Minutes of the Special Called Executive Committee Meeting of the Board of Trustees of the University of Kentucky, Friday, June 29, 2007.

The Executive Committee of the Board of Trustees of the University of Kentucky met in special session on Friday, June 29, 2007 at 10 a.m. in the Board Room on the 18th Floor of Patterson Office Tower.

A. Meeting Opened

Mr. James Hardymon, chair, called the meeting to order at 10:00 a.m. and asked Ms. Pam May, secretary of the Board, to call the roll.

B. Roll Call

The following members of the Executive Committee answered the call of the roll: James F. Hardymon (Chair), Myra Tobin, JoEtta Wickliffe, Billy Wilcoxson, and Pam May, ex officio member. Stephen Branscum was absent from the meeting. Ms. May announced that a quorum was present.

The university administration was represented by Executive Vice President for Health Affairs Michael Karpf, Senior Vice President UK HealthCare Finance/Hospital Sergio Melgar, and Associate General Counsel Harry Dadds.

C. Approval of Minutes

Mr. Hardymon said that the Minutes of the June 8, 2007 Executive Committee meeting had been distributed and asked for any comments or questions. Mr. Wilcoxson moved that the Minutes be approved. Ms. Tobin seconded the motion, and it carried without dissent.

D. Authorize Lease/Purchase Financing to Complete Transaction (ECR 1)

Mr. Hardymon reported that the only item on the agenda for the special called meeting involved authorizing the lease/purchase financing to complete a transaction that the university had been working on for several months. He noted that background information from previous Board actions in February and March were included in the materials distributed to the Board. He asked Mr. Melgar to comment on ECR 1.

Mr. Melgar reported that following the committee's approval of ECR 1, he would meet with the appropriate people to sign the final documents. While the sale will be closed on June 29, it will not be effective until July 1. Many people are ready to make the conversion over the weekend, and the University of Kentucky will take over Samaritan's operations on the first day of the fiscal year, which is ideal timing. This date is significantly easier for the university in terms of documents and financial statements.

There has been a large amount of success in the transition so far. The legal staff has worked very hard making arrangements with all of the providers in the different areas. Agreements are either signed or reached in principal with everybody except

Cardinal Hill Rehabilitation Unit. That is the only significant outstanding provider with whom the university has not come to terms on the financial aspects of the contract, as of this date. There is an agreement in principal on the length of the contract, but the financial terms have not been concluded. The university is still in negotiation with Cardinal Hill and will have another follow-up meeting after this Executive Committee meeting.

Mr. Melgar explained that Cardinal Hill has to stay at Samaritan at least the next six months because of its current patients there. It would be in the university's interest for them to stay at Samaritan no more than two years because the university has other plans for the site. Cardinal Hill also has plans to replace the beds currently at Samaritan in a new building.

Dr. Karpf interrupted Mr. Melgar to say that the university has made a fair and reasonable offer. He is not certain whether they will accept the offer.

Mr. Melgar said he thought the contract ran another couple of years; however, their original contract was not carried forward. It was terminated by the bankruptcy estate, and at this point, they do not have a contract but are operating under a court order.

Mr. Wilcoxson expressed concern that under no circumstances should anybody be able to say that the university moved Cardinal Hill out of Samaritan.

Dr. Karpf said that he is absolutely certain UK's offers have always involved fair and reasonable terms that would make it possible for them to stay for the required two years. Each party must, however, come to an agreement on what is considered fair and reasonable and what is legally appropriate.

Mr. Melgar said that originally the university wanted them to move out toward the end of the next calendar year. They asked for additional time, and it was agreed upon.

Dr. Karpf said that he has a firm and strong commitment to do things right with Cardinal Hill. The university will give them essentially what it considers the best possible terms that are legally appropriate.

Mr. Hardymon asked Dr. Karpf to keep the Board informed as he moves along on the Cardinal Hill agreement.

Mr. Melgar continued with his report. He said that the operations have been very positive. Since the court approved the transaction in early June, the activity at Samaritan has actually increased. Samaritan has gone from an average of 50 patients a day to a high of over 80 patients on one particular day. Some physicians have stated that they might leave or have been contemplating leaving, but nobody has actually acted on that statement. There is attrition of some positions. The university should be able to increase the volume as planned and do well.

Dr. Karpf noted that the university has already admitted UK patients to Samaritan. The university physicians have been very happy with the facility, and the patients have been very pleased.

