



Conversion from a Public Hospital District to Nonprofit 501(c)(3) Hospital Evaluation White Paper

February 2023

Table of Contents

Executive Summary: Strategic Considerations.....	5
Hospital / Health System Industry and Conversion Trends.....	12
Overview of the Idaho Statutes.....	17
Merits and Considerations for Kootenai Health & Community.....	20
501(c)(3) Diligence Investigation Summary.....	27
<ul style="list-style-type: none"> • Legal and regulatory • Governance • Affiliated Partners • Contracts / Agreements • Employment • Foundation • Finance • Community Benefits 	
Appendices.....	35
<ul style="list-style-type: none"> • Supplemental Kootenai Health Background • Recap of Kootenai Health Strategic Imperatives 	

Introduction

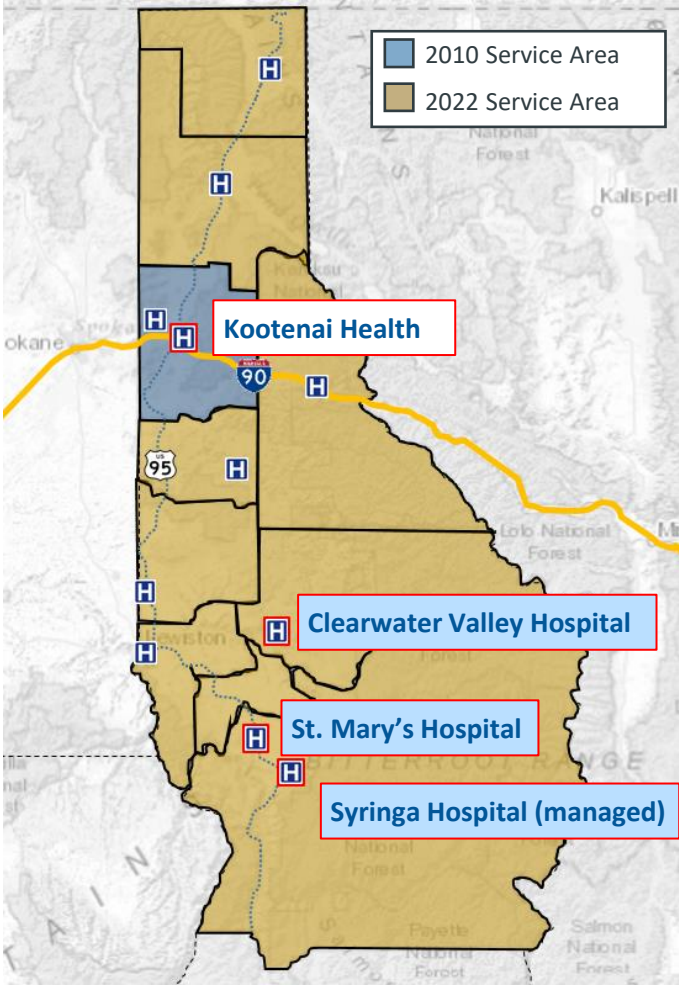
- The purpose of this document is to provide facts and circumstances related to Kootenai Health’s evaluation of converting from a public hospital district to a private 501(c)(3) by:
 - Establishing a fact-based foundation, grounded in market data and regulatory developments
 - Assessing the merits to Kootenai Health and community stakeholders
 - Considering the risks identified during the extensive due diligence process
- The white paper is a culmination of the Board-directed 501(c)(3) conversion evaluation following the unanimous approval by Idaho legislature of Adopted Statutes I.C. § 39-1358 and § 39-1359 (the “Idaho Statutes”)
- Kootenai Health (“KH”) engaged several third-party legal counsels and advisory firms to assist in the evaluation

The Kootenai Health Transformation

	2010	2022
Hospitals	1 owned	3 owned, 1 managed
Beds	246	392
Employed Specialties	Less than 10	30+
Employed Providers	Less than 50	300+
Discharges	13,000	16,000+
ER Visits	49,000	60,000+
Revenue	\$282M	\$800M+
Employees	1,800	4,000+
Outpatient Services	Ambulatory Surgery Center, Urgent Care Clinics, Infusion Centers, Endoscopy Center, Hand Surgery Center, Wound Care Center, Advanced Imaging, Retail Pharmacy	
Capital Investments	<i>More than \$350M in strategic investment since 2012 funded by operations, Kootenai Health Foundation contributions (~\$30M), and debt, with no property taxes levied since 1995</i>	

Kootenai Health is the only full service hospital in North Idaho providing Emergency Medicine, Level II Trauma, Intensive Care, and Behavioral Health services. The next two largest hospitals, (St. Joseph Regional Medical Center and NW Specialty Hospital) are owned by out-of-state, for-profit corporations

Kootenai Health Service Area



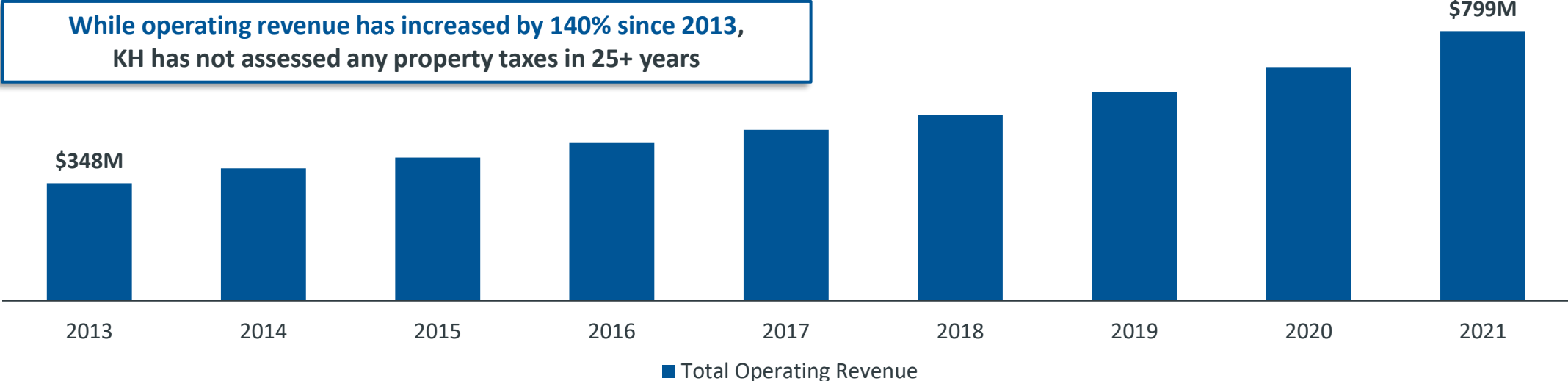
Kootenai Health owned or managed hospitals (blue highlight indicates new hospital since 2010)

A Decade of Major Investments in Growth

Strategic Growth Initiatives and Financial Impact
(\$350M+ in Strategic Capital Investments 2013-2021)

2013-2015	2016-2018	2019-2023
<p><u>MFP 1 – East Expansion \$57M</u></p> <ul style="list-style-type: none"> • 1E: Birthing Center, NICU • 2E: 32-bed Ortho/Neuro Unit • 3E: Shelled out space 	<p><u>MFP 2 – MOR/ED Expansion \$45M</u></p> <ul style="list-style-type: none"> • Expanded ED and added 11 treatment rooms • Expanded Pre-Op/PACU space and added 3 operating rooms <p><u>Post Falls Medical Park Expansion \$11M</u></p> <ul style="list-style-type: none"> • Expanded primary and specialty care presence, expanded radiology and ancillary services <p><u>MFP 3 – 3E Inpatient Unit Build Out \$12M</u></p> <ul style="list-style-type: none"> • Added 32-bed inpatient unit 	<p><u>MFP 4 – MOR / Heart Center Expansion \$40M</u></p> <ul style="list-style-type: none"> • Expanding MOR to add 2 additional operating rooms (2023) • Adding additional Cath Lab and EP Lab (2023) <p><u>Epic CareConnect EHR \$65M</u></p> <ul style="list-style-type: none"> • Implemented Epic across Kootenai Health, Kootenai Clinic, KOS, and KOI

While operating revenue has increased by 140% since 2013, KH has not assessed any property taxes in 25+ years



Executive Summary: Strategic Considerations

Why Now?

