Jackson Health System
Report on House Bill 711
April 29, 2013
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I. Executive Summary
Executive Summary

Commentary

- Jackson Health System is one of the country's largest, most admired and most distinctive comprehensive health systems. Its affiliation with the University of Miami Miller School of Medicine and Florida International University Herbert Wertheim College of Medicine puts it on the cutting edge of medical practice, while its unique model of taxpayer ownership seeks a high standard of care for every resident of Miami-Dade County, regardless of their ability to pay. That mission statement means that Jackson goes beyond the care of vulnerable populations. It is a vision that embraces the needs of the entire community.

- The depth and breadth of Jackson's expertise is breathtaking. It is home to one of the nation's largest and most successful neonatal intensive care units, saving the lives of babies who would have no chance at other hospitals. Jackson's Ryder Trauma Center is one of the first and best free-standing trauma hospitals in the country, which is admired around the world and trains every one of the U.S. Army's forward surgical teams. No transplant program in the country received more medals from the U.S. Department of Health and Human Services last year than Jackson's Miami Transplant Institute, which has performed more than half of the world's multi-organ transplants. More cancer patients receive inpatient care at Jackson than anywhere in the region. And the Jackson Fetal Therapy Institute is pioneering the world's most sophisticated techniques for treating life-threatening conditions while babies are still in their mothers' wombs. These are just some of the distinctions that have perennially landed Jackson's programs in U.S. News & World Report's Best Hospital rankings, including being home to Florida's only nationally ranked program for psychiatry at the Jackson Behavioral Health Hospital.

- Jackson's graduate medical education program, one of the country's largest, has trained a substantial portion of physicians - not only those who practice in Miami-Dade County, but across Florida. Jackson also provides medical care for all inmates of Miami-Dade County's jails, primary-care services at five clinic sites, and long-term care for both traditional and medically needy patients at a pair of long-term care facilities. These services are anchored by our signature hospitals: Jackson North in North Miami Beach; Jackson South in South Dade; and Jackson Memorial and Holtz Children's hospitals in the heart of Miami's Civic Center neighborhood.

- Jackson's size and scope make it an integral part of Florida's overall healthcare landscape. It is, by far, the largest provider of indigent care, charity care and Medicaid services in Miami-Dade County, and is the single largest operator of Medicaid programs statewide. It also creates massive variations in cost structure among programs. Jackson Memorial, for example, is home to approximately 950 residents and fellows, creating a far different economic environment than the more traditional community-hospital settings of Jackson North and Jackson South. For this reason, the cost comparisons contained in this analysis include comparative calculations for the three main campuses. We believe those comparisons provide a better understanding of the cost of the enterprise. Conversely, quality data are reported as a blended rate because all three hospitals are covered under a single license. Moreover, this level of reporting is consistent with our mission-based belief in a single quality of care across the institution. Because Jackson has few comparable peers in the United States, we included supplemental comparative information for several prominent safety-net hospital and healthcare systems across the country. All of this information is aimed at better understanding the enterprise cost structure and quality results.
Executive Summary

Conclusions

• JHS’s Community Benefit Costs in Excess of Government Funding Sources
  – $139.2 million in fiscal year 2012
  – $103.8 million in fiscal year 2011
  – $71.8 million in fiscal year 2010

• As of the Valuation Date, JHS does not have a positive fair market value

• JHS is comparable in cost efficiency to other similarly situated healthcare facilities in Florida

• JHS is comparable in quality of care to other similarly situated healthcare facilities in Florida

• JHS also is comparable in cost efficiency and quality of care to other national safety net hospitals
II. Overview of House Bill 711
Overview of House Bill 711

- Florida Legislature in its 2012 session amended Sec. 155.40, Florida Statutes
  - Allows a county, district or municipal hospital organized and existing under the laws of Florida to sell or lease such hospital to a for-profit or not-for-profit Florida entity
  - Terms and conditions of such arrangement to be determined by the governing board of the hospital
  - Such arrangement must be determined by the governing board of the hospital to be in the best interests of the affected community

- Governing board of a county, district, or municipal hospital or health care system must, prior to December 31, 2012, commence an evaluation of the possible benefits to an affected community from the sale or lease of the hospital facilities to a for-profit or not-for-profit entity, such evaluation to include:
  - Conduct a public hearing to provide interested persons the opportunity to be heard on the matter
  - Publish notice of the public hearing in one or more newspapers of general circulation in the county in which the majority of the physical assets of the hospital or health care system are located and in the Florida Administrative Weekly at least 15 days prior to the hearing
  - Contract with a qualified firm to render an independent valuation of the hospital’s fair market value
  - Consider an objective operating comparison between the hospital or health care system and other similarly situated hospitals:
    - Compare to both not-for-profit and for-profit
    - Comparative hospitals should have a similar service mix
    - Determine whether there is a difference in the cost of operation using publicly available data provided by AHCA
    - Determine whether there is a difference in quality metrics identified by the Centers for Medicare and Medicaid Services Core Measures
    - Determine whether it is more beneficial to taxpayers and the affected community for the hospital to be operated by the governmental entity or a not-for-profit or for-profit entity based on the comparative costs of operation and quality metrics
    - Determine whether there is a net benefit to the community to operate the hospital as a not-for-profit or for-profit entity and use the proceeds of the sale or lease for purposes described in the statute
Overview of House Bill 711

