A Report to the Hospital Authority of Albany/Dougherty County

August 17, 2006
Overview of Today’s Presentation

Informational transparency & integrity

Health care costs:
  • Local and national challenges
  • CACH cost figures v. PPMH cost figures

How PPMH has continuously met and exceeded obligations to the Authority and citizens of Southwest Georgia since 1990

Outside perspectives on PPMH’s leadership, quality and performance
These data provided by PriceWaterhouseCoopers

PWC is an internationally recognized company providing industry-focused services in the fields of assurance, tax, human resources, transactions, performance improvement and crisis management.

www.pwcglobal.com
678-419-1000
Charges per Admission

1Adjusted to account for inpatient and outpatient volume and costs

Operating Cost per Admission

1 Adjusted to account for inpatient and outpatient volume and costs, and to account for differences in patient acuity levels.

Net Patient Revenue per Admission

1Adjusted for inpatient and outpatient volume and revenue, and differences in patient acuity levels.

These data provided by Cleverley & Associates

Owned by William O. Cleverley, Ph.D., Cleverley & Associates is a privately owned, professional service organization specializing in information services for the healthcare industry by providing timely and accurate information to hospitals and to organizations serving the healthcare industry.

www.cleverleyassociates.com
888-779-5663
Overall Charge Index 2004-2005

Overall Cost Index 2004-2005

## Selected Comparative Charge Data

*Source: 2004 AHQ (Georgia DCH)*

<table>
<thead>
<tr>
<th>300+ Bed Georgia Hospitals</th>
<th>Private Room</th>
<th>Semi-Pryt Room</th>
<th>Avg 1st Hr OR</th>
<th>Avg IP Chg/Day</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phoebe Putney Memorial Hospital</td>
<td>$425</td>
<td>$420</td>
<td>$2,079</td>
<td>$3,609</td>
</tr>
<tr>
<td>Ga 300+ Bed Average Charge</td>
<td>$576</td>
<td>$563</td>
<td>$2,758</td>
<td>$4,136</td>
</tr>
<tr>
<td>Ga 300+ Bed Lowest Charge</td>
<td>$379</td>
<td>$374</td>
<td>$1,087</td>
<td>$2,802</td>
</tr>
<tr>
<td>Ga 300+ Bed Highest Charge</td>
<td>$835</td>
<td>$830</td>
<td>$9,968</td>
<td>$7,360</td>
</tr>
<tr>
<td>Ga 300+ Bed Reporting Hospitals</td>
<td>24</td>
<td>21</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>PPMH Rank (Low to High)</td>
<td>3</td>
<td>4</td>
<td>12</td>
<td>10</td>
</tr>
<tr>
<td>PPMH Percentile Rank</td>
<td>9%</td>
<td>15%</td>
<td>48%</td>
<td>39%</td>
</tr>
</tbody>
</table>

These data available from DCH
Cleverley Findings

- PPMH’s prices are appropriate
- PPMH is a well-managed low-cost hospital
- PPMH provides large amounts of care to low-income patients
- Earnings at PPMH are appropriate
- Cash positions at PPMH are appropriate
- PPMH provides substantial community value

Five Star Community Value

An assessment of the hospital’s performance in three areas:

• Financial strength and reinvestment
• Cost of care
• Pricing

2nd consecutive year Phoebe has received this rating. Phoebe is one of only 650 to earn this rating out of 5,000 U.S. acute care hospitals.
Comparison of Healthcare Costs

Average Healthcare Cost Per Employee

(2005 data gathered from 15 self-funded employers in PHP)
Healthcare Cost Comparisons

Differences in Healthcare Costs

- CACH vs Corporate National Avg: $1,403
- PHP vs Corporate National Avg: $-1,680
- CACH Versus Average in Southern States: $2,852
- PHP Versus Average in Southern States: $-230
Looking at Data: Impact of Utilization on Cost

Examples compiled from Phoebe patient records on two of the CACH industry members 2003-2004:

<table>
<thead>
<tr>
<th>Employer</th>
<th>Payments</th>
<th>Utilization</th>
</tr>
</thead>
<tbody>
<tr>
<td>No 1</td>
<td>Increased 38%</td>
<td>Increased 40%*</td>
</tr>
<tr>
<td>No 2</td>
<td>Decreased 7%</td>
<td>Increased 1%</td>
</tr>
</tbody>
</table>

* Number of outlier cases greater than $40,000 doubled in one year
Healthcare Price Increases in Excess of Inflation

How Are Prices Set?