KEY ELEMENT	IMPLICATIONS
<p>Healthcare is Rapidly Evolving</p>	<ul style="list-style-type: none"> • Industry trends are accelerating the need for hospital organizations such as KH to evolve. Certain trends are driven by care shifts to outpatient and home-based therapies • The need for a nimble governance structure is more important than ever to react to the quickly changing market environment and competitor actions, all of whom have more nimble governance • As competitors enter the market, KH is disadvantaged by public disclosure and open meeting requirements – As a result, KH cannot progress key initiatives as rapidly as needed
<p>Hospitals Face Significant Financial Challenges</p>	<ul style="list-style-type: none"> • Hospitals, including KH, are facing the worst financial losses since 2000 due to rising labor and other inflationary expenses that disproportionately impact their cost structure • Historical cash balances have eroded and are no longer providing a “safety net” • Rising interest rates increased the cost of capital, limiting hospitals’ ability to invest
<p>Rapid Population Growth in Our Community</p>	<ul style="list-style-type: none"> • Idaho remains one of the U.S.’s most underserved states, among the lowest bed-to-population and physician-to-patient ratios in the nation • Kootenai County is one of the fastest growing counties in the country, requiring KH to grow alongside it – something the existing Hospital District structure may inhibit, as discussed herein • As the community ages and population grows, the high demands on KH will only increase over time
<p>Legislation Now Provides a Pathway</p>	<ul style="list-style-type: none"> • On July 1, 2021, legislation was passed unanimously by those present in the Senate and House to afford District Hospitals the same options county hospitals have had since 1986 • Only ~20 hospitals across the United States are District Hospitals of 300+ beds today, following a trend of others executing similar conversions

How Could a Conversion Be Better for Our Patients and Community?

KEY ELEMENT	IMPLICATIONS
<p>Critical Provider for North Idaho</p>	<ul style="list-style-type: none"> • KH’s clinical offering and geographic positioning has outgrown the District Hospital model; KH is the comprehensive regional health system for patients across all of North Idaho (regardless of ability to pay), and the patient base has broadened beyond Kootenai County • During the COVID-19 pandemic in 2021, Washington stopped accepting critical care patients from North Idaho, which reinforced KH’s role as a “safety net” provider for our patients and communities
<p>Ongoing Community Benefit</p>	<ul style="list-style-type: none"> • KH provides \$230+ million in subsidized community benefit annually through numerous programs such as charity care, subsidized community services (e.g., Idaho Crisis Center), medical transportation services, free health screenings, and support groups • Community benefit programs would be continued with potential to expand community partnerships • All KH excess revenue would continue to be reinvested into the community’s healthcare needs or set aside in reserve for future investment
<p>Long-Term Viability for an Economic Engine</p>	<ul style="list-style-type: none"> • KH would be better positioned to execute on various strategic and operational initiatives that support the organization’s long-term viability • KH generates significant economic value for its community, estimated at \$500 million¹ • KH is the largest employer in the county with more than 4,000 employees and \$354 million¹ in payroll and payroll taxes to the community annually • Long-term viability protects North Idaho’s access to critical healthcare services
<p>Access to New Capabilities</p>	<ul style="list-style-type: none"> • KH would be better positioned to develop new capabilities in partnership with healthcare organizations

Note 1: Fiscal Year 2021, Source: Idaho Department of Labor Economic Multiplier

What Are the Benefits for Kootenai Health?

KEY ELEMENT	IMPLICATIONS
<p>Nimble, More Durable Governance Structure</p>	<ul style="list-style-type: none"> • Enables governance continuity and longer-term strategic planning focus without the limitations of a two-year election cycle • Streamlines process to seat experienced, qualified individuals from a broader geography, consistent with the stakeholders KH serves across North Idaho, to help navigate the growing industry complexity • Ability to convene without being subject to open meeting requirements that may otherwise hinder nimble decision-making, hinder discussion of sensitive topics, and/or require disclosure of competitively sensitive material
<p>Strategic Planning Efficiency and Effectiveness</p>	<ul style="list-style-type: none"> • By removing open meeting requirements and/or public records disclosures, supports more candid communication between management, community members, and the KH Board of Trustees, improving decision-making efficiency • Eliminates in- and out-of-state competitor access to the Board of Trustees’ deliberations and strategic decisions
<p>Financial Flexibility</p>	<ul style="list-style-type: none"> • Enhances access to capital with a more investor-friendly structure and a larger investor universe • Improve access to diversified investment opportunities prohibited by the Hospital District structure
<p>Organizational Stability</p>	<ul style="list-style-type: none"> • Supports leadership recruitment and retention efforts that have historically been influenced by the instability caused by election cycle fluctuation • Enhances physician recruitment efforts due to a more durable governance and leadership construct that is not subject to the political election cycle

What Might Kootenai Health Give Up?

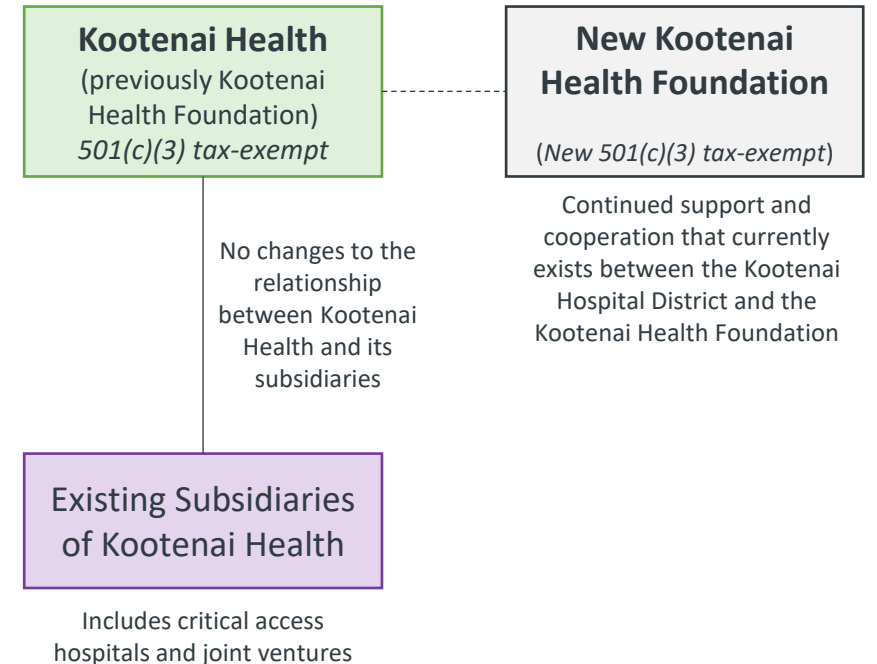
KEY ELEMENT	IMPLICATIONS
Loss of Taxing Authority	<ul style="list-style-type: none">• KH would no longer have the ability to tax the residents of Kootenai County; KH has not utilized its taxing authority since 1995• Further, the taxing authority is currently limited to residents in Kootenai County, despite KH serving a broader set of patients and their respective healthcare needs
Loss of Sovereign Immunity	<ul style="list-style-type: none">• KH would no longer have certain legal defenses such as those outlined in the Idaho Tort Claims Act, which include no punitive damages and shorter notice of claim requirements
Loss of Eminent Domain Authority	<ul style="list-style-type: none">• KH would no longer have the ability to utilize eminent domain, which allows KH to take private property for public use for appropriate compensation
National Labor Relations Act Immunity	<ul style="list-style-type: none">• KH would be subject to compliance with the NLRA and associated processes and protocols

How Would a Conversion Happen?