- All documents used by the governing board in its evaluation must be made available to the public.
- Within 160 days after the initiation of the evaluation, the governing board must publish notice of its findings in one or more newspapers.
- If upon completion of the evaluation, the governing board of the hospital or health care system determines that it is no longer in the best interest of the affected community to own or operate the hospital or health care system, it will consider a sale or lease of the hospital or health care facility upon terms and conditions described in the statute, including among others:
  - The acquiring entity has made an enforceable commitment that programs and services and quality health care will continue to be provided to all residents of the affected community, particularly to the indigent, the uninsured, and the underinsured.
  - The governing board discloses whether the sale or lease will result in a reduction or elimination of ad valorem or other taxes used to support the hospital.
- If the hospital or health care system is sold or leased, the governing board shall allocate the “net proceeds” (sale price after payment of all district debts and obligations) by:
  - Depositing 50% of the net proceeds of the sale or lease into a health care economic development trust fund, to be distributed to promote job creation in the health care sector of the economy through new and expanded health care business development, new or expanded health care services, or new or expanded health care education programs or commercialization of health care research within the affected community.
  - Appropriating 50% of the net proceeds for funding the delivery of indigent care, including, but not limited to primary care, physician specialty care, out-patient care, in-patient care, and behavioral health to hospitals within the boundaries of the governmental entity that sold or leased the hospital.
III. Health Care Industry Overview
Health Care Industry Overview

Moody’s Investors Service*

• Negative on Healthcare Sector
  – Pressure on top line revenue; Medicare, Medicaid, and commercial insurance reimbursements expected to shrink
    ➢ Medicaid rates face further reductions in coming years
    ➢ Reduction in DSH (disproportionate share payments) reimbursement
    ➢ Medicaid spending likely to come under pressure as state budgets remain stressed
    ➢ Reclassification of short stay admissions to observation, bundled payments, value-based purchasing
    ➢ Revenue growth in recent years was driven, in part, by one-time items, such as state provider fee programs, meaningful use reimbursement, and rural floor settlement in 2012
    ➢ Shift in inpatient admissions to less profitable outpatient services
  – Continued slow economic growth
    ➢ Sustained high unemployment and low labor force participation; Lower rates of healthcare utilization
    ➢ Increased exposure to governmental payers, self-pay payers and charity care
  – Transition to new payment methodologies introduces execution risks
    ➢ Underestimating patient care needs
    ➢ Overinvestment in vertical integration
    ➢ Managing expectations and achieving patient satisfaction
    ➢ Managing divergent payment structures simultaneously

• Offsetting Positive Factors
  – Stable operating results as management teams successfully respond to challenges of recent years
  – Aging population and expansion of insurance will increase patient volumes in coming years
  – Hospitals seeking partnerships will contribute to more mergers and acquisitions

• Trends to Watch
  – Federal budget debate is likely to cause reduction in healthcare spending
  – Expansion of healthcare coverage depends on successful startup of healthcare exchanges and success of individual mandate

Health Care Industry Overview

Standard and Poor’s Corporation*

• Negative on healthcare sector, expects credit quality trends to be less favorable
  – Federal reimbursement reductions in wake of “fiscal cliff” negotiations
  – Threats surrounding sequestration and potential cuts in Medicare reimbursement
  – Increased health care reform preparation
  – New incentive and penalties for meeting or failing to meet value-based purchasing standards
    ➢ Lower payment rates per unit of service
    ➢ Reduced utilization
    ➢ More revenue at risk for performance on quality and population management resources
    ➢ Complications in moving from volume-based reimbursement to value-based reimbursement

• Offsetting positive factors
  – Responsiveness and resilience of healthcare management to difficult operating environment
  – Aggressive cost cutting and low expense growth
  – Ongoing trend toward mergers and acquisitions
  – Restrained capital spending and historically low interest rates
  – Growth in state-administered provider fee programs, creating short-term relief from Medicaid reimbursement pressures

IV. Public Health Trust / Jackson Health System
Special Characteristics / Considerations That Could Affect Valuation

• Jackson Memorial Hospital (JMH) is one of the largest and busiest hospitals in the nation
• Largest of the Statutory Teaching Hospitals in Florida; requires significant graduate medical education infrastructure and expense burden
• Level I Trauma Center, with related operating and infrastructure costs
• JMH breadth of services is more extensive than any other hospital in Florida; approximately one-third of JMH’s beds are dedicated to specialized programs
  – JMH's emergency and trauma facilities provide the largest adult and pediatric Level I Trauma Center in south Florida and serve as a regional trauma center resource, one of the busiest in the nation
  – Newborn Special Care Center is Florida’s largest regional referral center
  – Rehabilitation Center is one of only seventeen in the nation designated as a Regional Spinal Cord Injury Center
  – Burn Center is a regional referral center
  – Services provided to inmates under the jurisdiction of the Department of Corrections
• Relationship with University of Miami School of Medicine / University of Miami Hospital and its medical staff
• Estimated $735 million of deferred capital requirements
• Miami-Dade County voter-approved ad valorem funding and Miami-Dade County Public Hospital Sales Surtax amounted to $335 million in FY2012 and $327 million in FY2011; based on the existing structure of the enabling legislation these tax funds likely cannot be transferred to a private owner / acquirer of the facilities without legislative action
V. Community Benefit Analysis
## Community Benefit Analysis