Mr. Melgar provided a timeframe for admitting UK patients to Samaritan but expressed that they do not want to overwhelm the infrastructure there. It is important to have the right personnel to care for the patients. The large quantity of patients at the Chandler Hospital is not easing up, and Samaritan will be an outlet for some of the patients with less acute care needs.

Ms. May asked how many patients realistically needed to be moved to Samaritan to drop the occupancy rate to a doable number at the Chandler Hospital.

Mr. Melgar said the number of patients needed to be lowered. The census at the Chandler Hospital has been 400 plus, and it would be best to be in the 380 range. The Chandler Hospital would be much more functional if the census were 380; therefore, the plan is to have the census at Samaritan in excess of 100 by the end of this calendar year. The capacity is for 100 patients at this time. Within a couple of years, there could be 120 beds available at Samaritan.

Mr. Wilcoxson asked if there was a plan in place on which certain areas would be moved to Samaritan.

Dr. Karpf said that process would be monitored very carefully. At this time, patients that need to be in the hospital but do not need the high-technology attention that the Chandler Hospital predominantly provides would be admitted there. He emphasized that patients will not be moved from the Chandler Hospital to Samaritan Hospital. Patients will be and have been admitted to that facility and have been very happy with the care they have received there. UK physicians are there around the clock taking care of UK patients and working with the community physicians that are there.

Ms. May asked if pediatrics would be staying at the Chandler Hospital and about any surgeries that would take place there.

Dr. Karpf informed Ms. May that pediatrics will remain at the Chandler Hospital. No surgical cases have been sent to Samaritan to date; however, some general surgery cases that require a one to two-day stay will go to there. The surgical cases going to Samaritan will need to be planned carefully. The first wave will be predominantly internal medicine patients who need several days of care in an appropriate setting.

Mr. Wilcoxson asked if the general surgery cases would be considered on a case by case basis.

Dr. Karpf said they would not be considered on a case-by-case basis. It will be done based on the acuity of patient condition, and as a group, the patients with the least acute needs tend to be those of internal medicine, where the patients are admitted for more common problems. He gave some examples of the kind of patients that would be admitted. He said that they do not want to disrupt the flow of the hospital and the doctors who have been loyal to Samaritan.

Dr. Karpf said that he feels very good about the transitions that have occurred to date. He has given specific orders that, by the middle of July, he wants 10 to 15 patients a day admitted to Samaritan that otherwise would have been admitted to Chandler. These numbers will be monitored for assurance that this is fair to the patients and fair to the doctors who practice at Samaritan.

Mr. Melgar moved on to the financial terms that have been described to the Board in previous meetings. He reported that everything is as previously indicated. There have been no surprises in terms of anything being uncovered. He talked about the accounts receivable and said they ended up being more or less where previously indicated.

Mr. Melgar said the university would be paying about $12.5 million, which is within the $12 to $13 million range previously described, and will assume a liability of about $0.5 million. The liability is for vacation leave for Samaritan employees so that they have vacation time during the summer and do not come into the university with zero vacation balances. It would have created too much disruption if their entire labor force had no vacation time accrued. The funds for the vacation time will be moved today following the committee's approval of ECR 1. Those funds will be borrowed from Citigroup.

Mr. Melgar provided a breakdown of some of the transfers that would take place, including transfer of $1 million set aside for the unsecured creditors of Samaritan and $11.5 million to KMSF to repay its cash advances as of May. He mentioned that account receivables were being collected and were sitting in an escrow account. Approximately $1.8 million of that money will go to KMSF. He further stated that the university is probably less than $2 million away from being able to pay the debt to KMSF. Sometime towards the end of July or sometime in August, sufficient funds from account receivable will have been collected to pay KMSF in total. The value of the account receivable is holding pretty much where it was expected to be.

Mr. Melgar talked about other advances that have been made. A significant number of dollars will be spent on transaction and transition costs. About $3 million have been spent, but the majority of the expenditures, to date, have been for rental costs which started in April. He noted that the rentals for the first quarter of 2007 were prepaid, and the cost was as expected. Everybody has been very pleased with the work that has happened. With the help of UK's Treasurer, the university has been able to obtain some very good financing with some very favorable terms.

Mr. Melgar mentioned some costs that the university would continue to finance over the next couple of months. Imaging equipment is the single biggest item, being acquired from GE at a cost of about $2.4 million. Other planned acquisition items include new computers. All of the computers have to be replaced because they are old. Memory in the current computers is too limited, and operating speed of the computer facilities is too slow.

