that concentrates exclusively on providing merger and acquisition advice to nonprofit hospitals. Juniper’s two principals, James Burgdorfer and David Gordon, have over twenty-five years of industry experience. Juniper has advised on over 100 nonprofit hospital and health system transactions in numerous states. Juniper had particular knowledge of demographic, reimbursement, regulatory and other conditions affecting Michigan hospitals generally and Upper Peninsula hospitals specifically as advisors to Marquette General in connection with its acquisition in 2012 by DLP Healthcare.

Mr. Bogan was a member of the Superior Health Partners CEO Advisory Committee. He attended the Juniper Advisory presentation. Mr. Bogan subsequently met privately with the Juniper representatives to discuss Portage’s interest in affiliation and whether Juniper could

assist Portage Health in assessing its affiliation opportunities. Portage Health subsequently interviewed two other competing advisory firms.

Mr. Bogan recommended, and the Portage Health Board of Directors approved, engaging Juniper to provide advisory services to Portage Health. Portage Health decided to initiate a new and comprehensive strategic review process, with a first step to re-evaluate its affiliation goals and objectives. If the Board of Directors again determined to seek a partner, the expectation was that Juniper would then lead a competitive market-clearing process to identify a partner with compatible values, mission and vision and to obtain fair-market value consideration for assets that Portage Health would contribute to the partnership.

### **C. Transaction Planning and Marketing**

In June and July 2012, Juniper interviewed individual members of the Portage Health Board of Directors. Juniper also conducted education sessions for the full Board. The sessions covered, among other things, current conditions facing hospitals and health care in the Upper Peninsula, changes to the acute care hospital industry, economic motivations for and benefits of hospital consolidation, valuation principles, structural partnership options (including the whole hospital joint venture model) and the transaction process. From these sessions, the Board of Directors developed consensus to explore partnership with another health system.

The Board of Directors established a nine-member Affiliation Committee, chaired by Mr. Steve Zutter, to oversee the transaction process. Other members of the Affiliation Committee included Dr. Michael Neuman, Vice Chairman, Mr. Bogan, Tim Baroni, Marty Iskra, Kristine Weidner, Dave Mechlin, Dr. Wade Liston and Dr. Bruce Trusock, both members of the medical staff. On September 12, 2012, Juniper met with the Affiliation Committee to finalize objectives, confirm the marketing process and procedures, and agree on the suitors that Juniper would approach on Portage Health's behalf. Portage Health retained special counsel, Locke Lord LLP, Chicago, Illinois, to advise the Board of Directors on potential legal issues arising in its evaluation of transaction alternatives.

Juniper prepared confidentiality agreements, instruction letters and an Information Memorandum to be distributed to suitors. Juniper created a secure electronic data room to post other information for suitor review.

On September 13, 2012, Juniper launched a “controlled competitive process” to solicit proposals from potential partners. The competitive market-clearing process is recognized by industry professionals and regulators as the best practice for establishing fair market value in transactions involving charitable or corporate assets. Through this process, Portage Health aimed to identify a concrete range of strategic options and have a sufficiently broad base of comparison to make a well-informed decision on its future. Accordingly, Portage Health solicited interest from a broad range of suitors, and expressly invited those suitors to propose alternative transaction structures. Further, were Portage Health to transfer some or all of its assets to a partnership, the competitive process assured that Portage Health would receive fair market value for those assets.

Juniper individually approached a diverse group of thirty-one hospitals and hospital systems. The list included public university hospitals, a private university hospital, Michigan-based systems, Wisconsin-based systems, regional systems and national systems. Nineteen of the suitors were nonprofit organizations. Ten of the suitors were for-profit systems. Two of the suitors were for-profit joint ventures. Twelve organizations executed confidentiality agreements and received additional information. Juniper requested initial offers from the suitors on October 12, 2012.

LifePoint, another for-profit system, a nonprofit system and a joint venture comprised of a regional and national system each submitted initial offers. The four offers proposed a variety of transaction structures.

The Affiliation Committee and Board of Directors reviewed the initial offers at their meetings in late October. The Board voted to proceed with the transaction process. The Board selected LifePoint and a for-profit joint venture as the two finalists. The two finalists visited

Portage Health in early November, meeting with executive management, presenting to the Board of Directors and touring the facilities.

