Carolinas HealthCare System

April 4, 2011

Mr. Harry L. Jones, Sr., County Manager
County Manager's Office
Charlotte-Mecklenburg Government Center
600 East 4th Street, 11th Floor
Charlotte, North Carolina 28202

Dear Harry:

In follow-up to our meeting on Monday, March 28th, I am providing for your feedback and consideration major changes to the existing contractual terms between Carolinas HealthCare System and Mecklenburg County under the Interlocal Agreement. We have tried to address the County's needs and issues that you have communicated to us and, at the same time, preserve the benefits and synergies of the long standing partnership arrangement between our respective organizations which provides critical services to our community.

At a high level, our proposal is as follows:

1. Indigent Care Services and Funding. The current Interlocal Agreement calls for a funding flow of $17.7 million to the indigent care pool. For the 2011 year, at your request, we agreed to a reduction of $1 million or a 2011 total pool of $16.7 million. Prior to the recession, the contractual funding had been increased in 2008 to $20.5 million in recognition of the increasing volumes experienced by, and expanded services provided by, the CMC outpatient primary care clinics. As the local economy deteriorated, the funding level was agreed to be reduced in 2009 by $2.1 million and an additional $700,000 in 2010. Notwithstanding the funding reductions, we did not reduce service levels.

   For 2012 and beyond, we are proposing that the County fund the 2011 projected operating deficits for the CHS primary care outpatient clinics only. In addition, we recommend the County permanently stop providing any other indigent care funding for other outpatient, emergency room or inpatient services. This would be a change from the over 60 year history of

the covering a portion of all hospital indigent care costs. The County's current indigent care funding and coverage policy follows the Human Services recommendation of first dollar coverage for the CMC outpatient primary care clinics. Due to the difficult economy and to provide long-term value to the County, we are recommending this to be the new permanent policy.

Thus the financial benefit to the County for 2012 would be as follows (dollars in millions):

Floor Level	$17.7
2011 Concession	$ 1.0
	$16.7
CMC Outpatient Clinics	$ 9.0
Reduction	$ 7.7

Of the 2012 $7.7 million reduction, $1.2 million would be from Novant and $6.5 million from CHS. Going forward from 2012, the base would be reset to $9 million with annual increases thereafter equal to the annual medical care services CPI rate. Historically, and over recent years, the outpatient clinics' deficits have grown at a much higher rate than the Medical CPI.

In addition, we are recommending a rebatement in indigent care funding for the FY ending June 30, 2011, of $1.1 million to be returned to the County by July 15, 2011.

2. Public Health. We are not recommending any changes to the existing terms except to shorten the notice requirements from the County to CHS for any services reductions. Two Commissioners requested this in the past and we have essentially been working under shorter notices than the December 31 contractual notices for service reduction. Language was agreed to between CHS and County staff several years ago but never formally adopted.

3. Mental Health. For Mental Health we are proposing a limit to County obligation for funding of future deficit increases by limiting the County's exposure to the 2011 level of $ 22.4 million plus the medical care services CPI for the 12 months ended the previous December 31. In addition, we commit to be $1.3 million better than budget for FY 2011, which will be returned to the County in FY 2012, per contract. This ceiling on the County's funding for future obligations accomplishes the following:

    a. Reduces future County funding levels below actual deficits expected and converts to a capped payment model.

b. Provides relative certainty on future funding increases prior to the County's annual budget process.

c. Allows CHS to more easily integrate the CMC-Randolph physician component with the larger CHS physician and outpatient operations that are being planned to better coordinate these services with the intent of reducing demand for and utilization of more expensive inpatient services. This is supported by the New Heights report.

d. Allows actions by CHS in managing CMC-Randolph and the new psychiatric facility (described below) without having to formulate and estimate the impact on CMC-Randolph deficits since the County's ongoing participation in such deficits will be capped. This should solve the County's concern regarding the new hospital's impact on future CMC-Randolph deficits.

The proposed change for Mental Health would result in a projected savings to the County over the next five years of over $13 million assuming a medical CPI rate of 3% per year and the deficits increase at the projected levels in the CHS long-term financial forecast.

In addition, CHS will fund all capital of $24.5 million and absorb all the losses on the planned new 44 bed psychiatric hospital to open in mid-2013, and losses for any additional beds added in the future. Operating losses for the new hospital are estimated to be $3.8 million per year.

We commend the County staff from not implementing the 1915 Medicaid waiver due to the financial risk we both identified. The capped proposal herein is conditioned on Mecklenburg County LME not implementing the waiver. If the LME does implement the waiver or a similar waiver, then the funding would need to revert to the current arrangement until we have a few years under the waiver to determine the impact of the reduced funding, which could be material.

In summary, these proposed changes to the indigent care, public health and mental health arrangements, in the aggregate, over the next 10 years are projected to provide a reduction in County obligations under the current Interlocal Agreement funding levels of over $135 million. This includes the $8.7 million per year reduction in indigent care funding and for Mental Health it assumes a 3% medical CPI versus actual expected increases of 6%. It does not include any of the capital or operating loss funding for the new psychiatric hospital that CHS desires to build and operate at our expense.

For FY 2012, the reductions include a total of $10.1 million compared to FY 2011 spending levels as follows (dollars in millions):

Indigent Care 2012	$ 7.7 million
Indigent Care 2011 Rebatement	$ 1.1 million
Mental Health 2011 Reduced Deficit	$ 1.3 million
	$10.1 million

Please let me know your reaction to these major commitments, concessions and accommodations. I have not run this by the leadership of our Board, but would need to do that soon if it is the route that the County wants to take. We view this proposal as another investment in the time tested and forward looking partnership whereby the County and CHS have shared in responsibility for enhancing the level of health care available to all of fellow citizens and neighbors. I hope you will find these changes meaningful and substantial. I am also hopeful this will allow you to provide funding for other County priorities as well as work through the challenges of the current economy.

Harry, with the upcoming meetings planned with the County Commissioners to review the inpatient psychiatric bed needs on April 19, and our desire to file the CON in Mecklenburg County for the new hospital by May 15, it is important that we try to come to an agreement on the overall relationship so this does not distract us from the need to provide additional inpatient psychiatric capacity.

Best regards,

Michael C. Tarwater
Chief Executive Officer

cc: Joe Piemont
Michelle Lancaster-Sandlin