KEY ELEMENT	IMPLICATIONS
<p>Nonprofit Structure Minimizes Disruption</p>	<ul style="list-style-type: none"> Structured as a conveyance, KH’s assets, liabilities, and operations would transition to the existing Kootenai Health Foundation, which is an existing private 501(c)(3) This structure is intended to provide a more efficient pathway through an aligned organization Post-conversion, the Kootenai Health Foundation would stand up a new private 501(c)(3) to continue their mission as a supporting organization – there would be no impacts to donor funds
<p>Preserve & Enable Local Governance</p>	<ul style="list-style-type: none"> Pursuant to the Idaho Statutes, the initial Board of Trustees post-conversion would be the same individuals as those currently serving The Board of Trustee’s roles, responsibilities, committee structure, term length, etc. would remain consistent with those currently in place Ability to expand Trustees beyond Kootenai County to better reflect the patients served by KH The Idaho Statutes require KH to also have members that are broadly representative of the public served Future Trustees would be elected by such members

Structural Overview (Post-Conversion)

Advances the continuation and expansion of the Kootenai Health mission to improve the health of its communities



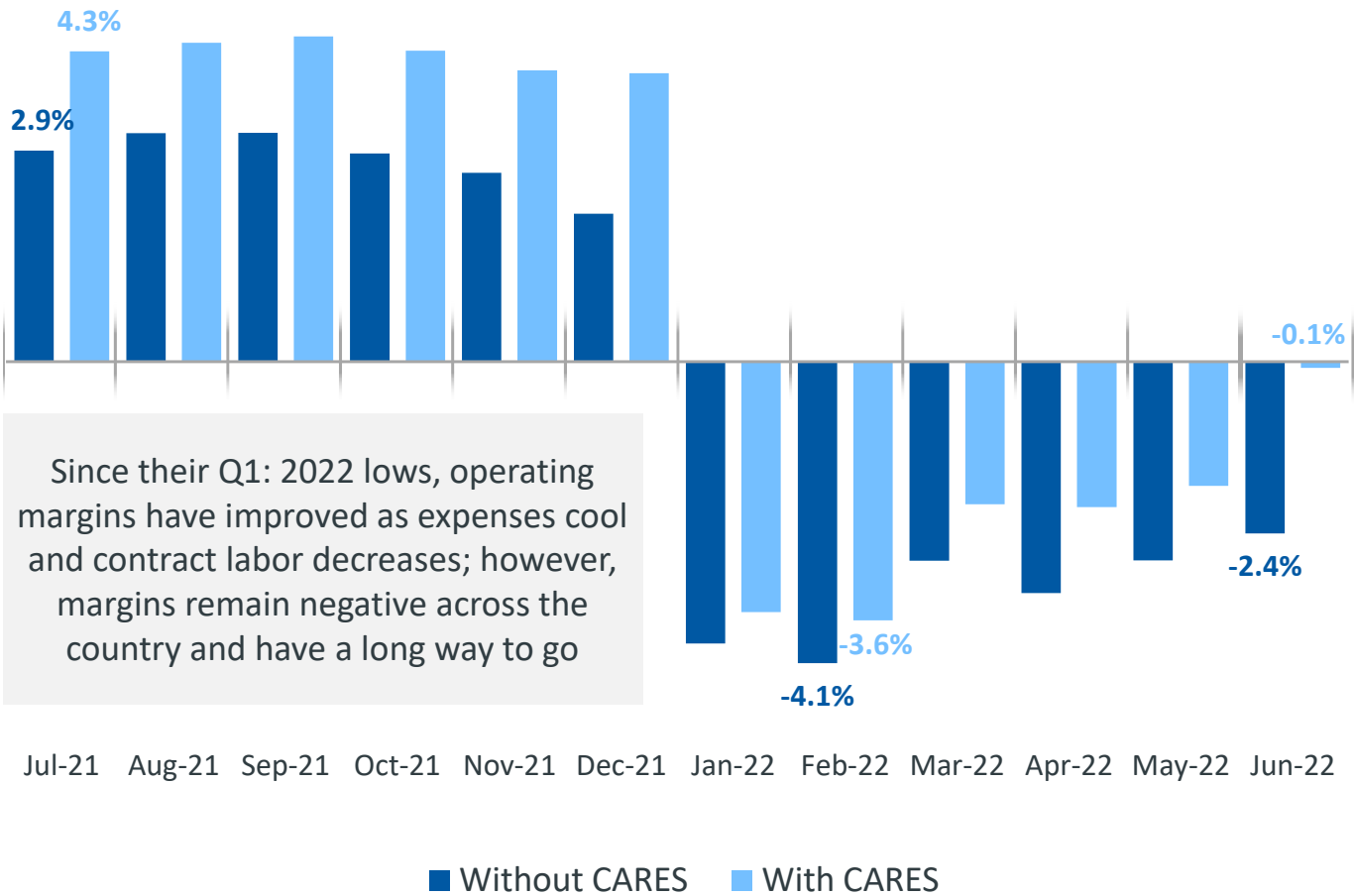
What Work Streams Are Pending Should Kootenai Health Proceed With the Conversion?

KEY ELEMENT	IMPLICATIONS
Affiliate Partners Approval	<ul style="list-style-type: none"> • KH maintains strong partnerships and joint ventures with many organizations, several of whom must approve Kootenai Health Foundation as the new partner • KH remains in dialogue with its partners
Assignment of Contracts	<ul style="list-style-type: none"> • KH has numerous contracts with CMS, vendors, payors, employees, providers, etc. • Many of the contracts require assignment / consent to transfer the contract to Kootenai Health Foundation
Licensure Requirements	<ul style="list-style-type: none"> • KH has a myriad of federal, state and local license, accreditations and permits (e.g., Medicare, Medicaid, State of Idaho hospital licenses) • Change of ownership / information filing requirements for each such license, accreditation and permit would need to be prepared and submitted to the applicable agency
Other Transitional Items	<ul style="list-style-type: none"> • The governing documents of Kootenai Health Foundation and other KH affiliates would need to be amended and approved to reflect the conversion • Other operationally related transition matters would need to be completed (e.g., obtaining new insurance policies and, as applicable, establishing new benefit plans for Kootenai Health Foundation)

Hospital / Health System Industry and Conversion Trends

Challenging Healthcare Industry Operating Environment

Kaufman Hall National Operating Margin Index YTD by Month¹



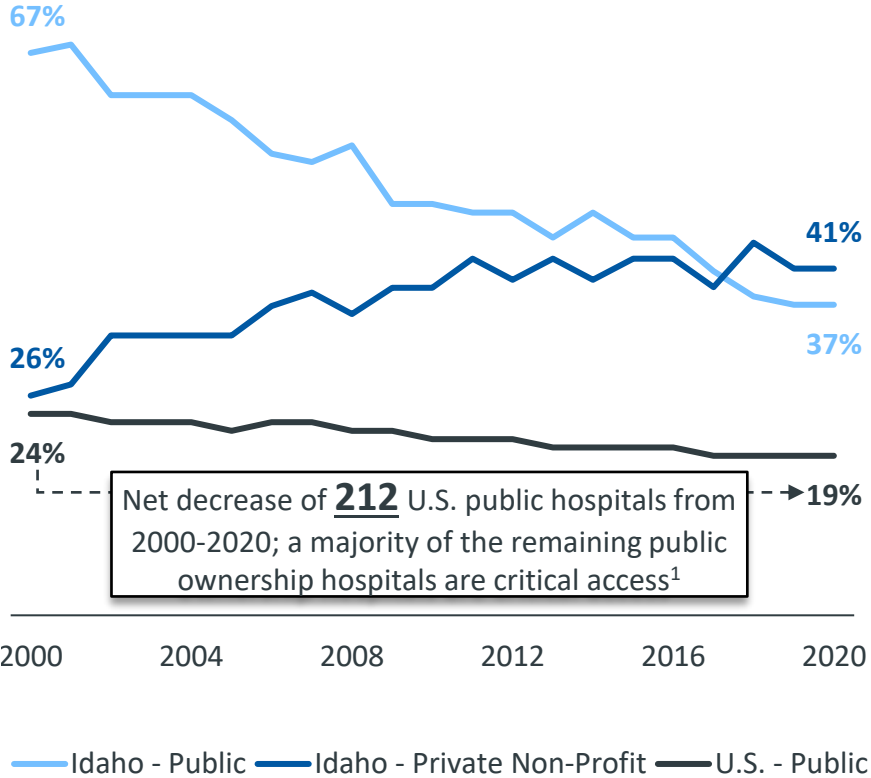
Since their Q1: 2022 lows, operating margins have improved as expenses cool and contract labor decreases; however, margins remain negative across the country and have a long way to go

- Nationwide, financial losses approached the worst levels since 2000
- Many health systems have / are expected to violate debt covenants
- Escalated labor costs are the single most important challenge (~40% increase over past two years), and appear to be structural
- No additional federal funding from is available / expected²
- Non-profit hospitals can no longer rely on cash as their “crutch” given market volatility, operating pressures, and repayment of Medicare loans

Notes: (1) The Kaufman Hall Hospital Operating Margin and Operating EBITDA Margin Indices are comprised of the national median of Kaufman Hall’s dataset adjusted for allocations to hospitals from corporate, physician, and other entities. (2) KH’s CMS accelerated funds were paid back in full over the last 2 years.