### Jackson Health System

<table>
<thead>
<tr>
<th>Community Benefit Costs:</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charity, Bad Debt, Medicaid Loss</td>
<td>$407,981,726</td>
<td>$439,224,998</td>
<td>$489,766,066</td>
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<tr>
<td>Community Based Organizations</td>
<td>205,329</td>
<td>185,652</td>
<td>n/a</td>
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<tr>
<td>Medicaid Cost for County Funding</td>
<td>33,600,000</td>
<td>33,600,000</td>
<td>33,851,000</td>
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<tr>
<td>Cost subsidies:</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>County-Dialysis</td>
<td>1,390,066</td>
<td>1,939,038</td>
<td>1,470,901</td>
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<tr>
<td>Community Health Services of South Florida Inc.</td>
<td>6,690,717</td>
<td>7,209,575</td>
<td>6,935,089</td>
</tr>
<tr>
<td>Nursing Homes</td>
<td>16,248,500</td>
<td>15,064,645</td>
<td>6,960,411</td>
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<tr>
<td>Corrections Health Services</td>
<td>21,393,124</td>
<td>19,855,082</td>
<td>24,928,761</td>
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<tr>
<td>Air Rescue Helicopter</td>
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<td>900,000</td>
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<td>Health Department</td>
<td>1,131,000</td>
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<td>1,130,285</td>
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<td>Office of Countywide Healthcare Planning</td>
<td>300,000</td>
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<td>n/a</td>
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<td>Detoxification Program</td>
<td>101,479</td>
<td>101,479</td>
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<td>Total Cost</td>
<td>489,941,941</td>
<td>519,211,469</td>
<td>565,042,513</td>
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<tr>
<th>Government Funding Sources:</th>
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<tr>
<td>Maintenance of Effort</td>
<td>158,478,000</td>
<td>137,952,000</td>
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<td>Sales Surtax</td>
<td>176,751,978</td>
<td>189,323,942</td>
<td>202,479,726</td>
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<tr>
<td>Disproportionate Share-Low Income Pool (net)</td>
<td>82,906,081</td>
<td>88,126,735</td>
<td>89,973,525</td>
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<td>Total funding</td>
<td>418,136,059</td>
<td>415,402,677</td>
<td>425,815,247</td>
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### Community Benefit Costs in Excess of Government Funding Sources

<table>
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<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
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<td>Community Benefit Costs in Excess of Government Funding Sources</td>
<td>$71,805,883</td>
<td>$103,808,792</td>
<td>$139,227,266</td>
</tr>
</tbody>
</table>
Community Benefit Analysis

Community Benefit Glossary

- **Medicaid Loss** - The Medicaid program reimburses at levels that are below full cost. This amount represents the excess of cost over the reimbursement received from Medicaid.

- **Community Based Organizations** - Payments made to charitable and other 501(c)(3) organizations in our community whose missions are aligned with JHS and who serve our common populations.

- **Medicaid Cost for County Funding** - The state Medicaid program requires local counties to contribute to the state in order to help fund the Medicaid program. Jackson funds a portion of Miami Dade County’s obligation to the state of Florida Medicaid plan.

- **County-Dialysis** - Represents amounts paid by Jackson to other dialysis providers for dialysis services provided to vulnerable county residents who do not qualify for other funding sources.

- **Community Health Services of South Florida, Inc.** - A Trust designated facility contracted to fund and operate a number of primary and specialty care clinics in Miami-Dade County.

- **Corrections Health Services** - Represents the unreimbursed cost of jail based healthcare services provided to patients in the Miami Dade County corrections system.

- **Air Rescue Helicopter** - Payments made by Jackson to Miami-Dade County for the provision of helicopter transport of mostly trauma patients to Jackson Memorial Hospital.

- **Health Department** - Payments made by Jackson to the Miami-Dade County Health Department for the provision of preventative services related to communicable diseases and school based healthcare.

- **Maintenance of Effort** - Under terms of an operating agreement between the county and the PHT, Miami-Dade County funds the trust from ad valorem and non-ad valorem taxes to help defray the costs of PHT operations.

- **Sales Surtax** - Funding that is derived from the half-cent sales tax that was approved in 1991 by the voter referendum in Miami-Dade County.

- **Disproportionate Share Low Income Pool** - Disproportionate Share (DSH) Low Income Pool (LIP) is a mechanism by which the state Medicaid program funds additional payments to providers serving low income populations in need of assistance. Funds received by JHS are net of inter-governmental transfers from JHS that help fund the state program as a whole.
Community Benefit Analysis

Jackson Health System – Florida Comparables

Bad Debt and Charity Care – FY2011 (JHS FY2011 and FY2012)

Source: Hospital Financial Data for their fiscal years ending in 2011, submitted by hospitals to the Florida Agency for Healthcare Administration (AHCA); audited financial statements of the Public Health Trust of Miami-Dade County for the fiscal years ended September 30, 2012 and 2011.
VI. Fair Market Valuation
The Fair Market Value ("FMV" or "Valuation") was prepared pursuant to the requirements of House Bill 711, Jackson Health System ("JHS") has engaged Public Financial Management, Inc. to perform a fair market valuation of JHS as of September 30, 2012 (the "Valuation Date").

The Valuation was completed for JHS as a consolidated entity, including all current operations of the system.

The FMV is an estimate of the market value of a property or business, based on what a knowledgeable and willing buyer would likely pay in the open market where all facts and circumstances are known. Further, the FMV is only an estimate that a buyer may place on the property or business and may be subject to change based on an individual buyer’s preferences and circumstances.

The FMV is being prepared under the assumption that JHS will and would remain a going concern. As such, the valuation methodology is highly dependent on the derivation of cash flows that will be used to price the net tangible and intangible operating assets of the going concern. This assumption equates the FMV to the Business Enterprise Value ("BEV").
• As such, BEV makes several assumptions including
  - Subtracting all debt, long-term liabilities
  - Adding all cash
  - Adding (subtracting) excess (deficient) working capital (BEV assumes level of working capital sufficient to run the business)

• Specific to the JHS valuation, adjustments were made to the financial performance to exclude the tax revenues when valuing the organization, as we understand these revenue streams would not continue should JHS convert, through sale or other process, the current ownership structure.