Under our policies, prices are set to cover the following items:

- Average reasonable costs
- Losses from payers who pay less than cost
- Reasonable return on investment (ROI)
Comparative Phoebe Salaries with MGMA Survey Data

Hematology/Oncology 2005 Physician Compensation

<table>
<thead>
<tr>
<th></th>
<th>MGMA National</th>
<th>MGMA Southern Regional</th>
<th>Phoebe Avg.</th>
</tr>
</thead>
<tbody>
<tr>
<td>75th Percentile</td>
<td>650,426</td>
<td>945,125</td>
<td>0</td>
</tr>
<tr>
<td>90th Percentile</td>
<td>1,115,915</td>
<td>1,457,474</td>
<td>587,000</td>
</tr>
</tbody>
</table>

Comparative Salaries:
- MGMA National:
  - 75th Percentile: $650,426
  - 90th Percentile: $1,115,915
- MGMA Southern Regional:
  - 75th Percentile: $945,125
  - 90th Percentile: $1,457,474
- Phoebe Avg.:
  - 75th Percentile: $650,426
  - 90th Percentile: $1,115,915

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MGMA Southern Regional:
- 75th Percentile: $945,125
- 90th Percentile: $1,457,474

Phoebe Avg.:
- 75th Percentile: $650,426
- 90th Percentile: $1,115,915

Note: The table and diagram provide a comparative analysis of physician compensation data across different regions and percentiles.
Reasonable Reserves
Phoebe Putney Memorial Hospital 2005

- **Accumulated depreciation**: $217 million
- **Average age of plant**: 8.7 years
- **Annual growth %**: 8%
- **Replacement need**: $402 million
  \[ \times \text{Equity } \% = 60\% \]

**Required cash**: $240 million
CASH POSITION ADEQUACY (millions) – Phoebe Putney Memorial Hospital 2005

Present unrestricted cash and investments $306

less:

- 30-Days cash expenses 30
- Capital replacement 240
- Contingencies 240
- Operating supplement ?

Difference 36
Among the Few

- PPMH has consistently held a AA rating since 2002
- Only 12% out of 395 Not-for-Profit Hospital/Healthcare Systems had a AA rating.
- Phoebe’s bond rating currently saves the community more than a million dollars in interest rates every year… savings that are passed on.

Indigent/Charity Care Policy

Financial Assistance is based on patient income:

**Indigent Care** – Income at or below 125% of Federal Poverty Level (FPL) – 100% write off

**Charity Care** – Between 126%-200% of FPL – sliding fee scale – 25 to 95% discount

**Catastrophic** – Income exceeds 200% of FPL and patient liability exceeds 25% of the annual income – Up to 75% discount or whatever patient can pay within 24 months. Applies regardless of insurance coverage.
Data from a much-cited 2005 study show that medical expenses contribute to less than 20 percent of all bankruptcies, far fewer than the 50 percent estimate offered by the original study’s authors, according to an article by David Dranove of the Kellogg School of Management and Michael L. Millenson, a consultant and visiting scholar at the Kellogg School, published today as a Health Affairs Web Exclusive.
## Legal Actions Five-Year Trend

<table>
<thead>
<tr>
<th>Amount of Debt</th>
<th>Legal Actions 2001-2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,000 - $5,000</td>
<td>210</td>
</tr>
<tr>
<td>$5,000 - $10,000</td>
<td>12</td>
</tr>
<tr>
<td>&gt;$10,000</td>
<td>3</td>
</tr>
</tbody>
</table>

(21,000 inpatient admissions per year)
Most consumers cited loss of income as their primary reason for requiring bankruptcy pre-filing counseling, followed by poor money management and thirdly medical expenses.”