Governmental Ownership Has Decreased Over Time and Now Represents ~19% of Community Hospitals Across the U.S.

Community Hospital Ownership in Idaho & United States (2000-2020)



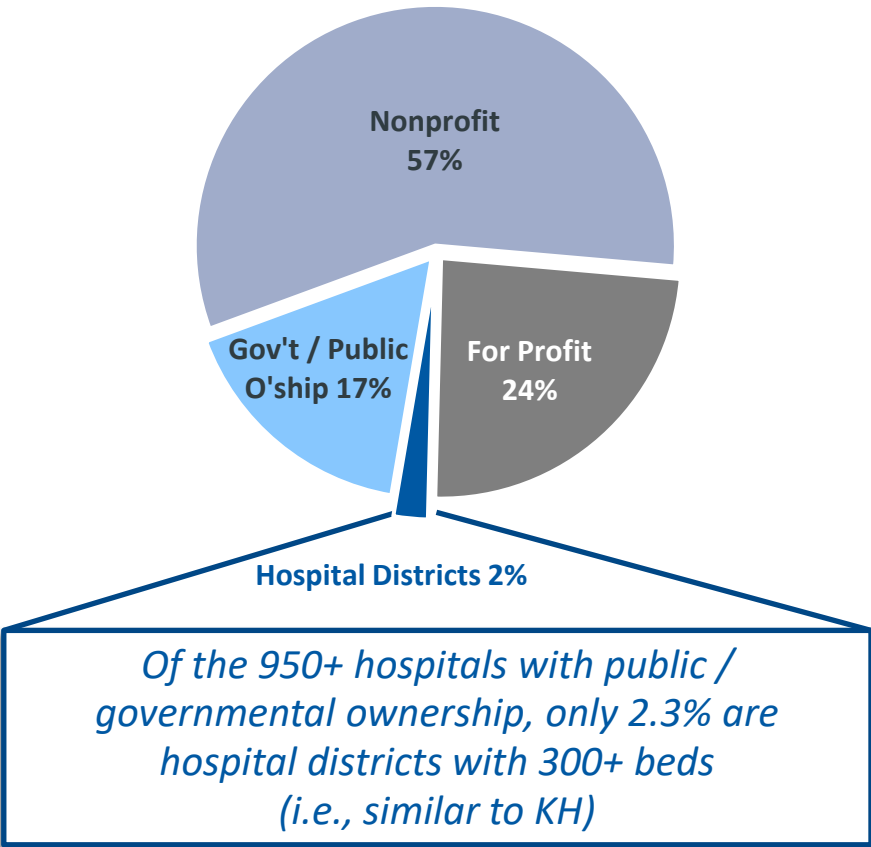
- As organizations navigate the current and future operating environment, public / governmental ownership of hospitals continues to decrease in favor of private ownership / operation
- When compared to their for-profit counterparts, a majority of hospitals converting to non-profit were larger, located in more populated areas, and in more competitive markets
- In the Pacific Northwest, there are only two government / district owned community hospitals with 300+ beds
- Select empirical outcomes from the conversions include:

6.1%	12%	No Change	Increased
Increase in Operating Margins	Reduction in Length of Stay	Uncompensated Charity Care/ Bad Debt	Operating and Financial Asset Efficiency

Sources: Kaiser Family Foundation & 2000 - 2020 AHA Annual Survey, Copyright 2021 by Health Forum, LLC. ISPOR's "Assessing the Impact of Privatizing Public Hospitals in Three American States: Implications for Universal Health Coverage" (ISPOR is the professional society for health economics and outcomes research (HEOR) globally). "The Impact of Privatization on Efficiency and Productivity: The Case of US Public Hospitals" - Journal of Health Care Finance. Definitive Healthcare.
 Note: (1) There are more than 500 critical access hospitals with governmental ownership and ~950 state/local government owned hospitals remaining.

Only 2.3% of Government Owned Hospitals Share Similar Characteristics to Kootenai Health as a District-Owned 300+ Bed Hospital

U.S. Hospitals by Ownership Type



- Government institutions are actively evaluating hospital transitions to non-profit status as:
 - The operating environment faces increasing financial pressure
 - Substantial liability loads further augment risk amid increasing interest rates
 - The largest portion of Americans since 2020 have expressed preference for reduced tax burden according to the Gallup Poll
- Several public / government owned hospitals of similar characteristics to Kootenai Health are evaluating and/or have recently executed 501(c)(3) transitions¹



Sources: Kaiser Family Foundation & 2000 - 2020 AHA Annual Survey, Gallup Poll annual taxes polling; publicly available sources
 Note: (1) Press releases and related news articles of each health system/hospital listed

Common Goals of Health Systems Pursuing Non-Profit Status



Long-Term Fiduciary Effectiveness

- Ability to make long-term commitments to the communities served
- Align stakeholders that have a higher degree of community representation
- **Enhance governance effectiveness to react nimbly in evolving and complex market environment**



Support High Quality Care Initiatives

- Promote access to resources that are otherwise more challenging to procure (e.g., raise capital)
- Enhance ability to structure provider alignment strategies
- Broaden continuum of services



Pursue Strategic Growth

- Become a more effective competitor
- **Develop services to keep care closer to home**
- **Extend services outside the primary service area**
- **Support expansion of historical “boundaries”**
- Promote partnership / joint venture development
- Preserve confidential information



Operational Efficiencies

- **Operate more efficiently**
- More easily attain economies of scale
- Promote long-term financial viability
- **Support recruitment and retention of providers and staff**
- Streamline partnership development

Source: ISPOR’s “Assessing the Impact of Privatizing Public Hospitals in Three American States: Implications for Universal Health Coverage” (ISPOR is the professional society for health economics and outcomes research (HEOR) globally), press releases.

Overview of the Idaho Statutes

Background on the Idaho Statutes



Statement of Purpose

This joint legislation updates statute to allow **district hospitals the same options already available to county hospitals (since 1986)** to lease or convey property to a qualified nonprofit for the continuity of service in the community. It **provides options for district hospitals to enable them to address current and future fiscal challenges.**

The Idaho Statutes became effective on July 1, 2022 following:

- ✓ Idaho House of Representatives: unanimous approval¹
- ✓ Idaho Senate: unanimous approval²
- ✓ Signed by President of the Idaho House and the Governor of Idaho

2022

FEB. 10

Law introduced to Idaho House Health & Welfare Committee

FEB. 23

Approved in the Idaho House of Representatives (69 – 0 – 1)¹

MAR 16

Approved in the Idaho Senate (34 – 0 – 1)²

MAR 18

Signed by Speaker of the Idaho House

MAR 21

Signed by President of the Idaho Senate

MAR 24

Signed into law by Governor of Idaho

JULY 1

Law became effective

Acting in the best interest of their constituents, the elected Representatives and Senators of Kootenai County and North Idaho joined their fellow legislators in unanimously passing the Idaho Statutes. Additionally, the elected Governor, acting on behalf of Idaho constituents, signed the act into law.

