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July 5, 2011

Jennifer Roberts, Chairman
Mecklenburg County Board of Commissioners
600 East Fourth Street
Charlotte, NC 28202-2835

Dear Jennifer:

The Charlotte-Mecklenburg Hospital Authority d/b/a Carolinas HealthCare System ("CHS") has authorized me to write to you to extend a settlement offer in connection with the ongoing dispute between Mecklenburg County and CHS regarding the Restated Consolidated Shared Programs Joint Undertaking Agreement ("Joint Undertaking Agreement") dated November 2, 2000. CHS had planned to extend this settlement offer at the meeting previously scheduled for June 29, 2011. Immediately following the last meeting of the Mecklenburg County Board of Commissioners on June 21, 2011, however, you advised me that you were cancelling the meeting scheduled for June 29 with two members of the CHS Board of Commissioners. You explained that the Mecklenburg County Board of Commissioners decided to hold a meeting on July 12, 2011, to discuss the Joint Undertaking Agreement, and that the Board of Commissioners did not want you and Commissioner Pendergraph to meet on June 29. Although CHS is disappointed about the cancellation of the June 29 meeting, my client believes that it is important for the County Commissioners to have the settlement offer.

Before I outline the terms of the offer, please understand that CHS does not waive any rights under the Joint Undertaking Agreement by extending to Mecklenburg County the settlement offer below. Further, CHS does not agree with the County that the County has the right to discontinue funding the indigent care pool at \$17.7 million per year as required under Section II.C of the Joint Undertaking Agreement. CHS denies that it has committed a breach of the Joint Undertaking Agreement. Moreover, even if there had been a breach, the County has no right under the Joint Undertaking Agreement to withhold payment to CHS.

Notwithstanding the issues in dispute, CHS's objectives in extending this settlement offer are to move forward and reach an agreement with the County to settle the dispute in a manner that serves the best interests of the community. CHS's settlement offer is designed to do the following:

- (i) Achieve Mecklenburg County's objective of ceasing to provide indigent care funding as of July 1, 2011. On June 7, 2011, upon the recommendation of County Manager Harry Jones, the Mecklenburg County Board of Commissioners approved a budget for fiscal year 2011-12 that does not include funding for indigent care. If Mecklenburg County provided the indigent care funding required under the Joint Undertaking Agreement for

the next three fiscal years, the total cost to the County would be \$53.1 million over the three-year period.

- (ii) Achieve Mecklenburg County's objective of phasing out the provision of funding for the operation of CMC-Randolph. In a letter to Michael Tarwater dated May 25, and in subsequent public statements, Mr. Jones has stated that he recommends phasing out the County's funding for CMC-Randolph over three years. Under the Mecklenburg County budget for fiscal year 2011-12, an amount of \$22.2 million is allocated for funding CMC-Randolph. Assuming that the deficit costs do not increase over the next three years and assuming that the funding from the County remains static and does not increase, the total cost to the County to maintain the existing funding level would be \$66.5 million over three fiscal years. The total cost to the County would be \$68.5 million over the same three-year period if a 3% medical CPI increase is assumed.
- (iii) Achieve Carolinas HealthCare System's objective of having an orderly transition period that affords CHS adequate time to establish appropriate mental health facilities and services for the community. With the elimination of indigent care funding and the phasing out of the County's deficit funding for CMC-Randolph, CHS believes that it is most appropriate for patient care to have an orderly and deliberate transition period so that patients are not faced with abrupt changes.

To settle the current dispute, CHS proposes that the parties amend and restate the Joint Undertaking Agreement to continue for a limited period of time as follows:

- (a) **Mecklenburg County will eliminate indigent care funding beginning July 1, 2011.** CHS is cognizant of the County's budget issues, and we appreciate the more than 60 years that Mecklenburg County has provided indigent care funding. Although we are disappointed that Mecklenburg County has not included indigent care funding in the budget for fiscal year 2011-12, in an effort to respond to the difficult economy and to demonstrate value to the County, CHS acknowledges the County's budget objective and proposes to amend the Joint Undertaking Agreement to eliminate indigent care funding as of July 1, 2011.
- (b) **Effective July 1, 2011, and continuing for three years, Mecklenburg County's obligation to provide funding for the operations of CMC-Randolph (behavioral health) will be the following fixed amounts that decline each year: \$20 million for fiscal year 2011-12; \$17.5 million for fiscal year 2012-13; and \$15 million for fiscal year 2013-14.** CHS recognizes that Mecklenburg County wants to discontinue funding for behavioral health services. Although CHS is disappointed by this development, CHS is focused on working with the County to avoid any sudden changes to the provision of behavioral health services and to provide for an orderly transition. CHS believes that, in addition to satisfying its contractual obligations, the County would want to work with CHS to best protect patients and provide appropriate care. CHS believes that it is in the best interests of patients and the community-at-large that CHS have an adequate amount of time to establish the new psychiatric facility in Huntersville before

