

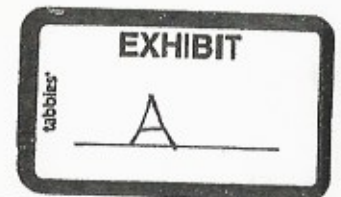


Comprehensive Strategic Assessment of:

North
Kansas City
Hospital

June 20, 2012

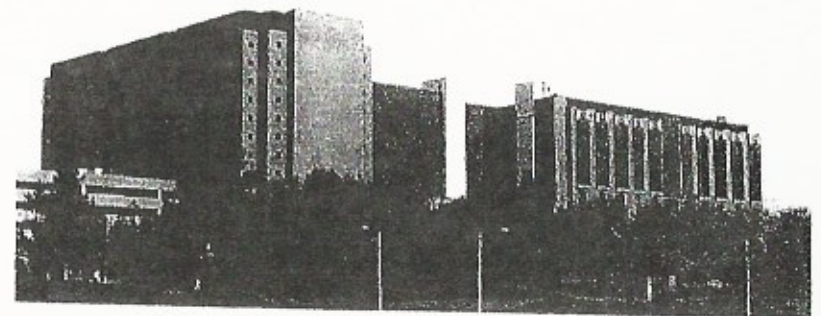
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North Kansas City Hospital ("NKCH") Introduction

The City has undertaken a comprehensive strategic assessment of all its assets and operations to ensure prudent use of resources and maximize operating efficiencies

- The North Kansas City Hospital represents a major asset owned by the City
- Founded in 1958 by North Kansas City ("NKC") community leaders as 80-bed facility
 - *Initial funding provided by self-imposed NKC tax levy*
- Grown into leading acute-care hospital licensed for 451 beds on 69-acre campus
- As City-owned asset, hospital Board appointed by Mayor and approved by City Council
- Highly competitive market including several large, national systems
- Stand-alone facility with strong historic operating performance



North Kansas City Hospital Current Role in the Community

Overview

- Essential, respected provider of health care to the local community and region
- Hospital management team has led hospital competently and admirably
 - *David Carpenter has expanded services and enhanced quality over the years*
 - *Jim McNey's revenue cycle redesign accelerated collections by \$17mm per month over 6 years*
- While proud of their connection to NKCH, the City of North Kansas City and its residents realize limited financial benefits from its ownership
 - *No property taxes assessed*
 - *Depending on appraised value and structure, NKC and other area government entities (NKC School District, County, police and fire pension, library, parks, etc.) could realize millions in annual tax revenue if NKCH were tax-paying entity*

The City is considering options that would maintain NKCH's current role as a key provider of health care, while delivering incremental and ongoing economic benefits to the community.

City of North Kansas City Responsible Stewardship & Governance Considerations

The City Council has a responsibility to maximize City resources on behalf of its taxpayers and residents.

- Over the last 24 months, like many other municipalities, the City Council has carefully reviewed and considered a variety of steps to enhance revenues and improve operating efficiencies to ensure the long-term sustainability of infrastructure and services
- Responsibilities to taxpayers and residents include:
 - > *Appropriately funding current and long-term City needs*
 - > *Prudently managing the City's resources*
 - > *Protecting and growing the local economy*
 - > *Maximizing NKCH's benefit to the community, including high-quality care and economic impact*
 - > *Ensuring the future viability of NKCH*
 - > *Protecting and expanding healthcare quality and access*
- The City recently engaged professional advisors to evaluate options regarding ownership of NKCH
- All options have been carefully considered with significant time for reflection

As a result, it is the intent of NKC to exit the health care business while preserving NKCH's mission.

City Ownership & Governance Legal Perspective

Overview

- The Hospital was formed under Chapter 96 of the Missouri Revised Statutes
- Under Chapter 96, as clarified by the Missouri courts, the ownership of the Hospital resides with the City
- The Board is an arm of the City that has responsibility over internal operations of the Hospital, but does not have the power to hold property separate from the City other than as special trustee for bequests and donations
- The City has broad statutory authority to sell assets it owns, including the Hospital, and over the use of proceeds from such sales
- Missouri courts have recognized the ability of a hospital formed under Chapter 96 to continue as a private enterprise no longer acting under Chapter 96

The City has legal authority to pursue a transaction.



Strategic Rationale for Transaction

Long-term viability of NKCH as quality healthcare provider

New ownership structure would generate numerous, significant benefits for taxpayers and residents of North Kansas City and North Kansas City Hospital.

- Maintain/expand existing services, including potential commitments to:
 - *Historical charity care policies*
 - *Quality assurances*
 - *Existing management and board*
 - *Existing medical staff and employees*
 - *Hospital's legacy, identity and brand*
- Potential to further expand prestige and quality of care via potential partner
- Position for success in era of health care reform
 - *Leverage size & scope of larger system to drive further efficiencies & share best practices*
- Potential alternative sources of revenue to enhance economic viability/development of NKC, including potential for local job creation

Unique opportunity to create financial resources to pursue a broader community mission while ensuring existing levels of care are maintained and/or enhanced.