Mr. Melgar concluded his report by saying that he plans to give the Board a summary at the next Board meeting in September. He reiterated that he does not expect any surprises.

Mr. Hardymon said with situations like this, he tries to avoid having the committee come back again. He asked if the $70 million authorization requested is adequate.

Mr. Melgar said that he believes that amount is sufficient right now. In reviewing the numbers, there is nothing out there that appears to be out of line. He thinks it will be years before the university exceeds that number. By that time, expenditure needs will be based on changes to the operations and will be part of the ongoing capital cycle. He said that he expects that the university will still have capacity under the requested $70 million authority in 2009.

Mr. Hardymon congratulated Mr. Melgar on that number because it was mentioned to him sometime ago and has not moved up. He stated that often that does not happen with acquisitions.

Mr. Hardymon called for a motion on ECR 1. Ms. Wickliffe moved that the committee approve ECR 1 as presented. Ms. Tobin seconded the motion.

Mr. Hardymon asked for further questions.

Mr. Wilcoxson asked about the amount set aside for retrofit.

Mr. Melgar said the university would spend approximately $10 million for capital needs.

Mr. Wilcoxson questioned whether it was $10 million or $15 million.

Mr. Melgar said the cost is estimated at around $12 million. Capital needs are in the $10 million to $15 million range, and that number has been revised a little after looking at the facility. Since the hospital was not very full, Samaritan more or less expanded its operations into the space available. They were basically taking up approximately 60 beds and having only 30 patients in them. The university wants all the space to be used efficiently, and that will require some capital expenditures. The university has already authorized expenditures on some of those things and such projects are already in the works. For example, equipment is already being ordered. The university does not expect these costs to exceed $12 million during the fiscal year.

Mr. Wilcoxson asked about the relationship of accounts receivable now, compared to what was initially anticipated.

Mr. Melgar said the expected account receivables were somewhere in the $6.5 million to $8 million range. He further advised that those numbers seem to be holding pretty well.

Mr. Melgar mentioned that some of the university's revenue staff is preparing the transition for UK so that it can start billing. There will probably be a 30- or 60-day period where UK will have very little billing taking place. Basically, the bills will need to be stored until a Medicare provider number is assigned. The university cannot apply to get that number until the sale is effective. The state will get the university a number by the end of July. However, there will be some shortfall in terms of the balance sheet for about 60 days.

Mr. Melgar explained that the commercial payers have said they are willing to accept the bills as soon as the university can get them out, with the exception of Anthem. Anthem would like to wait until the government payers have given the university authority to bill. There will probably be some cash flow issues in the first quarter, but by January, things should be on a regular cycle.

Mr. Hardymon asked for other questions or comments. He called for a vote to approve ECR 1, which authorizes the lease/purchase financing to complete the transaction. The motion passed without dissent. (See ECR 1 at the end of the Minutes.)

Mr. Hardymon said he would give the committee's report at the next Board meeting. He told Dr. Karpf that he may ask for a similar report to be given to the full Board, with any updates at the next meeting, because the Board is very interested in this transaction.

Dr. Karpf thanked Mr. Hardymon and the Board for their support and confidence through a very complex transaction.

E. <u>Meeting Adjourned</u>

With no further business to come before the committee, the meeting adjourned at 10:30 a.m.

Respectfully submitted,

Pam May
Secretary, Board of Trustees

(ECR 1 which follows is an official part of the Minutes of the meeting.)

ECR 1

Office of the President
June 29, 2007

Members, Executive Committee of the Board of Trustees:

AUTHORIZE LEASE /PURCHASE FINANCING TO COMPLETE TRANSACTION

Recommendation: that the Executive Committee of the Board of Trustees authorize the lease/purchase financing of one or more borrowings in an aggregate amount of up to seventy million dollars ($70,000,000) to complete the Transaction, as more particularly described in the background section herein.

Background: The Board of Trustees at its March 23, 2007 special meeting, in PR 1, previously authorized University executive management to negotiate terms for the purchase and/or lease of Samaritan Hospital (the "Hospital") as a going concern (the "Transaction"). In support of the Transaction, the University has obtained legislative approval for lease/purchase financing of up to seventy million dollars ($70,000,000). This action provides Board authority for the borrowings necessary to complete the Transaction.

Action taken: ☑ Approved ❑ Disapproved ❑ Other ______________________