Bay Medical Transaction

Questions & Answers

Catholic Heath Standards and the Delivery of Healthcare at Bay Medical

The Bay County Commission recently voted to approve a proposal by a Joint Venture of LHP Hospital Group and Sacred Heart Health System to lease and operate Bay Medical Center.

Sacred Heart Health System based in Pensacola is part of the nation’s largest Catholic, nonprofit health system. LHP Hospital Group is a for-profit company with a history of working with nonprofit hospitals and extensive experience in hospital operations and management. Under the terms of the lease, the employees of Bay Medical will become employees of LHP and they will be covered by LHP’s medical benefits program.

The lease agreement calls for the operations of the hospital to comply with the Ethical and Religious Directives that govern Catholic healthcare facilities. The Directives do not cover in detail all of the complex issues that confront healthcare organizations. Rather, they provide standards and guidance for Catholic healthcare as it carries out the healing ministry of Jesus Christ.

Questions have arisen as to how the Catholic Directives and the partnership between LHP and Sacred Heart will affect the services of Bay Medical. Some details of these matters are still being discussed, but here is an overview of key questions.

**Q. What healthcare services will not be provided at Bay Medical as a result of the Joint Venture agreement?**

A. Bay Medical will make very minimal changes in its healthcare services as a result of its ties to Sacred Heart. There are only a few procedures that will not be provided at Bay Medical as a result of the Joint Venture agreement. Abortions and sterilizations will not be performed at the hospital. In accord with the Directives, the hospital will not allow direct abortions, that is, those procedures whose sole, immediate purpose is to terminate a pregnancy before viability. The Directives reflect a commitment to promote and defend human life and dignity “from the moment of conception until death.”

**Q. When the Catholic healthcare standards go into effect at Bay Medical, would physicians be able to abort a pregnancy if it was necessary to save the mother’s life?**

A. The Directives state that operations, treatments, and medications that have as their direct purpose the cure of a serious, life-threatening condition of a pregnant woman “are permitted when they cannot be safely postponed until the unborn child is viable, even if they will result in the death of the unborn child.”

**Q. Will sterilization procedures be allowed in the hospital?**

A. Under the Directives, no sterilization procedures such as tubal ligations or vasectomies can be performed within the hospital. Last year, Bay Medical performed less than 25 tubal ligations. It is important to note that sterilization procedures are available elsewhere in the community, either in physician offices or at another hospital.

**Q. Will physicians who admit patients to Bay Medical be allowed to prescribe contraceptives to their patients?**

A. The Directives do not control what independent physicians do within their own offices.

**Q. Will physicians who are directly employed by the hospital be able to prescribe contraceptives to their patients?**

A. The physicians currently employed by Bay Medical will become employees of LHP Hospital Group, the majority owner of the joint venture. As employees of LHP, they will be able to write prescriptions for contraceptives to their patients.

**Q. Will the insurance plan of Bay Medical employees include coverage for contraceptives?**

A. Once the legal agreement between Bay Medical and the Joint Venture is signed April 1, Bay Medical’s employees will become employees of LHP. LHP provides all of its employees with insurance coverage for contraceptives.

**Q. Can “the morning after pill” or medications to prevent conception be provided to victims of rape who are seen at Bay Medical?**

A. The Directives state that “compassionate and understanding care should be given to a person who is the victim of sexual assault… A female who has been raped should be able to defend herself against a potential conception from the sexual assault. If, after appropriate testing, there is no evidence that conception has occurred already, she may be treated with medications that would prevent ovulation or pregnancy.”

**Q. What do the Ethical and Religious Directives say about the obligations of Catholic hospitals to care for the poor?**

A. The Directives say: “The biblical mandate to care for the poor requires Catholic healthcare organizations to express this in concrete action at all levels of Catholic health care. This mandate prompts us to work to ensure that our country’s health care delivery system provides adequate health care for the poor. In Catholic institutions, particular attention should be given to the health care needs of the poor, the uninsured, and the underinsured.”

The entire Directives can be viewed at <http://www.ncbcenter.org/document.doc?id=147>.

New Answers to Employee Questions

**Will employees who are accruing time towards a 30 year retirement still be able to reach this goal?**

Yes. The Board of Trustees has approved amending the Pension Plan to allow those employees who have been continuously employed in a benefited position since 12/31/95 or before the ability to obtain a 30 year retirement benefit. For example, if an employee had 20 years of credited pension service at the time of the transition, that employee will be able to retire in 10 calendar years without having the usual 5% deduction for early retirement (regardless of age).

**Will employees who are not vested in the Pension Plan be allowed to vest?**

Yes. The Board of Trustees has approved amending the Pension Plan to allow current employees to vest regardless of years of credited service. Therefore, they will have the opportunity to become fully vested in any monies that have been credited to their Pension Plan.