• Our BEV valuation process also assumes that the existing governance structure would change in its entirety, upon a hypothetical sale to a non-profit or for-profit entity, with no meaningful participation from the Public Health Trust (“PHT”) or the Miami-Dade County Board of County Commissioners (“BCC”).
The valuation methodologies used were:

- **Income Approach:** The income, or discounted cash flow, approach is derived by discounting all projected cash flows of the enterprise back to a present value. This approach calculates the free cash back to the firm after all associated costs with running the business are accounted for starting with a normalized base year. The base year makes the necessary adjustments to the operating profile that one would expect to find in similar businesses. These cash flows are discounted back at an appropriate discount rate that captures the prevailing level of risk free rates (a base rate of return available to all investors), then adds appropriate risk premiums including general market equity premiums, specific industry risk premiums, and specific company risk premiums. The higher the discount rate, the lower the valuation.

- **Market Comparables Approach:** The market value approach (multiple approach) is based on the comparison of similar business that have either been sold or are publicly traded. This approach applies a particular market multiple for similar companies to a predefined cash flow stream. Commonly used multiples are based on the BEV of a company, such as EV/EBITDA, EV/EBIT, EV/Revenue. Depending on the prevailing circumstances, different multiples may be appropriate at different times. This approach can be subdivided into two separate methodologies: market comparable approach and comparable transaction approach.

  - The *market comparable approach* looks at existing publicly traded companies with similar business operations and relies on valuation multiples based on predefined cash flows. As an example, the price/earnings or P/E ratio is the most commonly used market multiple for this type of valuation. It provides an estimated value based on the after tax earnings of the business.

  - The *comparable transaction approach* looks at similar transactions to determine an estimated value by looking at the price as a percentage of revenue. Looking at recently completed transactions of similar businesses, these multiples have ranged between .15 and .25. For the valuation of JHS, we have used a multiple of .20 based in part on the facts and circumstances surrounding JHS some of which are described in section IV of this report.
## Fair Market Valuation

**Valuation ($ Millions)**

<table>
<thead>
<tr>
<th>Valuation ($ Millions)</th>
<th>Low</th>
<th>High</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discounted Cash Flow Analysis</td>
<td>NA*</td>
<td>NA*</td>
<td>NA*</td>
<td>NA*</td>
</tr>
<tr>
<td>Market Comparable Analysis</td>
<td>NA*</td>
<td>NA*</td>
<td>201.0</td>
<td>223.0</td>
</tr>
<tr>
<td>Comparable Transactions  (Based on Market Multiple of .20% of Revenues**)</td>
<td>171.0</td>
<td>245.0</td>
<td>250.0</td>
<td>313.0</td>
</tr>
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**Median**

<table>
<thead>
<tr>
<th>Valuation ($ Millions)</th>
<th>Low</th>
<th>High</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discounted Cash Flow Analysis</td>
<td>NA*</td>
<td>NA*</td>
<td>NA*</td>
<td>NA*</td>
</tr>
<tr>
<td>Market Comparable Analysis</td>
<td>NA*</td>
<td>212.0</td>
<td>212.0</td>
<td>212.0</td>
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<tr>
<td>Comparable Transactions  (Based on Market Multiple of .20% of Revenues**)</td>
<td>208.0</td>
<td>281.5</td>
<td>281.5</td>
<td>281.5</td>
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**Weighted Median**

<table>
<thead>
<tr>
<th>Valuation ($ Millions)</th>
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<th>Weight</th>
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</thead>
<tbody>
<tr>
<td>Discounted Cash Flow Analysis</td>
<td>0%</td>
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<tr>
<td>Market Comparable Analysis</td>
<td>0%</td>
<td>20%</td>
</tr>
<tr>
<td>Comparable Transactions  (Based on Market Multiple of .20% of Revenues**)</td>
<td>100%</td>
<td>80%</td>
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**Weighted Average: Unadjusted Value**

<table>
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<th>Valuation ($ Millions)</th>
<th>Weight</th>
<th>Low</th>
<th>High</th>
<th>Weight</th>
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<th>High</th>
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</thead>
<tbody>
<tr>
<td>Discounted Cash Flow Analysis</td>
<td>0%</td>
<td>-</td>
<td>0%</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Market Comparable Analysis</td>
<td>0%</td>
<td>-</td>
<td>20%</td>
<td>40.2</td>
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<td>44.6</td>
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<tr>
<td>Comparable Transactions</td>
<td>100%</td>
<td>208.0</td>
<td>225.2</td>
<td>200.0</td>
<td>250.4</td>
<td>250.4</td>
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</table>

**BEV Range**

- **Without taxes:**
  - Low: $171.0
  - High: $245.0

- **With taxes:**
  - Low: $240.2
  - High: $295.0

**Add: Excess/Deficient working capital**

- **Without taxes:**
  - Add: $150.0

**Adjusted BEV**

- **Without taxes:**
  - $21.0
  - $95.0

**Considerations**

- **Add:** Cash $75.0
- **Less:** Long Term Debt (365.0)
- **Less:** Unfunded Liabilities –Self Insurance Trust (47.0)

**Adjusted Valuation of JHS**

- **Without taxes:**
  - ($316.0)
  - ($242.0)

* Valuations resulting in a negative value were not considered in determining the base BEV Range of valuations

**Multiples for recently completed transactions of similar businesses have ranged between .15 and .25. For the valuation of JHS, we have used a multiple of .20 based in part on the facts and circumstances surrounding JHS some of which are described in section IV of this report.*
Summary

- **Valuation Summary:**
  - Fair Market Value of JHS is currently $0
    - Value is currently $0 either with or without the inclusion of tax revenue
    - When tax revenue is included the BEV Range is positive based on multiple of recent hospital transactions and market comparable analyses
    - Offsetting factors include consideration of long term debt, cash, and other unfunded liabilities
  - Community Benefit contribution of JHS has been significant
    - $139.2 million in fiscal year 2012
    - $103.8 million in fiscal year 2011
    - $ 71.8 million in fiscal year 2010

- **Please note, this Valuation was prepared based on available information as of the Valuation Date and is not indicative of future performance.**
VII. Peer Group Selection for Cost Structure and Quality Comparisons
Peer Group Selection for Cost and Quality Comparisons

