

Conversion Agreement Presentation
To the Teton County BOCC
October 11, 2011

A. Overview – the TVHC BOT completed its review of the work products developed over the past 55 days by the TVHC and BMH negotiating teams. The result of this work is a definitive agreement (renamed Conversion Agreement) targeted in the BMH LoI.

The Conversion Agreement establishes the framework for how the parties shall attempt to complete the necessary steps and documentation for converting the legal structure of TVHC and commencing a long term management agreement with BMH. Once executed, the Conversion Agreement is not the final step in the overall process. Rather, the Conversion Agreement is a formal undertaking to move forward with the process I will outline in a moment. The Conversion Agreement Term Sheet is an outline form of the Conversion Agreement containing just the major structural points identified and agreed to by the parties.

On Sept. 29 the BOT recommended the BOCC jointly execute this Conversion Agreement, subject to any non material edits by the parties. Execution would authorize the parties to begin developing final agreements for concluding a multi piece transaction.

Public disclosure of aspects of this process in the form of presentations like this and others was intended by the BOT from the start. However, the public must realize that these beginning negotiations included certain employment and other contract issues that would not be appropriate to address in public. All BOT decisions pertaining to the execution of the Conversion Agreement were made in open public session. It is both the intention and responsibility of the BOT to disclose in a timely way pertinent facts related to this process.

B. Transaction Detail – the transaction proposed by the Conversion Agreement consists of the major parts listed below. Documentation for these major parts must be developed and are subject to final approval from all parties before a closing can occur. The overall transaction process is very similar to the process accomplished by Bingham County and its public hospital in Blackfoot, ID in 2007. The major components of this transaction are as follows:

- Incorporation of a new non profit entity, called TVH;
- Application to the IRS for approving Code Section 501 (c) (3) status of TVH;
- Transfer/Assumption of the existing Hospital Bond and validation of its continued tax exempt status after a legal conversion of the issuer;
- Execution of a 99 year operating lease between Teton County (TC) and TVH of the TVHC non liquid assets;
- Execution of a Liquid Asset Transfer Payment agreement between TC and TVH to authorize and cover the usage of TC's invested net working capital in TVHC;

- Execution of a five year renewable Hospital Management & Healthcare Services Agreement between TVH and BMH to cover a reorganized administration of the hospital operations.
- Agreement timeframes and initial proposed termination conditions are outlined and cross linked between Lease Agreement, and Hospital Management & Healthcare Services Agreement.

In addition to these major pieces, there are numerous smaller but important items that must be accomplished during the conversion process including a pension plan rollover, contract assignments/assumptions (including Medicare & Medicaid, provider and sub agreements) and license transfers.

C. Important Points – this proposed conversion includes the following important points:

- Most aspects of this conversion process are regulated by Idaho Statute;
- Governance control of the hospital operation remains local with the existing BOT initially with the additional requirement that each incorporated City has a representative;
- The hospital scope of services will remain similar to existing hospital model with changes made thereafter based upon market and Govt. conditions and joint TVH & BMH approval;
- Board membership can be expanded beyond Teton County, ID (i.e. Alta);
- TC's risk/liability position in the ongoing hospital operation will be eliminated;
- Minimum capital spending requirements shall be cross linked between the lease and management agreements so that the Hospital will consistently spend money on capital improvements;
- All capital improvements made in TVH will be part of the asset based owned by TC;
- Foundation Funds used for capital improvements in TVH will become included in the depreciation base of TVH, again mandating that funds be spent to improve the hospital;
- TVH will pay TC an annual payment for its use of the county owned working capital;
- TC can receive bonus payments from TVH when performance exceeds base levels;
- BOT recommends that TC places these annual payments in a special fund that is used to either improve its Hospital assets or in the event of a lease default in the future;
- BMH will receive a monthly management fee and can earn incentive bonus payments if certain performance goals are exceeded;
- Both bonus payments are based on a percentage of excess operating revenue over expense so that donations/grants go towards improving the TVH and not to BMH or TC;
- All employees will be able to retain their jobs at the hospital, so long as they are in good standing.

D. Cost Estimate – a precise estimate of the costs to complete this transaction are unknowable at this time but the BOT believes that legal expenses will comprise the majority of the overall costs. With the experience of completing a non-profit conversion, asset transfer and lease agreement, BMH has advised the BOT that a legal expense of \$50,000 - \$75,000 for these components is a reasonable approximation. TVHC and BMH share legal expense equally for

preparation of the Conversion and Management Agreements. BMH has contributed their documents for a basis of lease and transfer agreements.

There will be additional legal and accounting expenses related to the pension plan rollover, work with the bond trustee, audit items and schedule preparation, among other items. TVH will also incur ongoing expense for certain reporting requirements and increased insurance coverage.

E. Timing Issues – the target timing of accomplishing the pieces of this transaction are as follows:

- Execution of the Conversion Agreement – on or before Oct. 20, 2011;
- Formation of TVH and IRS 1023 application – on or before Dec. 31, 2011;
- Completion of major document and schedule due diligence – Feb. 29, 2012;
- Finalization of all document/schedule preparation – Jun. 1, 2012;
- Execution/closing of the transaction – sooner of IRS approval or Dec. 31, 2012.

F. Conclusion – considerable work to permanently restructure the hospital has been accomplished by the BOT and management since TVHC's severe financial problems in late 2008. However, increased competition, more Government regulations, reduced insurance reimbursements and a stagnate economy are all significant concerns ahead to maintaining TVHC as a stand alone operation. The plan put forth in the Conversion Agreement is designed to produce a self sustaining and perpetual hospital operation that in combination with the Foundation, can self support its regular capital needs well into the future. A key component of producing the cash flows necessary for future capital requirements is leveraging the expertise, purchasing power and systems developed by the BMH executives and staff to increase efficiencies and revenues at the hospital. There are obviously no guarantees to success and other options were explored over the prior 18 months. The interest expressed in us by BMH is significant and should not be under estimated given the general lack of other restructuring opportunities available to TVHC.

Thank you.

Steven E. Dietrich
Chairman, TVHC BOT