Mecklenburg County completely phases out funding for CMC-Randolph. Given the County's stated objectives of phasing out funding over three years, CHS proposes to amend the Joint Undertaking Agreement to include the step-down in funding over three fiscal years, with the Joint Undertaking Agreement ending on July 1, 2014. Consistent with the requirements of patient privacy laws, CHS will continue to provide Mecklenburg County data from CMC-Randolph necessary for obtaining reimbursement from the State. The fixed, declining funding amounts (in contrast to the actual expected increasing deficits for operations) will achieve the County's objective of phasing out the funding, will provide the County certainty for purposes of budgeting and will save the County an estimated \$16 million over the three year period. This cost savings amount is calculated by starting with the \$22.2 million allocated for CMC-Randolph in the Mecklenburg County fiscal year budget for 2011-12, and assuming a 3% medical CPI increase in each of the next two fiscal years, for a total cost over the three fiscal years of \$68.5 million. The declining fixed funding amount proposed by CHS would total \$52.5 million over the three fiscal years, resulting in a total savings to the County of \$16 million.


- (c) **Mecklenburg County will transfer ownership of the Billingsley Road real property and improvements currently being used for CMC-Randolph to Carolinas HealthCare System for \$1.** The property will be transferred without encumbrances or continuing requirements as soon as practicable, but not later than December 31, 2011. Mecklenburg County would no longer be responsible for making capital improvements or paying for the maintenance and upkeep for the property located on Billingsley Road. CHS will be assured of having physical facilities for the provision of psychiatric services.
- (d) **Carolinas HealthCare System will transition responsibility for Public Health to Mecklenburg County over a one-year period, beginning July 1, 2011 and ending June 30, 2012.** CHS proposes amending the Joint Undertaking Agreement to provide that CHS will work with the County to effect a transition of Public Health to Mecklenburg County within a one-year period. CHS believes that the County wants, and that the community deserves, uninterrupted services from Public Health, so CHS proposes a careful and deliberate transition of Public Health to Mecklenburg County.

In summary, the recommendations proposed by CHS will reduce the County's obligations under the Joint Undertaking Agreement by over \$69 million over three years. See Attachment A. The total savings achieved would include \$53.1 million of foregone indigent care funding plus \$16 million less in funding for CMC-Randolph. In addition, the County will realize savings associated with not having maintenance and upkeep costs for the property on Billingsley Road.

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I hope that you will consider the settlement offer seriously and realize that CHS is making the offer in a good faith attempt to move forward and best meet the health care needs of the community. I look forward to hearing from you after your meeting on July 12.

Sincerely,


Larry J. Dagenhart

LJD/j

Enclosures

cc: Mecklenburg County Board of Commissioners

Attachment A

Savings for Mecklenburg County over three years

	Cost: current Joint Undertaking Agreement	Cost: proposal	Savings for County
<u>Fiscal year 2011-12</u>			
Indigent care	\$17,700,000	\$0	\$17,700,000
CMC-Randolph	22,157,265	20,000,000	2,157,265
<u>Fiscal year 2012-13</u>			
Indigent care	\$17,700,000	\$0	\$17,700,000
CMC-Randolph	22,821,982*	17,500,000	5,321,982
<u>Fiscal Year 2013-14</u>			
Indigent care	\$17,700,000	\$0	\$17,700,000
CMC-Randolph	23,506,641*	15,000,000	8,506,641
Totals			
Indigent care	\$53,100,000	\$0	\$53,100,000
CMC-Randolph	<u>\$68,485,888</u>	<u>\$52,500,000</u>	<u>\$15,985,888</u>
Combined	<u>\$121,585,888</u>	<u>\$52,500,000</u>	<u>\$69,085,888</u>

*Assumes a 3% CPI increase from prior year.