Methodology

- HB 711 requires operating cost and quality comparisons between the hospital or health care system and other similarly situated hospitals or health systems, including:
  - Comparisons to both not-for-profit and for-profit entities
  - Comparative hospitals should have a similar service mix

- Selection criteria for comparisons included:
  - Size
  - Status as a Florida statutory teaching hospital
  - Breadth of services provided
  - Case mix index, which shows relative intensity of services provided
  - Trauma Center and related level of services provided
  - Payer mix
  - Proximity to Miami-Dade County
Peer Group Selection for Cost Structure and Quality Comparisons

Hospitals Used For Comparison

- Cost Comparison
  - Jackson Health System
    - Florida Large Hospital Comparables
    - Florida Community Hospital Comparables
    - National Comparables
  - Jackson Memorial
    - Large Florida Hospital Comparables
  - Jackson North & South
    - Florida Community Hospital Comparables

<table>
<thead>
<tr>
<th>Florida Large Hospital Comparables</th>
<th>Florida Community Hospital Comparables</th>
<th>National Comparables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baptist Hospital of Miami</td>
<td>Aventura Hospital and Medical Center</td>
<td>Denver Health Medical Center (CO)</td>
</tr>
<tr>
<td>Broward Health</td>
<td>Bethesda Healthcare System</td>
<td>Grady Memorial Hospital (GA)</td>
</tr>
<tr>
<td>Delray Medical Center</td>
<td>Cleveland Clinic Florida</td>
<td>Harris Health System (TX)</td>
</tr>
<tr>
<td>Florida Hospital</td>
<td>Coral Gables Hospital</td>
<td>John H Stroger Jr Hospital (IL)</td>
</tr>
<tr>
<td>Lee Memorial Health System</td>
<td>Doctors Hospital</td>
<td>Los Angeles County - USC Medical Center (CA)</td>
</tr>
<tr>
<td>Memorial Regional Hospital</td>
<td>Homestead Hospital</td>
<td>Parkland Health and Hospital System (TX)</td>
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<tr>
<td>Miami Children's Hospital</td>
<td>JFK Medical Center</td>
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<tr>
<td>Mount Sinai Medical Center</td>
<td>Kendall Regional Medical Center</td>
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<tr>
<td>Orlando Regional Medical Center</td>
<td>Plantation General Hospital</td>
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<tr>
<td>Shands at the University of Florida</td>
<td>South Miami Hospital</td>
<td></td>
</tr>
</tbody>
</table>

- Quality Comparison
  - Quality metrics were compared between JHS and all hospitals (Florida and National)

- There are few hospitals in the United States that are comparable to JHS when using our selection criteria. Jackson is truly a unique hospital. As a result, we elected to include additional National Comparables to supplement comparisons to Florida Hospitals.
## Peer Group Selection for Cost Structure and Quality Comparisons

<table>
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<th>Statutory Teaching Hospital</th>
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Source: Hospital Financial Data for their fiscal years ending in 2011, submitted by hospitals to the Florida Agency for Healthcare Administration (AHCA); audited financial statements of the Public Health Trust of Miami-Dade County for the fiscal year ended September 30, 2011; FY2010 National Association of Public Hospitals and Health Systems (NAPH) Annual Hospital Characteristics Survey

(1) Many self-pay patients converted after the reporting period to Medicaid. JHS reported 13.2% charity care for FY 2012.
## Peer Group Selection for Cost Structure and Quality Comparisons

Hospital Location | Public/For-Profit | Total Licensed Beds | Acute Care Beds | LTC Hosp Beds | Total Acute Care Beds | NICU | Psychiatric | Substance Abuse | Non CON Regulated Services | Operational Regulated Services |
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Source: Hospital Financial Data for their fiscal years ending in 2011, submitted by hospitals to the Florida Agency for Healthcare Administration (AHCA); audited financial statements of the Public Health Trust of Miami-Dade County for the fiscal year ended September 30, 2011.
VIII. Cost Structure Comparison
Cost Structure Comparison

Methodology

• Cost comparisons were done relative to JHS entities versus Selected Peer Group entities as follows:
  – Jackson Health System (the consolidated entity) compared to Florida Large Hospital Comparables and Florida Community Hospital Comparables (together, “Florida Comparables”)
  – Jackson Memorial compared to Florida Large Hospital Comparables
  – Jackson South and North compared to Florida Community Hospital Comparables
  – Jackson Health System compared to National Comparables

• Costs comparisons were based on:
  – For Florida Comparables, Agency for Healthcare Administration (AHCA) data for hospital fiscal years ending in 2011 (the latest complete year of the AHCA FHURS(1) data base)
  – For National Comparables, data received from the National Association of Public Hospitals and Health Systems (“NAPH”) Annual Hospital Characteristics Survey for fiscal years ending in 2010 (the latest complete year for this data base)

• Cost comparisons are based on Cost per Adjusted Patient Day:
  – Adjusted patient days includes industry standard adjustment to inpatient days in order to include the effects of outpatient activity

• In comparing JHS entities to Florida Comparables, “Unit Costs” were adjusted for severity of illness using overall case mix index for each Florida entity in order to normalize for relative intensity of patient care

• In comparing JHS to National Comparables, “Unit Costs” were not adjusted because the NAPH does not report overall case mix indexes for hospitals in their data base

(1) Florida Hospital Uniform Reporting System (FHURS)
Cost Structure Comparison

Jackson Health System – Florida Comparables

Cost per Adjusted Patient Day – Case Mix Adjusted

Source: Hospital Financial Data for their fiscal years ending in 2011, submitted by hospitals to the Florida Agency for Healthcare Administration (AHCA); audited financial statements of the Public Health Trust of Miami-Dade County for the fiscal year ended September 30, 2011.
Cost Structure Comparison