Source: Idaho Legislature | Notes: (1) one Representative was absent during the vote with no record of abstention; (2) one Senator was absent and excused from the vote with no record of abstention

Summary of Select Key Elements in the Idaho Statutes

The elected board of trustees of a hospital district may convey or lease hospital district real property, facilities, and the personal property and equipment therein subject to the following conditions:

- The conveyance or lease shall be to a nonprofit corporation.
- The governing body of the nonprofit corporation must be composed initially of the incumbent trustees of the hospital district board of trustees as individuals.
- The articles of incorporation must provide for a membership of the corporation (the “Member(s)”) that is: (i) broadly representative of the public it serves; or (ii) a single nonprofit corporate member having articles of incorporation that provide for a membership of the corporation that is broadly representative of the public it serves.
- The articles must further provide for the selection of the governing body by the Members or exclusively by a parent corporation that itself is the Member, with voting power, & not by the governing body itself, except to fill a vacancy for an unexpired term.
- The Idaho Statutes provide that the Members would appoint individuals to serve on the Kootenai Health Foundation (dba Kootenai Health) Board of Trustees.
- The Foundation (dba Kootenai Health) must continue to provide care for indigent patients and receive any person falling sick or maimed within the hospital district.
- The conveyance or lease agreement must provide for the transfer of patients, staff, and employees and for the continuing administration of any trusts or bequests or maintenance of records pertaining to the existing hospital district.
- If a conveyed hospital ceases to be used as a non-profit hospital, then it shall revert to the ownership of the hospital district. If the hospital is sold, the proceeds shall be used to erect or enlarge another non-profit hospital.

Source: Idaho Statutes

Merits and Considerations for Kootenai Health & Community

Select Merits and Strategic Benefits for Kootenai Health

- 1 **Create more flexibility** to meet the growing needs of North Idahoans
- 2 **Strengthen governance** through greater continuity, enhanced nimbleness, longer-term commitments, and broader community representation
- 3 **Streamline strategic opportunities** by protecting competitively sensitive information
- 4 **Increase financial flexibility** to support long-term strategic objectives

Create More Flexibility to Meet the Growing Needs of North Idahoans

Advance Comprehensive Regional Hospital Development

- Extension beyond Kootenai County **allows KH to more effectively serve a greater population base, which enables the development of specialty care programs**
- **Certainty of governance allows for longer-term commitments** with timelines that may extend beyond election cycles

Supports Execution of Growth Opportunities

- Enables a more efficient analysis of, and execution on, competitively sensitive information that support growth strategy
 - For example, the cost for a new facility development could significantly increase if others believe KH to be a future participant
 - While certain mechanisms exist to preserve confidentiality, they can be cumbersome
- KH serves a population that extends beyond Kootenai County, who are not subject to potential future tax levies; **the ability to support community healthcare needs and growth without exposure to changes in political / election dynamics enables KH to more efficiently serve the community**

Third Party Partnerships

- Streamlines ability to develop relationships with parties that may otherwise be reluctant to partner with governmental organizations subject to public records requirements
- Enhance development of partnership vehicles such as joint ventures, provider / management services agreements, etc. with physicians who may be hesitant to partner with a public institution
- Reduced administrative requirements incumbent in governmental providers supports opportunity to develop alignment structures with third-party payors advancing initiatives to control / decrease the cost of care




2

Develop a More Nimble Governance Structure to Better Serve the Growing Community

Following any contemplated conversion, **Kootenai Health would remain a locally governed organization comprised of representatives from the expanded communities it serves.** The initial Board of Trustees post-conversion would be the same people currently serving on the Hospital District Board of Trustees.

Governance Certainty	Promotes certainty of governance to enable execution of longer-term initiatives that extend beyond election cycles
Nimble Leadership	Increases ability to react to evolving market realities without being subject to open meeting requirements and/or public records disclosures
Diversify Perspectives	Opportunity to expand geography from which the Board of Trustees reside, consistent with the broadening of KH’s service area, and the size of the Board of Trustees
Improve Governance	Streamline process to seat experienced, qualified Trustees

3 Streamline Strategic Execution by Enhancing Board Communications & Protecting Competitively Sensitive Information

EXAMPLE	IMPLICATIONS OF NOT CONVERTING
 <p>Many strategic initiatives require analysis and review of competitively sensitive information</p>	<p>Communication between management and the Board of Trustees may be limited to preserve competitive details</p>
 <p>Disclosure of <i>plans</i> to execute a material expenditure could increase pricing in the market that knows KH is a “buyer”</p>	<p>KH may <u>not</u> pursue key growth objectives due to escalating capital requirements that make the project unviable, despite it addressing community health needs</p>
 <p>Certain strategic partners may be hesitant to align with KH due to public records requirements</p>	<p>The community may not have access to certain healthcare innovations or services as partners seek to preserve their competitively sensitive information</p>

4

Increase Financial Flexibility to Support Long-Term Financial Viability to Better Serve the Community and Stakeholders



The aforementioned opportunities translate to sustaining, if not improving, KH's overall financial health when compared to the status quo, while supporting the organization's strategic objectives to become the comprehensive regional health system for all of North Idaho and beyond. Select opportunities include, but are not limited to the following:

- ✓ Execute strategic initiatives more effectively
- ✓ Pursue contracting strategies that are otherwise challenged as a public organization
- ✓ Enhance staff and provider alignment
- ✓ Redesign care to more optimally position services across the community KH serves
- ✓ Operate more efficiently
- ✓ Enhance payor relations to better support their members and employers
- ✓ Execute long-term investments that may be challenged in a short-term election cycle
- ✓ Diversify investment options to access stronger returns

Potential Capital Structure Benefits



When compared to KH's existing structure, investors could prefer a private 501(c)(3) entity as it is the standard organizational structure with not-for-profit health systems

Similarly, private companies typically have more flexibility to align long-term organizational viability with long-term capital support

Strategic Considerations for the Community

1

Elimination of taxing authority. While KH has not utilized this ability since 1995, other similarly situated health systems have done so (e.g., Evergreen Health in Kirkland, WA generates \$28 million of tax revenue). Further, taxes are limited to residents in Kootenai County, despite KH serving a broader set of stakeholders and their respective healthcare needs.

2

Elimination of sovereign immunity. As a public hospital district, KH currently enjoys certain protections such as those outlined in the Idaho Tort Claims Act. Examples of key protections include no punitive damages allowed against KH, etc.

3

Elimination of eminent domain. As a public hospital district, KH has the ability to utilize eminent domain, which allows KH to take private property for public use for appropriate compensation. As a private institution, KH would no longer have this ability.

4

Promote long-term viability of local healthcare. Enabling the aforementioned benefits would support KH's long-term success as a healthcare system serving the community of greater Kootenai County.

501(c)(3) Diligence Investigation Summary

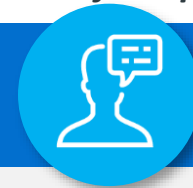
Overview of the Evaluation Process

Kootenai Health investigated and evaluated the merits & considerations of the potential conversion across numerous work streams



Work Streams to Address Key Diligence Questions

1 Legal & Regulatory	What is the optimal structural approach and the related considerations?
2 Governance	What is the go-forward governance construct?
3 Affiliated Partners	How would a conversion impact our strategic partnerships?
4 Contracts / Agreements	What are the impacts on our contracts and the related remedies?
5 Employment	How would staff and employment practices be impacted?
6 Foundation	What are the implications for the Kootenai Health Foundation?
7 Finance	How does a conversion impact the financial structure / profile?
8 Community	How does a conversion impact our ability to serve the community?