**Will employees who are eligible to begin their BMC Retirement Benefits be able to begin their benefits following the transition without having to separate service for at least 90 days?**

Yes. Since we will be employed by a new employer (LHP), employees can choose to begin their retirement benefits following the transition if desired.

**What will happen with our accrued Paid Time Off (PTO) balances?**

Administration negotiated with LHP to allow employees to carryover their PTO balances into their new plan with LHP. This will allow employees to begin with LHP with time off already accrued.

**Will all employees be paid out their accrued Extended Illness Days (EID)?**

Yes. The Board of Trustees has approved to amend the EID Policy to allow all employees to receive a pay out of their EID balances as follows:

* Employees with 10 or more years of continuous service will be paid out 50% of their EID balances in accordance with our current policy
* Employees with less than 10 years of continuous service will be paid out their EID balances based on the percentage of 10 years of continuous service they have at the time of the transition. For example, an employee with 5 years of continuous service has met 50% of the 10 year requirement so they will receive 50% of 50% of their EID balances under the new policy.

**Will LHP honor employee tenure with Bay Medical?**

Yes. Administration has negotiated with LHP to allow employees to carryover their current tenure for seniority and vesting purposes. Employees will also carryover their most recent benefit eligibility date for eligibility for LHP benefits and benefit accruals.

**1. What type of agreement is being negotiated?**

Bay Medical is exploring a possible affiliation with a joint venture company to be formed between Sacred Heart Health System and LHP Hospital Group, Inc. The intent of the three organizations is to negotiate a long-term lease agreement under which the joint venture would lease all of the assets of Bay Medical and operate the hospital and related healthcare facilities for 40 years.

**2. How would Bay Medical benefit from this arrangement?**

The proposed affiliation would enable Bay Medical to eliminate its existing $115 million debt, to access capital for future investment in facilities and technology, to share clinical best practices, to enhance and further develop clinical service lines and to leverage economies of scale for greater purchasing power. It will also enable the hospital to establish a multi-million dollar foundation to fund community health related needs.

**3. What will happen to the employees?**

Under the proposed affiliation, all employees will be retained at their current position and salary. Salary and benefits overall will remain consistent and comparable. Employee tenure will be recognized by the new joint venture.

The hospital will benefit from affiliation with a strong financial partner and a larger network of hospitals. The additional financial and clinical resources will provide a more secure future for Bay Medical Center and its employees.

**4. What will happen to the Bay Medical Center Pension plan?**

The BMC Pension Plan is well funded and pension benefits that have been earned in the plan by current and former BMC employees are protected. Although the BMC Pension Plan will be frozen at the time of affiliation, benefits that have been accrued under the plan will remain intact.

**5. How will things change for physicians?**

Physicians will see little change in their day-to-day practice in the hospital and will continue to follow the same medical staff bylaws and credentialing process. They will see improvements because the hospital will have greater access to capital to invest in equipment and facilities. Physicians will have a role in governance of the hospital.

**6. Will Bay Medical continue to provide charity care?**

Yes. Bay Medical will continue the same charity and uncompensated care policies that it has in place.

**7. Will any of the current services be discontinued?**

No. Bay Medical will continue to provide the same core services at the same high level as currently offered.

**8. With the proposed affiliation, what changes will the community see?**

Day-to-day operations of the hospital will remain largely unchanged. However, the proposed agreement should strengthen and enhance the hospital and the quality of healthcare for everyone in our community. It will allow us to invest in our facilities, new technologies and the training needed to ensure the best, most current care continues to be available in our community.

The proposed affiliation will also allow for the establishment of a multi-million dollar Foundation to fund unmet health related needs in our community.

**9. How would this Foundation work?**

Once the hospital’s debt and all existing liabilities have been paid, all excess revenues from the lease will be used to establish a sizeable Foundation that will provide grants to Bay County organizations to help fund unmet health needs. The Foundation will be overseen by the current Bay Medical Board of Trustees with advisory committees made up of local citizens. The funds would be placed in an endowment and the revenues generated each year would be distributed to local organizations. This would allow the fund to remain in perpetuity.

**10. What is the difference between this lease and an outright sale?**

With this proposed lease, the citizens of Bay County will continue to own the hospital and will have representation on the governing board.

**11. Why does Bay Medical need to affiliate?**

Bay Medical has struggled for the past two years due to a dramatic increase in uninsured patients and lower reimbursement from government payors. The cost of charity care has skyrocketed from $11 million in 2000 to an average of $30 million annually. The hospital receives **no tax support** for providing this care.