Jackson Memorial – Florida Large Hospital Comparables

Cost per Adjusted Patient Day – Case Mix Adjusted

Source: Hospital Financial Data for their fiscal years ending in 2011, submitted by hospitals to the Florida Agency for Healthcare Administration (AHCA); audited financial statements of the Public Health Trust of Miami-Dade County for the fiscal year ended September 30, 2011.
Cost Structure Comparison

Jackson North and South – Florida Community Hospital Comparables

Cost per Adjusted Patient Day – Case Mix Adjusted

Source: Hospital Financial Data for their fiscal years ending in 2011, submitted by hospitals to the Florida Agency for Healthcare Administration (AHCA); audited financial statements of the Public Health Trust of Miami-Dade County for the fiscal year ended September 30, 2011.
# Cost Structure Comparison

## Jackson Health System – National Comparables

### Cost per Adjusted Patient Day (Non-Case Mix Adjusted)

<table>
<thead>
<tr>
<th>Hospital</th>
<th>Cost per Adjusted Patient Day</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jackson Health System – FY2010</td>
<td>$0</td>
</tr>
<tr>
<td>Los Angeles County- USC Medical Center</td>
<td>$2,500</td>
</tr>
<tr>
<td>Denver Health Medical Center</td>
<td>$3,500</td>
</tr>
<tr>
<td>Parkland Health and Hospital System</td>
<td>$3,000</td>
</tr>
<tr>
<td>John H Stroger Jr Hospital</td>
<td>$2,000</td>
</tr>
<tr>
<td>Harris Health System</td>
<td>$1,500</td>
</tr>
<tr>
<td>Grady Memorial Hospital</td>
<td>$1,000</td>
</tr>
</tbody>
</table>

Source: FY2010 NAPH Annual Hospital Characteristics Survey; cms.gov; audited financial statements of the Public Health Trust of Miami-Dade County for the fiscal year ended September 30, 2010.
Summary

• No two hospitals are directly comparable; JHS has such unique characteristics that an “apples-to-apples” comparison is virtually impossible

• Cost per Adjusted Patient Day (as adjusted for overall case mix index) is a sound measure of the average comparative costs of typical patient for a typical day

• Based on this methodology for cost comparison:
  – Jackson Health System as a whole is competitive in cost efficiency to hospitals in Florida across a wide array of entity sizes, breadth of services, and relative intensity of services
  – Jackson Memorial is competitive in cost efficiency to similarly large, teaching hospitals with trauma centers in Florida
  – Jackson North and South are competitive in cost efficiency with similarly situated hospitals of comparable size and intensity of services in Miami-Dade and surrounding counties
  – Jackson Memorial is competitive in cost efficiency to other nationally-known “safety net hospitals”
IX. Quality Comparison
Quality Comparison

Process of Care
Quality Comparison – Process of Care

CMS Process of Care Core Measures

Comparison of Process of Care Core Measures* was based on Centers for Medicare and Medicaid Services quality and outcomes metrics Process of Care Aggregate Scores

- Heart Attack Care
- Heart Failure Care
- Pneumonia Care
- Surgical Care Improvement

* Process of Care Measures are listed in the Appendix to this report.
Quality Comparison – Process of Care

Process of Care - Jackson Health System
Florida Comparables
Quality Comparison – Process of Care

Jackson Health System – Florida Comparables

Heart Attack – Process of Care Aggregate Score

Source: CMS Hospital Compare data; data.medicare.gov accessed on February 10, 2013; Jackson Health System data for the fiscal year ending 2012 provided by Jackson Health System

*Data contained on the CMS website is updated once a year on an annual basis. The latest available data for all comparable entities is for fiscal year 2011. Jackson has provided equivalent quality data that is set to be submitted to CMS for FY 2012 and the data is displayed here for comparative purposes.

Process of Care metrics used to determine the aggregate score are provided in the Appendix

Data unavailable for Miami Children’s Hospital, Coral Gables Hospital, Doctors Hospital, Homestead Hospital and St. Mary’s Medical Center
Source: CMS Hospital Compare data; data.medicare.gov accessed on February 10, 2013; Jackson Health System data for the fiscal year ending 2012 provided by Jackson Health System

*Data contained on the CMS website is updated once a year on an annual basis. The latest available data for all comparable entities is for fiscal year 2011. Jackson has provided equivalent quality data that is set to be submitted to CMS for FY 2012 and the data is displayed here for comparative purposes.

Process of Care metrics used to determine the aggregate score are provided in the Appendix

Data unavailable for Miami Children’s Hospital
**Quality Comparison – Process of Care**

**Jackson Health System – Florida Comparables**

**Pneumonia – Process of Care Aggregate Score**

Source: CMS Hospital Compare data; data.medicare.gov accessed on February 10, 2013; Jackson Health System data for the fiscal year ending 2012 provided by Jackson Health System

*Data contained on the CMS website is updated once a year on an annual basis. The latest available data for all comparable entities is for fiscal year 2011. Jackson has provided equivalent quality data that is set to be submitted to CMS for FY 2012 and the data is displayed here for comparative purposes.