Potential Community Foundation Community Benefits

Substantial, broad-based benefits to the community.

- Portion of net transaction proceeds could be used to establish a substantial Community Foundation
- Community Foundation would address priority regional and community needs and address short- and long-term City obligations
 - *Address local health needs (e.g. childhood obesity, elder care, community outreach, etc.)*
 - *Funding schools, emergency responders, infrastructure and City's long-term pension obligations*
 - *Reduce resident and business tax obligations*
- Governed by local community representatives, potentially including current NKCH officials

Net proceeds transferred to community foundations are often used to fund wellness initiatives and educational programs as well as human services and local economic development.

Community Foundations Select Precedent Situations

(\$ in millions)

Date	Acquirer	Target	Foundation	State	Beds	Revenue	Purchase Price	Use of Foundation Proceeds
May '95	Tenet	Mercy Baptist Medical Center	Baptist Community Ministries	LA	553	\$250.0	\$221.3	<ul style="list-style-type: none"> Health education, public safety, and government oversight
Sept '95	HCA	Good Samaritan Health System	Good Samaritan Charitable Trust	CA	815	361.5	165.0	<ul style="list-style-type: none"> General health initiatives as well as programs to support the underserved
Mar '97	Tenet	Queen of Angels/Hollywood	QueensCare	CA	410	114.4	100.0	<ul style="list-style-type: none"> Accessible health care for uninsured and low-income individuals and families residing in Los Angeles County
Oct '02	Vanguard Health	Baptist Health System	Baptist Health Foundation of San Antonio	TX	1,543	431.1	295.0	<ul style="list-style-type: none"> General health care services and education programs
Oct '02	HCA	Health Midwest	Healthcare Foundation of Greater Kansas City	MO	2,500	2,400.0	1,038.0	<ul style="list-style-type: none"> Health care safety net, healthy lifestyles, and mental health
May '05	LifePoint	Daville Regional Medical Center	Danville Regional Foundation	VA	350	144.2	231.9	<ul style="list-style-type: none"> Economic transformation, educational attainment, health and wellness, and community engagement
Dec '06	Sisters of Charity of Leavenworth	Exempla Healthcare	Community First Foundation	CO	1,145	717.4	311.0	<ul style="list-style-type: none"> Programs, initiatives, and organizations that strengthen lives and improve the well-being of the Denver metropolitan area
Jun '11	HCA	HealthONE	Colorado Health Foundation	CO	1,500	NA	1,450.0	<ul style="list-style-type: none"> Promotion of healthy living, health care, and health coverage in Colorado
Jan '12	University of Colorado Health	Memorial Health System	Not Available	CO	650	540.0	400.0	<ul style="list-style-type: none"> Health education programs and local health care initiatives

Why Now?

Maximize benefit today as external challenges are likely to increase over time.

- Negative outlook for hospital industry
- Industry challenges are likely to erode Hospital's value over time
- By acting now, NKC and NKCH are able to negotiate from a position of strength
 - Proactively determine the organization's future
 - Ability to maximize benefits and contractual obligations of future partner
- National trend away from public ownership of hospitals
 - Driven by opportunity to reduce risks, generate dollars from non-core assets, and increase potential tax revenues

State and local governments are increasingly questioning need/desire to own hospitals given uncertainty of health care reform, significant capital demands, & ability to maximize value today.

Current Healthcare Environment Negative Outlook for Hospital Industry & NKCH

NKCH's current operating environment includes numerous economic, industry and local market challenges.

Challenges

- Ongoing difficult economy
- Changing business model
- Health care reform
- Fewer hospital visits (lower utilization)
- Reimbursement pressures
- Significant capital needs
- Increased competition