Working Group Participants Consist of Numerous Subject Matter Experts

Participant	Role
Kootenai Health management	Mission and vision alignment
Polsinelli	Legal: transaction advisory & diligence
Kaufman Hall	Advisor: process management and capital markets support
Special Counsels / Advisors	
Dorsey Whitney	Transaction structure, legal and regulatory impacts
Witherspoon Kelley	Employment matters & general counsel support
Davis Wright Tremaine	Benefits
Stoel Rives	Legal: foundation advisory & diligence
Chapman and Cutler	Bonds: Legal advice and compliance

Legal and Regulatory Review: Identified the Preferred Conversion Structure

Primary Elements of Diligence Review

- Legal structure
- Licensure and Permits
- Medicare / Medicaid
- Medical Staff and Credentialing
- Tax ID and Provider Numbers
- Clinically Integrated Network
- Payor Contracting
- Billing and Collections
- 340(b) Program

Key Conclusions and Findings

- **Conveying the assets and liabilities from the Kootenai Hospital District to the Kootenai Health Foundation is the optimal structure** to support a smooth, expeditious transition that preserves the organization's nonprofit status
- The Idaho Statutes require that the “new” Kootenai Health organization have Members (in addition to the Board) that would have certain limited responsibilities, including the **selection of the Board of Trustees**
- **Once implemented, the conveyance structure should enable continuity of governance and operations**
- However, KH would have to complete all applicable regulatory filings, approvals and processes and include certain commitments, which are consistent with the manner KH operates – this process is involved and would take time to complete
- Subsidiary, affiliated partner and other key agreements would require amendment or consent to assignment / transfer as a result of the conversion
- **The articles of incorporation / bylaws would ensure commitment to care for indigent patients and receive any person falling sick or maimed**

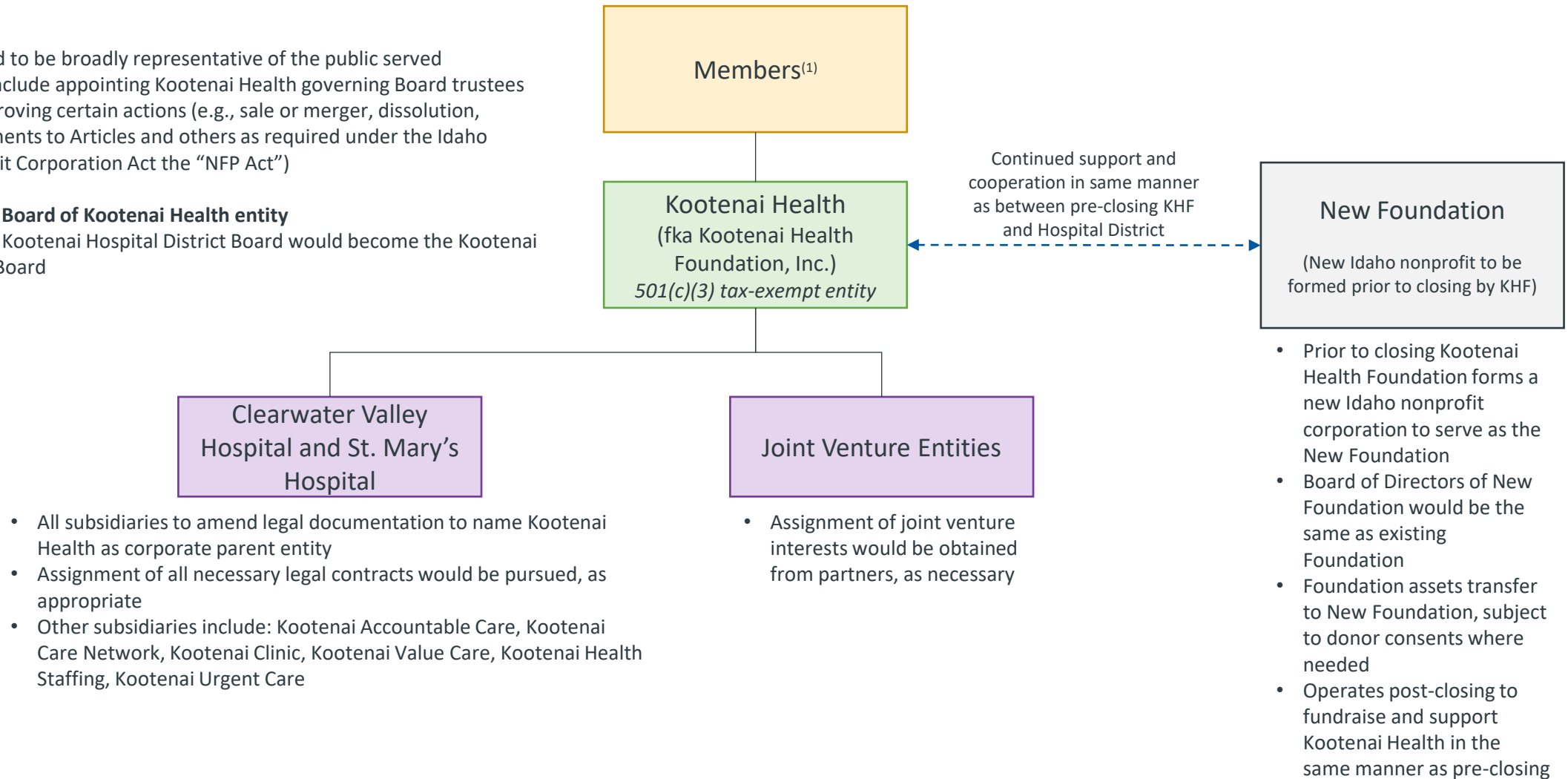
Contemplated Future Legal State for Kootenai Health

Members

- Required to be broadly representative of the public served
- Duties include appointing Kootenai Health governing Board trustees and approving certain actions (e.g., sale or merger, dissolution, amendments to Articles and others as required under the Idaho Nonprofit Corporation Act the “NFP Act”)

Governing Board of Kootenai Health entity

- Existing Kootenai Hospital District Board would become the Kootenai Health Board



Note: (1) The Idaho Statutes require Kootenai Health to have Member(s) that are broadly representative of the public served

Governance Review: Duties and Responsibilities

Primary Elements of Diligence Review

- Idaho Statute requirements
- Board selection, composition, and responsibility
- Board term structure and position
- Governance committee implications
- Subsidiary board impacts
- Implications to Kootenai Health Foundation