On November 12, 2012, Juniper sent a second instruction letter to the two finalists. Juniper sought clarification on a number of business issues, including physician recruiting, capital for new construction projects, relationships with local universities and colleges, and strategies to stem patient out-migration. Juniper requested that the finalists focus on a joint venture transaction structure under which Portage Health would maintain certain specified powers in the joint venture governing board. Juniper also asked that the finalists commit that the joint venture would offer privileges to Portage Health medical staff in good standing, employ current employees at comparable compensation levels, continue all medical services and maintain Portage Health's charity care policy.

In late November and early December, six Portage Health representatives conducted reverse due diligence trips to four hospitals operated by the suitors and their corporate headquarters. The Portage Health representatives met with and closely questioned physician and business leadership about their operations and the potential benefits of partnership with Portage Health.

The two finalists submitted expanded, final proposals in response to the second instruction letters. Both finalists offered enhanced consideration. Their responses also confirmed, clarified and amplified the suitors' plans and intentions for a transaction with Portage Health.

#### **E. Portage Health Selects LifePoint as Its Joint Venture Partner**

Portage Health's outside advisors analyzed and compared the two finalist proposals. The advisors met with the Affiliation Committee on December 18, 2012, for a thorough review and discussion of the pros and cons of affiliation. The Affiliation Committee considered which of the two proposals would best achieve Portage Health's transaction goals to:

- Continue and expand quality health care services to the western Upper Peninsula;

- Build-upon and expand Portage Health's clinical distinction;
- Obtain access to sufficient capital to allow Portage Health to maintain and expand high-quality health care for its patients;
- Identify a partner with a long-term commitment to the community and the hospital's medical staff and employees;
- Identify a partner willing to enter a joint venture transaction whereby Portage Health retains significant local control;
- Assure Portage Health's ability to thrive in the future;
- Identify a partner that will maintain medical capabilities in Hancock and continue [the] integrated physician model; and,
- Maximize economic consideration to create local grant making foundation and invest in capital projects.

After a thorough review and discussion, the Affiliation Committee unanimously agreed to recommend to the Portage Health Board of Directors that Portage Health enter into a letter of intent with LifePoint to form a whole hospital joint venture.

The Portage Health Board of Directors met the following evening, December 19. Portage Health's outside advisors made opening presentations. The Affiliation Committee presented its recommendation. Mr. Bogan reviewed the reasons that Portage Health was seeking a partner and reviewed the considerations that he believed should be important to the Board's deliberations – culture, governance, quality, financial, human resources and growth. After discussion, the Board of Directors voted unanimously to approve the Affiliation Committee recommendation and, subject to LifePoint's agreement to certain additional conditions concerning governance and additional medical service lines, to direct management to negotiate and sign a letter of intent with LifePoint for a whole hospital joint venture.

Portage Health vigorously negotiated the terms of a detailed letter of intent with LifePoint. The parties signed the letter of intent on February 28, 2013. Thereafter, Portage Health vigorously negotiated the definitive documentation for the proposed transaction with

LifePoint. Portage Health's Board of Directors met on July 23 with management and the outside advisors to review the status of negotiations and draft transaction documentation. The Board of Directors resolved to direct management to finalize and execute the transaction documents. The parties signed the definitive agreements on August 2, 2013.

**IV. THE TRANSACTION PROCESS WAS DESIGNED AND EXECUTED TO  
MAXIMIZE CONSIDERATION FOR PORTAGE HEALTH'S CHARITABLE ASSETS  
AND ACHIEVE OTHER IMPORTANT COMMUNITY BENEFITS**

As the Attorney General has observed in connection with other nonprofit hospital transactions, a fair market process is the best way to obtain fair value for a hospital's assets. Here, Portage Health and its financial advisor structured a competitive process that solicited interest from a diverse group of over thirty potential partners. The list included both for-profit and nonprofit systems.

After receiving and analyzing multiple initial bids, Portage Health continued discussions with two finalists. Portage Health solicited a second round of bids and used the pressure of the auction process to motivate the two finalists to amend their offers in ways that better assured that the Board of Director's transaction objectives would be achieved. For example, the enhanced offers provided greater consideration, specificity on capital commitments and confirmed important details on future shared governance of the joint venture. These second offers were carefully and thoughtfully scrutinized, first by a broadly-representative Affiliation Committee, and then by the full Board of Directors. The Board of Directors required additional assurances on governance and service line expansion as a condition for proceeding to negotiate a letter of intent with LifePoint.