Medicaid cuts will impact the hospital by several million dollars next year and further cuts in Medicare are on the horizon. At the same time hospitals will be expected to invest in new systems and programs to meet the requirements of healthcare reform. It is increasingly difficult for public, stand-alone hospitals that do not receive tax support to survive. In fact, more than 80% of all Florida hospitals are now part of a healthcare system and that number continues to grow.

It is critical for Bay Medical to have access to capital to maintain the same level of high quality care for our community and this arrangement provides a way to both access capital and to be part of a network that will improve quality.

**12. Why did Bay Medical move forward with the patient care tower project during this economy?**

The completion of the patient care tower was vital for Bay Medical during this economy for many reasons. Prior to the new tower’s completion, we were frequently at capacity and had to turn away patients. Our original structure was built in 1949, making it extremely costly to maintain and upgrade to meet current standards. Now that we have moved into the new tower, we have room to renovate older areas and improve our facilities for all patient care areas. For the hospital to survive, we had to be able to attract insured patients. Having more private rooms is crucial when patients have a choice in where to receive their hospital care. Private rooms are the standard in newer facilities across the country and play a helpful role in managing infection control and reducing patient stress during hospitalization. In short, the new patient care tower was critical in preserving Bay Medical as a quality healthcare provider for generations to come. We could not afford not to build it.

**13. Why Sacred Heart and LHP?**

Sacred Heart is an obvious choice because it already has three hospitals in Northwest Florida, and more importantly, because of its reputation for clinical excellence and its similar mission and commitment to the community. LHP’s history of working with not-for-profit hospitals and its extensive experience in hospital operations and management make it a natural fit as well.

**14. Will Bay Medical become a for-profit hospital?**

Yes, Bay Medical will be a for-profit hospital and as such will begin paying taxes, but, importantly, Bay Medical will continued to follow the same community and charity care standards applicable to not-for-profit hospitals.

**15. What is the difference between a for-profit hospital and a not-for-profit hospital?**

The traditional answer is that for-profit hospitals pay taxes and return a portion of their profits to their private investors, while not-for-profit hospitals operate primarily for the benefit of the community and reinvest their profits into their facilities and services. Not-for-profit hospitals are tax-exempt and are focused on meeting community needs and treating all patients – uninsured and insured – with the same respect and compassion. With the arrangement envisioned under the new joint venture operation, Bay County citizens will benefit in several ways from a unique partnership of a not-for-profit health system (Sacred Heart) with a for-profit hospital company (LHP.) Bay Medical will change its legal status from a not-for-profit hospital to an investor-owned hospital that is part of a Catholic health system. The hospital will begin paying taxes, but it will retain the same mission-driven focus that Bay Medical and Sacred Heart have always provided to the communities they serve. The new Joint Venture operation of Bay Medical will be focused on delivering high quality healthcare, serving all patients who need care and meeting the overall healthcare needs of the community.

**16. Will the name of the hospital change?**

Consideration of the letter of intent is the first step in a process and naming will not be decided at this time. However, both Sacred Heart and Bay Medical have strong brand name recognition and reputation and any future name would build on the strengths of both of our healthcare organizations.

**17. Will Bay Medical become a Catholic hospital?**

Bay Medical will not be owned by Sacred Heart, but the proposed affiliation calls for the hospital to operate as a Catholic ministry that continues Jesus’ mission of love and healing. Sacred Heart’s mission is to serve all persons with special attention to those who are poor and vulnerable. The proposed affiliation would have Bay Medical operate according to the Catholic Church’s moral principles and ethical directives that apply to health care services.

**18. Will Bay County citizens have a voice in the governance of the hospital?**

Yes. Bay Medical will have two seats on the joint venture board, one to be appointed by the Board of Trustees of Bay Medical and one from the medical staff. In addition to the joint venture Board of Directors, a twelve member local Board of Trustees will be appointed for the facility. Up to 50% of the members of the Board will be physicians from the active medical staff and the remainder will be chosen from local community leaders.

**19. What will happen to the existing Foundation which has raised money for Bay Medical over the years?**

The Foundation will be dissolved, but some of the Foundation members will have an opportunity to serve on an advisory committee for the new Foundation. The new Foundation will not raise money, but will be a grant-making Foundation.

**20. What are the next steps for this transaction to move forward?**

After public input, the Bay Medical Board of Trustees will consider approving the letter of intent. If approved, all parties will conduct an in-depth financial and operational analysis prior to finalizing details of an agreement. Any final agreement will then be presented to the Bay Medical Board of Trustees for their consideration, and if approved, the final agreement will then go before the Bay County Board of County Commissioners.

**21. When should we expect the transaction to be complete?**

If an agreement is reached that satisfies the needs of all parties, the transaction could close by January 2012.