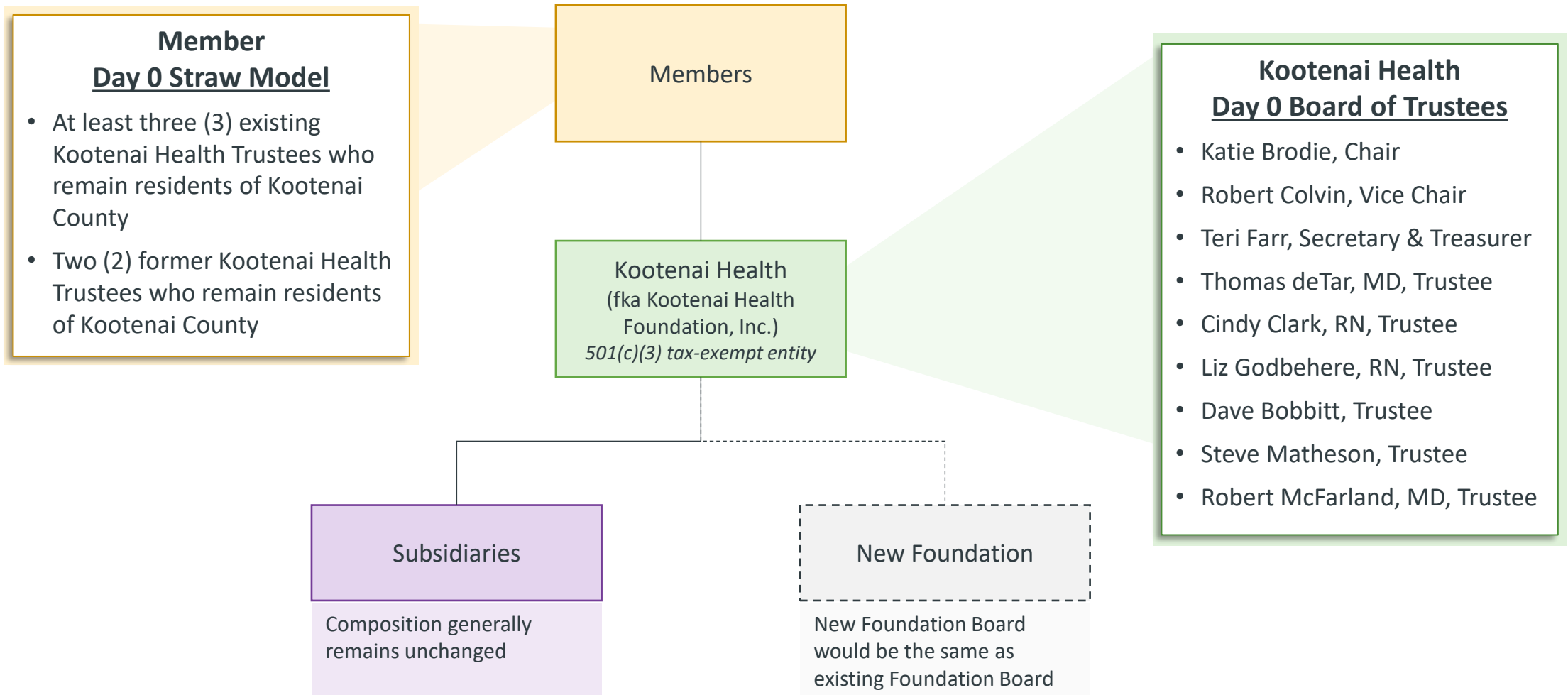
Key Conclusions and Findings

- The contemplated structure requires that the new Kootenai Health have Member(s) that (1) are broadly representative of the public served and (2) are **responsible for selecting the KH Trustees**
 - The contemplated composition of the Members, the KH Board, and other entities is outlined herein
 - The Member's role shall apply to selecting future KH Trustees
- Per the Idaho Statutes, **the initial trustees must be the then-existing KH Trustees**, but this may adjust over time as the organization deems appropriate (subject to the approval of the Members)
- The **KH Trustees would maintain the existing scope of responsibilities and duties** (i.e., ultimate authority and responsibility for operations, assets, liabilities, etc.)
- In discharging their duties following the conversion, the KH Trustees must comply with the requirements of the Idaho Nonprofit Corporation Act, requirements of the Internal Revenue Service applicable to tax-exempt hospitals, as well as other requirements as may be imposed by Idaho law
- **Subsidiary boards would remain in place** and generally maintain delegated responsibilities that are in place today
- The existing committee structure would remain in place, as applicable
- **The Foundation's legal documents would be amended** to accomplish the above

Idaho Statute Requirements

- Pursuant to the Idaho Statutes, the existing Kootenai Hospital Board would serve as the new / initial Board for the Kootenai Health Foundation
- The Kootenai Health Foundation's articles of incorporation / bylaws would be amended to ensure:
 - The Kootenai Health Foundation has Members (apart from Board membership) that are broadly representative of the public it serves
 - **Board Trustees shall not serve more than two (2) consecutive terms of three (3) years** (but Board terms can be staggered)
- Through the articles of incorporation / bylaws, the Board would ensure **commitment to care for indigent patients** and receive any person falling sick or maimed within the district served by the hospital

Governance Review: Composition Model



Post-Conversion Implications: Purpose and Role of Members and Hospital District

Member

Primary Purpose	Appoint future trustees to the Kootenai Health Board
Additional Approvals	Take other actions required by the NFP Act, including: <ul style="list-style-type: none"> • Amending the Articles • Dissolution • Sale or merger
Member Selection	Initial Members determined by District Trustees prior to effective date (and would be set forth in governing documents) Members interests would be non-transferable. Upon resignation, removal or termination of a Member, such interests would revert to Kootenai Health. Kootenai Health would then designate a new Member who is representative of the community served and who complies with other membership criteria set forth in the governing documents.

Hospital District

Legal Entity	Following the effective date, the Hospital District would remain in place, but would not have any assets, liabilities, or significant ongoing role. There would be, however, certain administrative actions that the Hospital District would need to undertake following the effective date, including: <ul style="list-style-type: none"> • File final cost-report • Make certain post-effective date regulatory filings • Financial audit and other post-effective date matters (e.g., consents requiring District signature) <p>To assist with these matters, Kootenai Health Foundation may provide transition services to the hospital district</p> <p>The County Commissioners may evaluate the optimal approach for the hospital district over time, including, if needed, filling any Trustee vacancies</p>
Reversion	Pursuant to the Idaho Statutes, should KH cease to be used as a non-profit hospital, ownership reverts back to the Kootenai Hospital District
Dissolution	By public vote or, following 2 years of inactivity, by the vote of the County Commissioners

Appendices

Supplemental Kootenai Health Background

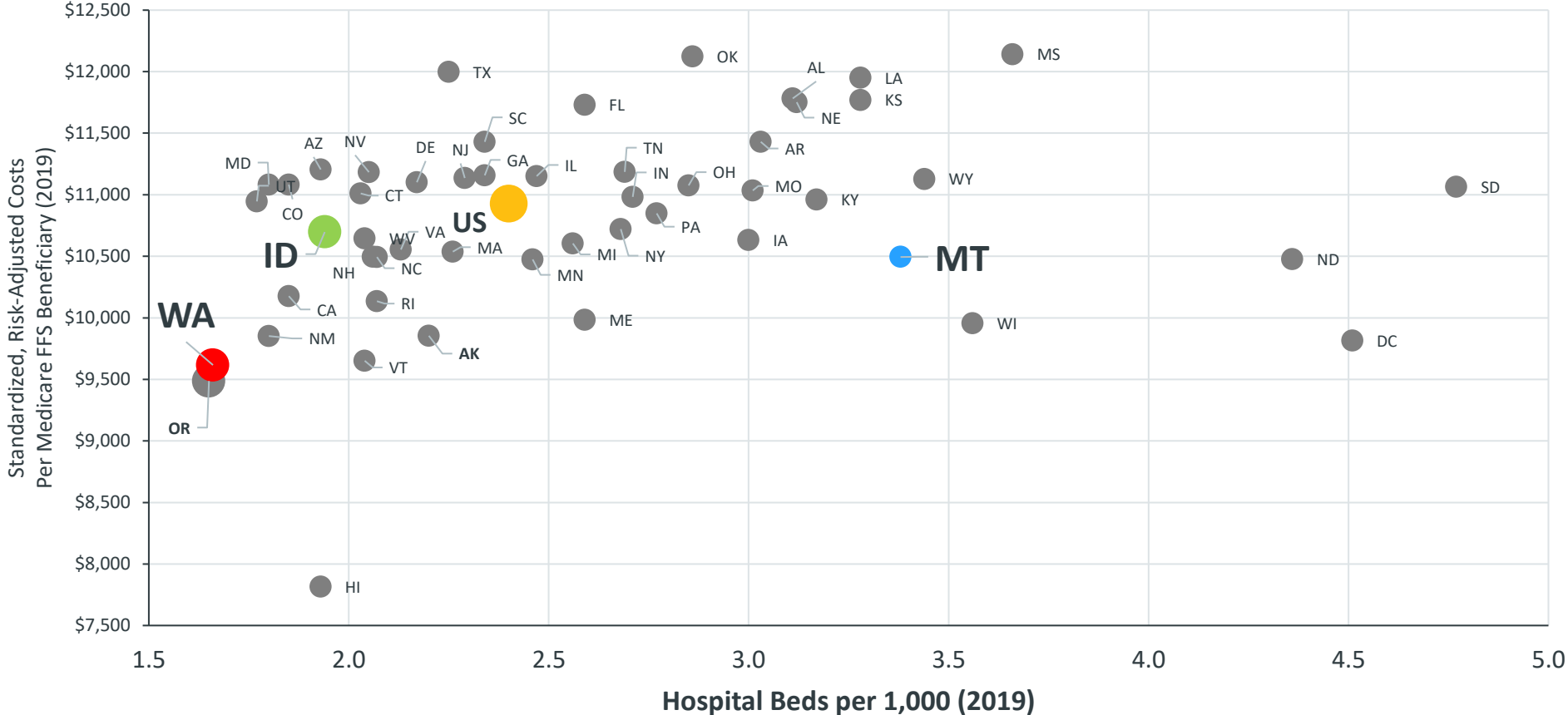
Kootenai Health Continues to Advance the Quality of Care and Service for Patients in North Idaho