– Irma Whitten, CEO
Consumer Credit Counseling
“A major court victory for Phoebe Putney. The Georgia State Court of Appeals upheld the decision. . .”
ICTF Funds

Note: Audited by State of Georgia. Available on DCH web site.
Why is Phoebe Successful?
Indigent/Charity Care Deductions As a % of Charges\textsuperscript{1} Since Lease Inception

\textsuperscript{1}Charges as described in lease agreement

Source: Annual Hospital Financial Survey Georgia Department of Community Health
Phoebe Putney Memorial Hospital Historical Admissions

Source: Phoebe Putney Financial Services
Phoebe Serves a Predominately Rural Area of Georgia
More than half of patients live outside Dougherty County

Phoebe Putney Memorial Hospital Patient Origin

Outside Counties 52%
Dougherty 48%

Population
0-3,499
3,500-9,999
10,000-24,999
25,000-39,999
40,000-59,999
60,000-79,999
80,000-100,000
Restructuring Outcomes

1990 – One Location

2006 – 35 counties
Phoebe Employee Growth

Source: Phoebe Human Resources
Organizational Effectiveness Dimension

- Phoebe Putney 2005 Score: 79
- National Healthcare Normative Score: 57
- Georgia Healthcare Normative Score: 55
- Best-In-Class Score: 74

HR Solutions, Inc.
Chicago, Illinois
“The necessary materials & equipment are available to me when I need to perform my job.”
Physicians on Medical Staff

1995 - 188

2005 - 280
Successful Primary Care Strategy

1996-2005
Family Medicine Residency

60/60 rule
School Nurse Program
Students Served

6 Middle Schools
5 High Schools
Adding Elementary this year
$2.07 million cost to date
Improved A
Impact on

Ec visits
CC visits
Ask a nurse
School nurse
Master Plan

New Medical Tower

New South Patient Tower

Future Specialty Tower

Existing Parking Deck – Expanded for Additional Capacity
New Facilities Opened

- Healthworks
- Phoebe Worth Cancer Clinic
- Phoebe Laundry Services
No Burden to the Taxpayers

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>School Nurse Program</td>
<td>151,000</td>
<td>430,000</td>
<td>393,000</td>
<td>371,000</td>
</tr>
<tr>
<td>Prisoner Care</td>
<td>-</td>
<td>301,000</td>
<td>963,000</td>
<td>574,000</td>
</tr>
<tr>
<td>South Albany Convenient Care</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>500,000</td>
</tr>
<tr>
<td>Ad Valorum Taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,884,965</td>
<td>1,874,220</td>
<td>1,888,950</td>
<td></td>
</tr>
<tr>
<td></td>
<td>151,000</td>
<td>2,615,965</td>
<td>3,230,220</td>
<td>3,333,950</td>
</tr>
</tbody>
</table>

**Additional Funding Provided:**
- Drainage Commitment - $800,000
- Repayment to County of Millage Received (’97-’02) - $9,414,750
Grady to face $42 million Shortfall
Officials consider how to pay for care

After years of staff reductions, frozen salaries, delayed purchasing of new equipment and other efforts to control spending, Atlanta’s Grady Memorial Hospital is running out of options. . . Finding a solution is critical, though, because Grady provides services no other hospital in the region attempts, including a Level 1 trauma center, a burn unit and a state-of-the-art infectious disease clinic. It admits 30,000 patients a year and treats more than 900,000 in its specialty and neighborhood clinics. Because so many of those patients lack the financial resources or insurance to pay for the care, Grady will always need government help to survive no matter how efficient it becomes.
Senator Grassley commends Phoebe for transparency in posting responses on the website.