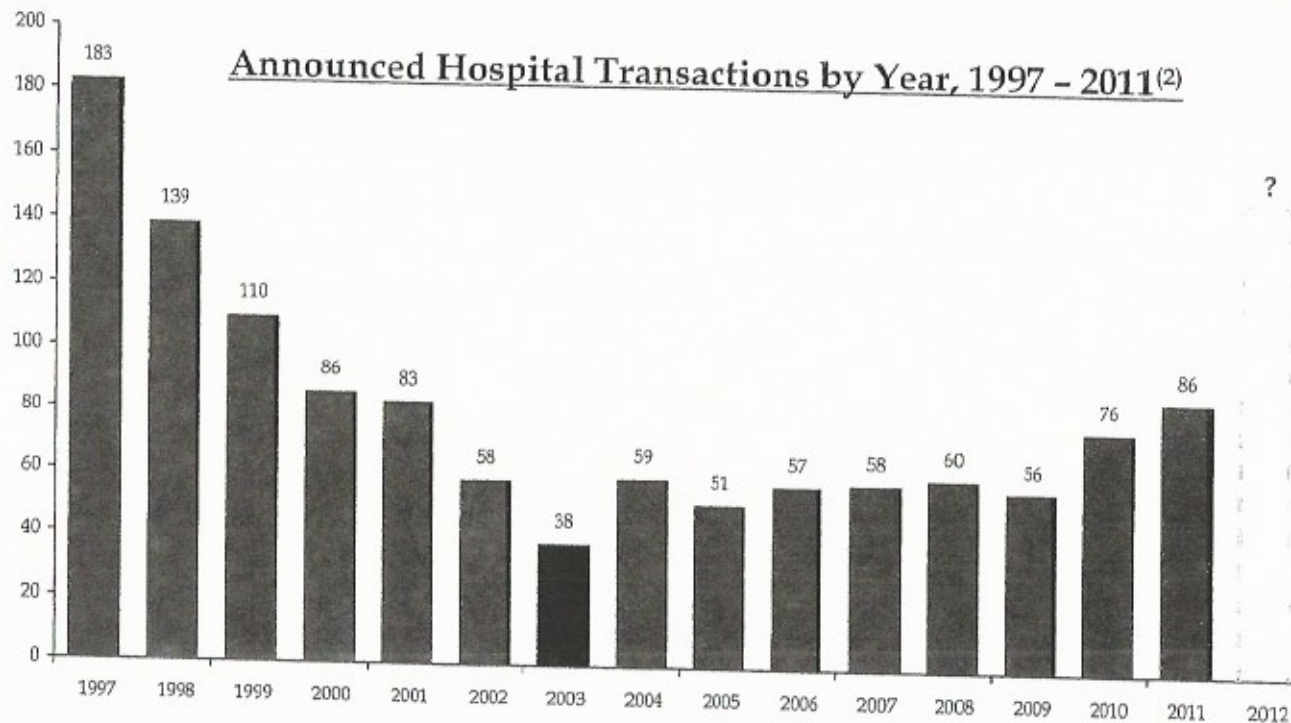
Responses

- Hospitals across the country evaluating all strategic options
- Current period of increased consolidation in the industry
- Merge activity trending towards levels not seen since 1990s
- Merges viewed as tool to position for future success
- Greater scope & scale drive operating efficiencies
- Clinical integration essential for health care reform
- Access to capital for strategic investments is critical

"Fueled by falling and slower-to-rise reimbursement from public entities such as Medicare and Medicaid, and from private insurers, hospitals are combining in an effort to obtain greater economies of scale." - The Kansas City Star, "Hospitals Exploring Merger or Sale", June 1, 2012

Current Period of Accelerating Consolidation

According to HealthLeaders Media, 78% of hospital organizations are currently involved in or actively exploring merger or acquisition opportunities. ⁽¹⁾



Fitch expects the credit impact of [healthcare reform] to be modest in the coming year but become increasingly challenging as providers must absorb revenue cuts before full implementation of the Act in 2014, which is anticipated to boost patient volumes and reduce the level of charity care and bad debt exposure. The volume of mergers and acquisitions and/or affiliations is expected to increase in 2012. Fitch believes an increasing number of stand-alone acute care providers will realize that the need for size and scale to drive greater efficiencies is increasingly important in a tighter reimbursement environment. - Fitch Ratings, December 15, 2011

(1) HealthLeaders Media, M&A: Hospitals Take Control, January 2012. Sample size of 183 with +/- 0.71% margin of error at 95% confidence interval.
 (2) Irving Levin.

Concluding Remarks

Responsible stewardship compels the City to reassess its ownership of NKCH.

- The City initiated a comprehensive strategic assessment approximately 24 months ago
 - *Limited financial benefits from its ownership of NKCH*
- Current negative outlook on healthcare industry and risk of ownership has increased
 - *Current period of significant hospital industry consolidation and increased competition*
- Opportunity to maximize community benefit today
 - *Industry challenges likely to erode hospital's value over time*
 - *Negotiate from position of strength*
 - *Broad process achieves optimal results*
 - *Ability to address unique local concerns through structured agreements*
 - *Significant financial benefits to the taxpayers and residents of North Kansas City and beyond*

Concluding Remarks

Next Steps

Effective coordination between the City Council, its advisors, the Hospital Board and Management will ensure the optimal outcome for all key constituents.

- Conduct operations consistent with ordinary course of business
- Evaluate and/or adopt management retention agreements
- Identify high priority commitments from strategic partner
 - *Maintenance of services*
 - *Role of Advisory Board*
 - *Management, Employees and Medical Staff*
- Establish timetable
- Begin compiling due diligence materials
- Establish communications strategy between City Council and Hospital Board

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Ensures best outcome, avoids disruptions in operations and protects employee morale.