

Idaho State Journal, Saturday, Aug. 16, 2008 – by Jimmy Hancock (3 pages)

COUNTY OFFERS LEGACY DETAILS

Group made a better offer

POCATELLO — Provisions of a proposed future governance plan of Portneuf Medical Center could allow a local nonprofit to eventually own as much as 40 percent of the hospital.

However, should local ownership drop below 20 percent, it could mean a dramatic shift in governance over the hospital.

After months of looking for a capital partner to take on significant ownership of PMC in exchange for completing the hospital's stalled consolidation project at its east campus, the Bannock County Commission announced Thursday it would put Legacy Hospital Partners in front of voters in November.

The letter of intent from Legacy, which outlines the agreement between the company and the Bannock County Commission, includes, among other things, details about how local ownership could increase during the first seven years of the partnership.

"During the period beginning on the one-year anniversary of the closing date and ending on the seven-year anniversary of the closing date, the foundation will have the right to purchase up to an aggregate 40 percent membership in the Joint (community benefit organization) from (Legacy)," is written in the letter.

This ability to increase local ownership was one of several reasons Bannock County Commissioner Steve Hadley gave for preferring Plano, Texas-based Legacy. He also felt Legacy made a more generous offer.

"Legacy offered \$20 million more than LifePoint," Hadley said. "That was the first thing that stood out in my mind."

PMC was in the midst of the first phase of a \$200 million project to consolidate its east and west campuses onto the property at its Hospital Way location in early 2007 when administrators determined that a 2006 Idaho Supreme Court decision would require Bannock County voters to approve future bonding, making funding subsequent phases difficult.

The Bannock County Commission, to aid in determining the feasibility of the hospital's plan to finance the project, hired Stroudwater Capital. The consultant determined earlier this year that PMC could not finance the consolidation project through bonding for several reasons, including a reduction in the hospital's bond rating late last year.

A few days after Stroudwater's report, The Bannock County Commission, PMC's hospital board and a citizen's advisory committee agreed that the best route for the hospital was to seek out a capital partner who could finance the construction project. Proposals from those potential partners were received in May, and last month, two finalist were named.

Legacy is a privately held company that was recently formed to own, operate and manage acute-care hospitals

in partnership with nonprofit entities. The company's senior executives have worked together in the health care industry for more than 10 years.

Brentwood, Tenn.-based Life-Point Hospitals was founded in 1999 and is one of the nation's largest health care companies focused on providing services outside of urban areas. The company operates 48 hospitals in 17 states. Of those, 44 are in communities where LifePoint's is the only hospital.

Voters will be asked in November to approve Bannock County's relinquishment of ownership over PMC to a joint venture that would be 77 percent owned by Legacy and 23 percent owned by a local nonprofit entity. Last week, PMC and the commissioners announced that a retrofitted Portneuf Health Care Foundation would be that local nonprofit upon voter approval.

Dr. Benjamin Call, a cardiologist at Pocatello Cardiology, hasn't read the letter of intent but has followed the entire process of finding a potential partner for PMC, including attending meetings hosted by both Legacy and LifePoint and calling physicians in their respective operations.

Call said he isn't surprised Legacy would be willing to give up more ownership.

"Legacy doesn't appear to micromanage," Call said. "They are more likely to teach the community to do it and let the community run the hospital."

Local physicians were included in the process of choosing a preferred partner for PMC and Call said he believes most physicians, as he did, leaned toward Legacy.

He said physicians he spoke to at the former Triad Hospitals, the system most of Legacy's senior management were associated with up until last year, gave him the sense that Legacy was sincere in what it was offering.

"I spoke with one physician who said, 'whatever (Legacy) says they are going to do, they will do it. They really know how to run a hospital,'" Call said. "He didn't have anything derogatory to say."

Although ownership would heavily favor Legacy, governance, or control over the hospital, would be split evenly, with each owner appointing half the members of the joint venture's board.

This is another area that Call is excited about.

"There is a clear distinction between ownership and governance," he said.

In fact, there is even a provision in the proposed agreement that would bar either owner's board members from pushing a decision through with the aid of just one board member from the other owner.

"Block voting" requires that any major decision must be approved by a majority of each owner's board members.

One way local ownership could decrease, according to the letter of intent, is based on the sale of PMC's west campus once construction of the east campus is complete.

Should the west campus sell for less than the "imputed value," then PHCF's percentage of ownership in PMC will decline, but it cannot drop below 20 percent because of the west campus' sale price.

On the flip side, should the west campus sell for more than the imputed value, PHCF's ownership percentage will increase.

Although ways in which PHCF's ownership could fall below 20 percent aren't discussed fully in the letter, one dire consequence for local control should it happen is mentioned.

"If (PHCF's) percentage interest in the joint (venture) falls below 20 percent ... governance will revert to a proportional basis, with the number of board members determined based upon the respective equity interests," is written in the letter.

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To buy its 77 percent of PMC, Legacy will be giving more than \$150 million, which is broken into several figures. For PMC's assets, Legacy is paying \$92 million.

It is also giving the joint venture another \$45 million, of which \$36.4 million is designated for paying off PMC debt. The Bannock County Commission will receive a check for \$12.5 million. A \$141 million note payable by the joint venture will be included to pay for completion of the consolidation project.