“I encourage all of the hospitals contacted to follow their lead in this matter.”
Governance

• Best Practices
• Adopted Sarbanes Oxley
• Audit Committee
• Conflict of Interest Declarations
<table>
<thead>
<tr>
<th>FY 98</th>
<th>FY 99</th>
<th>FY 00</th>
<th>FY 01*</th>
<th>FY 02</th>
<th>FY 03</th>
<th>FY 04</th>
<th>FY 05</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$1,473,315</td>
<td>$1,466,813</td>
<td>$1,474,665</td>
<td>$1,234,284</td>
</tr>
</tbody>
</table>
What the Studies Show
Hospital Authority Study Findings

Phoebe Putney’s operating margin percent, long-term debt to capitalization, and liquidity ratios approximate or favorably exceed median “AA” values.

Net patient revenue per admission and operating cost per admission are comparable to both the peer groups.

In more than half the specific clinical quality comparisons, Phoebe Putney performed, on a relative basis, above the average.

Study Findings cont’d . . .

Investment in plant and equipment has increased significantly over the term of the Lease, including $145 million on services and equipment beyond routine replacement and upkeep requirements. This includes a combination of updated facilities and expansion into specialized new service offerings (e.g., neonatal intensive care, hospice, and private practice residency programs).

Charges and length of stay by service line (and severity adjusted) further support that Phoebe Putney’s rates are reasonable and hospital inpatient stays compare favorably to its peers.

Phoebe Putney provides a higher level of uncompensated charity care than the average of its Georgia peers.

Phoebe has significantly invested in expanding service capabilities and access to an expanded service area during the term of the Lease.

Data Sources for PricewaterhouseCoopers Study

• Source: Standard & Poor’s US Not-for-profit Median Health care Rations Reports Phoebe Putney Health System Audited Financial Statements

• Source: Solucient Inc. – Active Content™ (Medicare Cost Report Data)

• HealthShare One™ MedPAR Southeast Region 2003 data

• Annual Hospital Financial Survey, GA Department of Community Health

• Federal Form 990 part 111 (2002)

• Phoebe Putney Memorial Hospital Financial Statement Audits

• Phoebe Putney Health System

• Source: Solucient Inc. – Active Content™ (Medicare Provider Analysis and Review Data)
Quality at Phoebe
Quality and Safety Initiatives

• ICU Garners National Recognition 2005
• Chest Pain Center Accreditation 2005
• First in the state to have MedMined 2004
• Phoebe Helps Reach Goal of National 100,000 Lives Safety Campaign 2006
• HealthGrades Vascular Care Excellence Award -- Top Tier 2005
Phoebe Critical Care Team

Earns National Recognition from American Association of Critical Care Nurses

Team approach resulted in a 29% drop in CCU patient mortality
Phoebe participation in the 100,000 Lives Campaign

Contributed to an estimated 122,300 lives saved

- Rapid Assessment Team Initiative
- Central Line Reduction
- Ventilator Acquired Pneumonia Reduction
National Award Winner of the
VHA Leadership Award of Clinical Excellence
First in Nation to Integrate Pharmacy Technology

- Pharmacy ROBOT-Rx
- MedCarousel
- AdminRx
Pursuit of Magnet Status

• Enhance recruitment & retention
• Patient care excellence
• Evidence-based practice
• Ongoing professional development
Achievements

- DISCOVERY HEALTH CHANNEL MEDICAL HONORS 2004
- VHA Leadership Award
- Foster Poe Memorial Hospital Award
- Clinical Excellence Award
- American Association of Critical Care Nurses
  - Phoebe Putney Critical Care Multidisciplinary Team Award
  - Datascope Excellence in Collaboration Award

SoluCient Top Hospitals

Phoebe Winner 2003
Foster G. McGaw Prize
Summary

• Phoebe provides quality, healthcare at competitive prices

• Phoebe meets and exceeds the requirements of the Authority Lease

• Phoebe honors its mission to provide care for all, regardless of ability to pay.

• PPMH has earned the well-deserved reputation of a world-class health care provider.