Process of Care metrics used to determine the aggregate score are provided in the Appendix

Data unavailable for Miami Children’s Hospital
### Quality Comparison – Process of Care

**Jackson Health System – Florida Comparables**

<table>
<thead>
<tr>
<th>Hospital Name</th>
<th>Surgical Care Improvement – Process of Care Aggregate Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jackson Health System FY 2012</td>
<td>75%</td>
</tr>
<tr>
<td>Jackson Health System FY 2011</td>
<td>70%</td>
</tr>
<tr>
<td>Public</td>
<td>60%</td>
</tr>
<tr>
<td>Not-for-Profit</td>
<td>65%</td>
</tr>
<tr>
<td>For Profit</td>
<td>70%</td>
</tr>
<tr>
<td>Jackson Health System – 2012/2011 Top Ten Percent</td>
<td>80%</td>
</tr>
<tr>
<td>2011 National Average</td>
<td>90%</td>
</tr>
</tbody>
</table>

Source: CMS Hospital Compare data; data.medicare.gov accessed on February 10, 2013; Jackson Health System data for the fiscal year ending 2012 provided by Jackson Health System

*Data contained on the CMS website is updated once a year on an annual basis. The latest available data for all comparable entities is for fiscal year 2011. Jackson has provided equivalent quality data that is set to be submitted to CMS for FY 2012 and the data is displayed here for comparative purposes.

Process of Care metrics used to determine the aggregate score are provided in the Appendix

Data unavailable for Miami Children’s Hospital, Coral Gables Hospital, Doctors Hospital, Homestead Hospital and St. Mary’s Medical Center
Quality Comparison – Process of Care

Process of Care - Jackson Health System
National Comparables
Quality Comparison – Process of Care

Jackson Health System – National Comparables

Heart Attack – Process of Care Aggregate Score

Source: CMS Hospital Compare data; data.medicare.gov accessed on February 10, 2013; Jackson Health System data for the fiscal year ending 2012 provided by Jackson Health System

Data contained on the CMS website is updated once a year on an annual basis. The latest available data for all comparable entities is for fiscal year 2011. Jackson has provided equivalent quality data that is set to be submitted to CMS for FY 2012 and the data is displayed here for comparative purposes.

Process of Care metrics used to determine the aggregate score are provided in the Appendix

Data unavailable for Grady Memorial Hospital and Denver Health Medical Center
Jackson Health System – National Comparables

Heart Failure – Process of Care Aggregate Score

Source: CMS Hospital Compare data; data.medicare.gov accessed on February 10, 2013; Jackson Health System data for the fiscal year ending 2012 provided by Jackson Health System

*Data contained on the CMS website is updated once a year on an annual basis. The latest available data for all comparable entities is for fiscal year 2011. Jackson has provided equivalent quality data that is set to be submitted to CMS for FY 2012 and the data is displayed here for comparative purposes.

Process of Care metrics used to determine the aggregate score are provided in the Appendix.
Quality Comparison – Process of Care

Jackson Health System – National Comparables

Pneumonia – Process of Care Aggregate Score

Source: CMS Hospital Compare data; data.medicare.gov accessed on February 10, 2013; Jackson Health System data for the fiscal year ending 2012 provided by Jackson Health System

*Data contained on the CMS website is updated once a year on an annual basis. The latest available data for all comparable entities is for fiscal year 2011. Jackson has provided equivalent quality data that is set to be submitted to CMS for FY 2012 and the data is displayed here for comparative purposes.

Process of Care metrics used to determine the aggregate score are provided in the Appendix.
Quality Comparison – Process of Care

Jackson Health System – National Comparables

Surgical Care Improvement – Process of Care Aggregate Score

Source: CMS Hospital Compare data; data.medicare.gov accessed on February 10, 2013; Jackson Health System data for the fiscal year ending 2012 provided by Jackson Health System

*Data contained on the CMS website is updated once a year on an annual basis. The latest available data for all comparable entities is for fiscal year 2011. Jackson has provided equivalent quality data that is set to be submitted to CMS for FY 2012 and the data is displayed here for comparative purposes.

Process of Care metrics used to determine the aggregate score are provided in the Appendix

Data unavailable for Parkland Health and Hospital System and Denver Health Medical Center
Quality Comparison

Outcomes of Care
CMS Outcomes of Care Core Measures

- Jackson Health System
  - 30-Day Mortality Rates
  - 30-Day Readmission Rates
Quality Comparison – Outcomes of Care

Outcomes of Care - Jackson Health System
Florida Comparables
Quality Comparison – Outcomes of Care

Jackson Health System – Florida Comparables

Readmission Rate for Heart Attack Patients

Source: CMS Hospital Compare data; data.medicare.gov accessed on February 10, 2013
Data unavailable for Memorial Regional Hospital, St. Mary’s Medical Center, Miami Children’s Hospital and Plantation General Hospital
Quality Comparison – Outcomes of Care

Jackson Health System – Florida Comparables

Readmission Rate for Heart Failure Patients

Source: CMS Hospital Compare data; data.medicare.gov accessed on February 10, 2013
Data unavailable for Miami Children’s Hospital and Plantation General Hospital
Quality Comparison – Outcomes of Care

Jackson Health System – Florida Comparables

Readmission Rate for Pneumonia Patients

Source: CMS Hospital Compare data; data.medicare.gov accessed on February 10, 2013
Data unavailable for Miami Children’s Hospital and Plantation General Hospital
Quality Comparison – Outcomes of Care

Jackson Health System – Florida Comparables

Hospital 30-Day Death Rates from Heart Attack

Source: CMS Hospital Compare data; data.medicare.gov accessed on February 10, 2013

Data unavailable for Miami Children’s Hospital and Plantation General Hospital
Quality Comparison – Outcomes of Care

Jackson Health System – Florida Comparables

Hospital 30-Day Death Rates from Heart Failure

Source: CMS Hospital Compare data; data.medicare.gov accessed on February 10, 2013
Data unavailable for Miami Children’s Hospital and Plantation General Hospital
Quality Comparison – Outcomes of Care

Jackson Health System – Florida Comparables

Hospital 30-Day Death Rates from Pneumonia

Source: CMS Hospital Compare data; data.medicare.gov accessed on February 10, 2013
Data unavailable for Miami Children’s Hospital and Plantation General Hospital
Quality Comparison – Outcomes of Care