 <p>MAGNET RECOGNIZED AMERICAN NURSES CREDENTIALING CENTER</p>	<ul style="list-style-type: none"> • Maintained Nursing Excellence Magnet Award designation since 2006 • Roughly only 10% of hospitals in the country are Magnet certified
 <p>CMS CENTERS FOR MEDICARE & MEDICAID SERVICES 5Star OVERALL RATED</p>	<ul style="list-style-type: none"> • Currently rated as a 5-star hospital by CMS for quality, patient safety, and service • Roughly only 10% of hospitals in the country are rated 5-stars
 <p>LEAPFROG HOSPITAL SAFETY GRADE</p>	<ul style="list-style-type: none"> • Earned Leapfrog A hospital safety rating for excellent quality and patient safety
 <p>GALLUP GREAT WORKPLACE AWARD</p>	<ul style="list-style-type: none"> • Earned the Gallup Great Workplace Award for employee experience and culture 5 times in the past 6 years
 <p>S&P Global Ratings</p>	<ul style="list-style-type: none"> • S&P Global Ratings affirmed its 'A' long-term rating¹ • Per S&P, “The region's population growth, with in-migration accelerating during the pandemic, and management's extensive long-term strategy have helped generate solid patient volumes and historically stable operating earnings, as KH continues to grow into a regional referral center”¹

Source: S&P credit report dated 10/14/2022

Idaho and Washington Have Far Fewer Beds per 1,000 Compared to Other States and the National Average

Hospital Beds Per 1,000, Healthcare Costs* Per Medicare FFS Beneficiary as of 2019



* Standardized and risk-adjusted by CMS

Sources: [1] 2019 AHA Annual Survey. Population data from Annual Population Estimates by State, U.S. Census Bureau [2] "50-State Scan of State Certificate-of-Need Programs," published by National Academy for State Health Policy in May 2020. Triggering activities either new health care facility and / or change in bed capacity. [3] CMS Geographic Variation Public Use File (2019)

Recap of Kootenai Health Strategic Imperatives

The Rapidly Expanding Community Requires Kootenai Health to Grow Alongside It

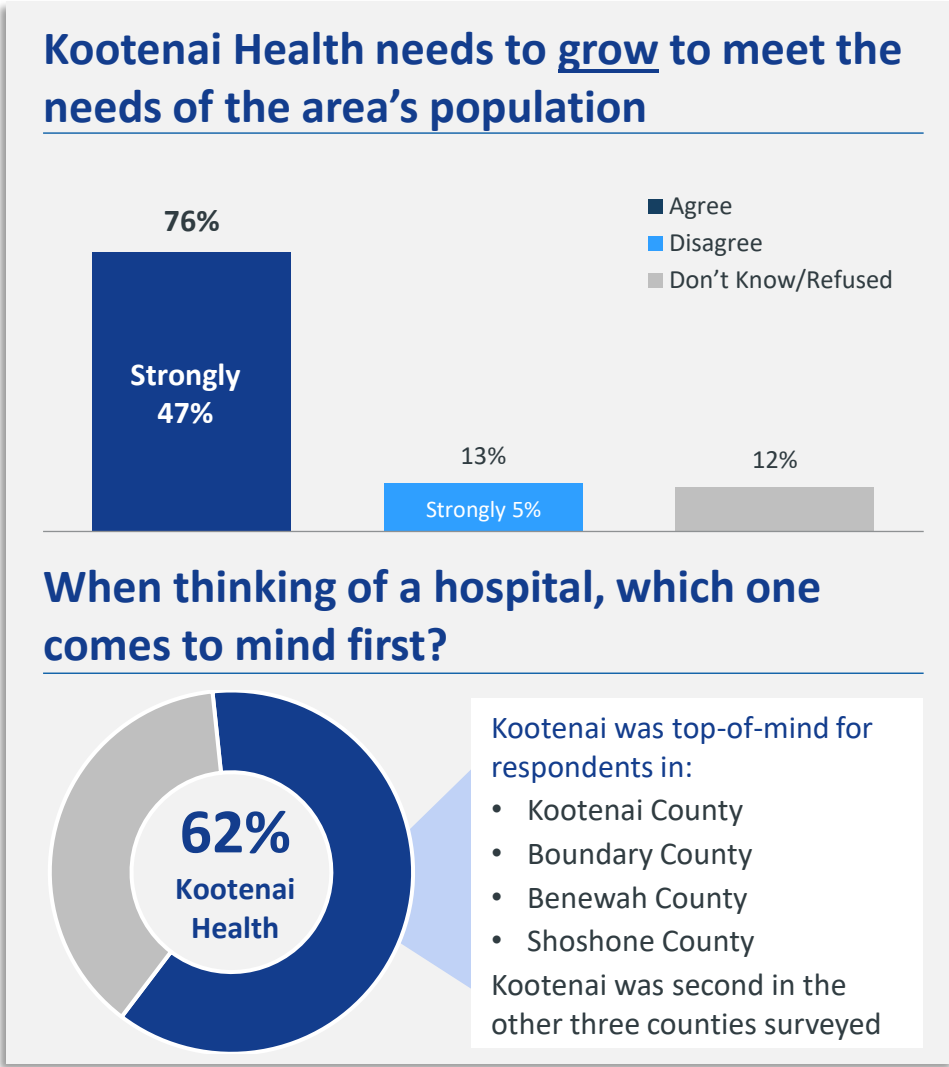
Over the past decade, the **population of Kootenai County has grown by over 30,000 residents**, and is **one of the fastest growing counties in the country**

In October of 2021, an independent consumer perception survey was conducted and confirmed that **Kootenai Health needs to grow and improve access**

Key survey findings include:

- The community recognizes Kootenai Health’s **need to grow to better support the community**
- Kootenai Health has **strong brand awareness** in the region
- Kootenai Health enjoys a **strong, positive image** in the region
- North Idahoans are **very likely to use Kootenai Health services**

Sources: October 2021 GSSG Consumer Perception Survey. ESRI Business Analyst.



Overview of Kootenai Health's Strategic Objectives

2030 Vision Statement:
One
connected team,
boldly transforming the
health care
experience, to become a
premier medical destination






Translated
Through our
Strategic
Objectives

Evolve from a regional medical center to a “premier medical destination” serving the needs of our community:

- ✓ Develop **consumer-focused competencies** to deliver the right care in the right place at the right time
- ✓ Create efficiencies and financial flexibility to **address evolving community needs**
- ✓ Build upon regional relationships to **improve patient access**
- ✓ Develop a **comprehensive regional health system for all of North Idaho (regardless of ability to pay)**
- ✓ Support **governance expertise and effectiveness**

Implications of a Conversion on Kootenai Health’s Strategic Objectives

Converting to a private, 501(c)(3) organization preserves, enables, and accelerates accomplishment of our strategic objectives to better serve the growing community

Kootenai Health’s Strategic Objectives	Select Efficiencies Gained / Maintained
 <p>Develop consumer-focused competencies to deliver the right care in the right place at the right time</p>	<p>▶ Streamlines ability to develop partnerships with third parties with dedicated capabilities</p>
 <p>Create efficiencies and financial flexibility to address evolving community needs</p>	<p>▶ Support the needs of a growing service area that extends beyond Kootenai County</p>
 <p>Build upon regional relationships to improve patient access</p>	<p>▶ Protect strategically competitive information, enhancing ability to form regional relationships</p>
 <p>Develop a comprehensive regional health system for all of North Idaho (regardless of ability to pay)</p>	<p>▶ Execute on strategic growth & partnerships, positioning Kootenai Health as the premier medical destination in North Idaho</p>
 <p>Support governance expertise and effectiveness</p>	<p>▶ Remain a locally governed hospital system serving the region</p>