The Affiliation Committee and Board of Directors were well and fully informed on the future regulatory, financial, capital and other challenges that face Portage Health and other independent community hospitals. They carefully considered the pros and cons of remaining independent or becoming part of a multi-hospital system. They carefully considered the pros and cons of affiliation with a for-profit system. They carefully considered a variety of transaction

structures. In assessing Portage Health's strategic options, both the Affiliation Committee and the Board of Directors were guided by appropriate criteria. They assured that the form and substance of the transaction would advance the community's interest in local, high-quality health care and preserve local governance rights. Further, they assured that the very substantial economic consideration for the charitable assets contributed to the joint venture would be preserved and dedicated to serving future community healthcare needs through a well-capitalized Foundation.

The Affiliation Committee and Board of Directors devoted significant time and attention to the transaction process, including numerous meetings with Portage Health's financial advisor, meetings with the finalists and site visits on reverse due diligence trips. The Affiliation Committee and Board of Directors took all reasonable steps to maximize the consideration that Portage Health would receive as a result of a transaction. They directed their financial advisor to conduct a professional, market-clearing sale process. They directed their financial and legal advisors to advocate strongly for terms that would assure the future success and benefits of the joint venture for the community.

The Affiliation Committee advised, and the Board of Directors ultimately determined, that Portage Health was best served by joining a multi-hospital system. They concluded that a whole hospital joint venture was the optimal transaction structure, that LifePoint was the optimal business partner, and that LifePoint's offer was superior. Both the Affiliation Committee and Board of Directors unanimously supported the LifePoint offer. Under the direction of the Board of Directors, Portage Health's outside advisors vigorously advocated for Portage Health's interests in negotiating the letter of intent and final transaction documentation.

The controlled competitive process for soliciting offers, coupled with the thorough and deliberative analysis by the Affiliation Committee and Board of Directors of the opportunities and risks of the whole hospital joint venture with LifePoint, demonstrate that the transaction process was fair in all respects.

**V. THE WHOLE HOSPITAL JOINT VENTURE WITH LIFEPOINT IS IN THE BEST INTEREST OF PORTAGE HEALTH AND THE COMMUNITY IT SERVES**

By creating a whole hospital joint venture with LifePoint, Portage Health will become part of an integrated, regional and national network and healthcare delivery system focused on improving the well-being of citizens throughout the Upper Peninsula. Portage Health will expand its patient-care and quality resources, with LifePoint making sizeable commitments for future investment in the growth and enhancement of the hospital. The proposed transaction will benefit Portage Health, patients, medical staff and employees, and the community at large.

LifePoint offered consideration for the Portage Health assets contributed to the joint venture that is within the range of values that Portage Health's Affiliation Committee and Board of Directors considered fair. Judged against the competing offer, and against multiples for precedent transactions, the LifePoint offer was superior, above the objective benchmarks and well within the range of fair market value.

In return for the contributed assets, the proposed transaction is expected to generate proceeds in excess of \$40 million dollars for the Portage Health Foundation. The Foundation is represented by separate counsel. Portage Health understands that the Foundation will modify its mission, articles, by-laws and leadership to serve broader health needs in the local community. The substantial assets contributed to the Foundation will be administered by an executive director and the Foundation's independent Board of Directors. The Foundation will receive units comprising a 20% membership interest in the joint venture, which entitle the Foundation to a proportionate share of future proceeds generated by the joint venture. The Foundation will also have the right to receive transaction proceeds that remain after expiration of certain representations and warranties made by Portage Health as part of the proposed transaction. By achieving these many and sizeable benefits for the Foundation, the Portage Health Board of Directors fulfilled its fiduciary duty in choosing to contribute assets to the whole hospital joint venture with LifePoint.

In addition to obtaining fair market value for Portage Health's assets, the proposed transaction will best achieve the other strategic goals that motivated the Portage Health Board of Directors to consider partnering with a multi-hospital system. The proposed joint venture is obligated to continue to provide a defined set of community benefits, including accepting Medicare and Medicaid patients, accepting emergency admissions without regard to ability to pay and promoting community health education. The proposed governance structure assures that the community voice is represented and that local healthcare needs remain prioritized in the future. Voting rights for the governing board will be shared 50-50 between representatives appointed by LifePoint and the Portage Health Foundation, which will hold the community's interest in the proposed joint venture. The governing board has authority over the direction of the proposed joint venture, including strategic plans and material changes to service lines.