Outcomes of Care - Jackson Health System
National Comparables
Quality Comparison – Outcomes of Care

Jackson Health System – National Comparables

Readmission Rate for Heart Attack Patients

Source: CMS Hospital Compare data; data.medicare.gov accessed on February 10, 2013
Data unavailable for Denver Health Medical Center and Los Angeles County – USC Medical Center
Quality Comparison – Outcomes of Care

Jackson Health System – National Comparables

Readmission Rate for Heart Failure Patients

Source: CMS Hospital Compare data; data.medicare.gov accessed on February 10, 2013
Quality Comparison – Outcomes of Care

Jackson Health System – National Comparables

Readmission Rate for Pneumonia Patients

Source: CMS Hospital Compare data; data.medicare.gov accessed on February 10, 2013
Quality Comparison – Outcomes of Care

Jackson Health System – National Comparables

Hospital 30-Day Death Rates from Heart Attack

Source: CMS Hospital Compare data; data.medicare.gov accessed on February 10, 2013
Data unavailable for Denver Health Medical Center
Quality Comparison – Outcomes of Care

Jackson Health System – National Comparables

Hospital 30-Day Death Rates from Heart Failure

Source: CMS Hospital Compare data; data.medicare.gov accessed on February 10, 2013
Quality Comparison – Outcomes of Care

Jackson Health System – National Comparables

Hospital 30-Day Death Rates from Pneumonia

Source: CMS Hospital Compare data; data.medicare.gov accessed on February 10, 2013
Quality Comparison

Hospital Consumer Assessment of Healthcare Providers & Systems
Hospital Consumer Assessment of Healthcare Providers & Systems

- Jackson Health System
  - Percent of patients who reported that their doctors "Always" communicated well
  - Percent of patients who reported that their nurses "Always" communicated well
  - Percent of patients who reported "Yes," they would definitely recommend the hospital
  - Percent of patients who gave their hospital a rating of 9 or 10 on a scale from 0 (lowest) to 10 (highest)
Quality Comparison – HCAHPS

Jackson Health System – Florida Comparables

Percent of patients who reported that their doctors “Always” communicated well

Source: CMS Hospital Compare data; data.medicare.gov accessed on February 10, 2013
Quality Comparison – HCAHPS

Jackson Health System – Florida Comparables

Percent of patients who reported that their nurses “Always” communicated well

Source: CMS Hospital Compare data; data.medicare.gov accessed on February 10, 2013
Jackson Health System – Florida Comparables

Percent of patients who reported “Yes,” they would definitely recommend the hospital

Source: CMS Hospital Compare data; data.medicare.gov accessed on February 10, 2013
Quality Comparison – HCAHPS

Jackson Health System – Florida Comparables

Percent of patients who gave their hospital a rating of 9 or 10 on a scale from 0 (lowest) to 10 (highest)

Source: CMS Hospital Compare data; data.medicare.gov accessed on February 10, 2013
Quality Comparison

Summary

• There is no discernible difference in the quality of care provided by the Jackson Health System and its constituent facilities as compared to peer entities in the State of Florida and also the group of national safety net hospitals that are included in the analysis.

• Process of Care aggregate scores:
  – Remain competitive with other Florida and national safety net hospitals, particularly the larger more service-intensive entities.
  – Remain at or above national averages.
  – Have shown general improvement from 2011 to 2012, particularly in pneumonia readmission rates which has been a focus of management.

• Outcomes of Care scores are all well within the range of national averages or are above those levels.
X. Conclusions
Conclusions

• JHS’s Community Benefit Costs in Excess of Government Funding Sources
  – $139.2 million in fiscal year 2012
  – $103.8 million in fiscal year 2011
  – $71.8 million in fiscal year 2010

• As of the Valuation Date, JHS does not have a positive fair market value

• JHS is comparable in cost efficiency to other similarly situated healthcare facilities in Florida

• JHS is comparable in quality of care to other similarly situated healthcare facilities in Florida

• JHS also is comparable in cost efficiency and quality of care to other national safety net hospitals
XI. Appendix
Appendix

CMS Process of Care Core Measures

• Heart Attack Care
  – Patients given fibrinolytic medication within 30 minutes of arrival
  – Patients given PCI within 90 minutes of arrival
  – Patients given aspirin at discharge
  – Heart attack patients given a prescription for a statin at discharge

• Heart Failure Care
  – Patients given discharge instructions
  – Patients given evaluation of left ventricular systolic (LVS) function
  – Patients given ACE inhibitor or ARB for of left ventricular systolic dysfunction (LVSD)

• Pneumonia Care
  – Patients given whose initial emergency room blood culture was performed prior to administration of the first hospital dose of antibiotics given the most appropriate initial antibiotics
  – Patients given the most appropriate initial antibiotic(s)

• Surgical Care Improvement
  – Surgery patients who were taking heart drugs called Beta Blockers before coming to the hospital, who were kept on these during the period just before and after the surgery
  – Surgery patients who were given the right kind of antibiotic to prevent infection
  – Heart surgery patients whose blood sugar (blood glucose) is kept under good control in the days right after surgery
  – Surgery patients whose urinary catheters were removed on the first or second day after surgery
  – Patients having surgery who were actively warmed in the operating room or whose body temperature was near normal by the end of the surgery
  – Surgery patients whose doctors ordered treatments to prevent blood clots after certain types of surgeries
  – Surgery patients who were given an antibiotic at the right time (within on hour before surgery) to help prevent infection
  – Surgery patients whose preventative antibiotics were stopped at the right time (within 24 hours after surgery)
  – Patients who got treatment at the right time (within 24 hours before or after their surgery) to help prevent blood clots after certain types of surgery
  – Outpatients having surgery who got an antibiotic at the right time - within one hour before surgery
  – Outpatients having surgery who got the right kind of antibiotic