The proposed joint venture is committed to preserving all medical staff privileges, retaining all medical services in Hancock and pursuing additional service lines in psychiatry and cardiology to address unmet local needs. LifePoint has agreed to fund 80% of future capital expenditures by the proposed joint venture, with a firm commitment to support at least \$60 million in investment over the next ten years. LifePoint is fully supportive of the most pressing facilities projects in the capital plan – expanding medical office space on the main hospital campus and constructing a new medical clinic and office facility in Calumet. LifePoint is also supportive of efforts to invest more resources in recruiting new physicians and other medical staff. These and other future capital investments will allow the proposed joint venture to expand professional staff and offer state-of-the-art service capabilities, facilities and equipment.

LifePoint is a leading hospital provider that specializes in operating community hospitals in non-urban areas. It has a proven track record of sound and successful hospital acquisitions and management. It has a solid balance sheet and ready access to capital. LifePoint has made an unprecedented investment in the Upper Peninsula through its acquisition of Marquette General, its plans to acquire Bell Hospital and its plans to form a whole hospital joint venture with Portage Health. By creating a joint venture with LifePoint, Portage Health will become part of an integrated regional and national system of care. From a patient-care perspective, Portage

Health's affiliation with LifePoint is far preferable to an affiliation with a different system with a more distant tertiary care facility. Productive relationships to coordinate patient care with Marquette General are already established; LifePoint is investing hundreds of millions of dollars to enhance quality, staff and facilities at Marquette General; transfers to Marquette General take less time, involve less risk and less disruption for patients and families than would transfers to other tertiary hospitals. Because of LifePoint's relationship with the Duke Health, among the nation's finest medical research and teaching hospital systems, patients needing quaternary or other very specialized services will have seamless access to Duke Health specialists and facilities.

The proposed joint venture will utilize LifePoint's clinical quality, compliance, physician education and other patient-care initiatives. Many of these patient satisfaction and quality initiatives are being developed jointly with Duke Health, including the LifePoint National Quality Program. The LifePoint National Quality Program offers patient safety and clinical quality expertise and performance services. In addition to directly benefitting patients, these initiatives will help Portage Health attract physicians and other medical professionals, who will have ready access to the full range of specialty care, quality programs, medical education, technology and other shared resources available in the LifePoint system.

From an administration and management perspective, Jim Bogan will serve as the Chief Executive Officer of the proposed joint venture, providing continuity and experienced, local leadership. LifePoint will provide support resources to the proposed joint venture as requested in areas including strategic planning, physician recruiting, medical staff development, managed care, human resources, regulatory, reimbursement, revenue cycle, supply chain, group purchasing, facilities, risk management, legal and government relations.

Portage Health is one of the largest employers in the Hancock-Houghton area and vitally important to the local and Upper Peninsula economy. The proposed joint venture will preserve jobs, compensation and benefits for hospital employees, subject only to customary pre-screening procedures, and recognize existing bargaining units.

The proposed joint venture will maintain Portage Health's charity care policies, which can only be changed with approval of the governing board. The community also will receive new property tax revenue from the proposed joint venture to support local government services.

### **CONCLUSION**

Portage Health determined that partnering with another hospital system would best secure its long-term future in the face of healthcare reform and other challenges to independent community hospitals. In LifePoint, Portage Health found a highly-capable partner with a deep commitment to enhancing quality, broadening availability and efficiently coordinating health care in the Upper Peninsula. Through the proposed whole hospital joint venture with LifePoint, Portage Health will access the comprehensive clinical, financial and operational resources of one of the nation's leading hospital companies. With the additional resources, the proposed joint venture will expand and enhance local medical services, recruit additional medical professionals and modernize facilities. At the same time, the proposed joint venture structure preserves local governance rights and assures that the proposed joint venture will continue to serve community healthcare needs. The substantial proceeds of the transaction will be directed to a reconstituted Portage Health Foundation and invested to the benefit of the community.

The transaction process was fair. The Foundation will receive fair value for the assets contributed to the proposed joint venture. The proposed whole hospital joint venture with LifePoint preserves Portage Health's charitable assets and furthers the public interest by enhancing medical care in the Upper Peninsula. Portage Health looks forward to cooperating with the Attorney General throughout its review of the proposed transaction.