

Prince George's County Hospital Authority

January 14, 2009

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The Honorable Martin O'Malley
Governor
State House, 2nd Floor
100 State Circle
Annapolis, MD 21401

Dear Governor O'Malley:

On behalf of the Prince George's County Hospital Authority (PGCHA), I submit this letter to you at this juncture for two purposes. First, pursuant to Section 24-1605(i) of Chapter 680 of the 2008 Laws of Maryland, I want to report on the status of the Authority's mission and request the 60-day extension of time contemplated by its enabling statute. Second, I would like to explain the Authority's likely intent to seek a legislative change in its current mandate if the Authority concludes that no existing bidder is currently positioned to assume complete control over all components of the health care system.

With respect to the 60-day extension, the Authority needs additional time to determine whether any of the outstanding expressions of interest and potential bids for the health care system will warrant the Authority's recommendation for consideration by State and County stakeholders. The Authority, through its consultants Alvarez & Marsal, has marketed the system to over 80 non-profit and for-profit health care entities, and has received indications of various levels of interest from a select few.

Although the Authority anticipated that this effort would entail complex negotiations and interactions with potential bidders, the national economic downturn has made the situation even more fluid. It goes without saying that the state of the economy generally and the paralysis in the credit markets specifically have adversely affected the Authority's process and timing. A number of entities that might have submitted formal bids under normal economic conditions have been hesitant to do so in the current financial climate.

Recognizing that this environment poses additional challenges, Authority members have consulted with the Maryland Health and Higher Education Facilities Administration and the Department of Business and Economic Development to explore

¹ Alvarez and Marsal is a nationally recognized health care consultant firm that has extensive experience in facilitating all aspects of hospital system sales. Over the last five months, the Authority has worked closely with senior staff from Alvarez to identify a broad range of potential bidders. Alvarez staff contacted major for profit and not for profit organizations that were potentially interested in this purchase opportunity. In addition, the Authority has encouraged specific marketing efforts directed towards health care organizations operating in Maryland the broader region.

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additional financing opportunities. The Authority believes that there may be means of ameliorating these financial challenges and supporting bidders who are interested in proceeding. This could prove to be true especially if organizations were able to seek more limited financing support for purchasing portions of the overall system.

In the meantime, the consultants continue to work both with entities which have moved towards submitting formal bids and with some who could be characterized more accurately as interested parties sitting on the sidelines. Clearly, the Authority can give no assurance that any of these expressions of interest will develop into bids which are both compliant with the current statutory mandate (requiring transfer of the system in its entirety rather than a sequential sale of individual system components) and sufficiently viable and attractive to be acceptable to stakeholders. The Authority also believes, however, that existing procurement efforts should be brought to a conclusion and that the Authority should be permitted to fully evaluate any "complete system" bids that emerge from this effort. Thus, the Authority requests that it be granted a 60-day extension of time under Section 24-1605(j).

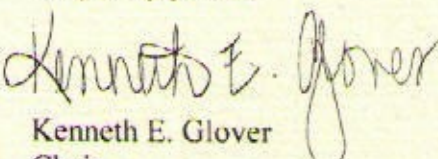
It is entirely possible, of course, that the current effort may not produce a viable bid to purchase the complete system. Given this possibility, the Authority believes the responsible course is to create an alternative option to allow the sequential sale of assets to a range of bidders who might be interested in different components of the system. Chapter 680 requires wholesale transfer of the entire system, as it is currently configured, to one or more new owners. The Authority's process to date, however, has demonstrated that the system as currently structured may neither be marketable in the short term, viable over the long term, nor the most effective way to deliver health care services to citizens of this region. As such, the Authority will likely propose that while it should retain its mandate to ultimately effectuate a transfer of the entire system, it should be permitted to achieve that goal by selling individual assets to different entities at different times, subject to the determination that such partial asset sales are in the best interest of consumers of the health care system and other stakeholders.

To inform the critical determination of what is in the best interests of the County residents and other stakeholders, the Authority will also seek a statutory directive requiring appropriate agencies and regulatory commissions to jointly develop alternative plans to meet the County's health care needs through a reconfiguration of the system. In light of the size, location and intractable challenges of Prince George's Hospital Center (PGHC) particularly, such plans for reconfiguration could involve a decentralization of health care delivery in which PGHC's role as the system's flagship could be altered in various ways.

The Authority's recommendation for these changes is driven by the realities of the current market and the system's long-standing challenges. As stated above, while negotiations are ongoing, the likelihood is high that none of the bids which come to fruition will satisfy the statutory mandate to transfer the entire system as it currently exists to a viable entity or entities capable of transforming it into a self-sustaining operation. At the same time, however, there will most likely be one or more viable bids for individual assets, the sale of which might increase the credibility of the process and the long-term chances of ultimately transferring all parts of the system. The development of an alternative plan for health care delivery to guide the process will also accord the Authority and stakeholders increased options and creative strategies for enhancing health care delivery through the piecemeal asset sale and attendant health care-related economic development.

Please let me know if you will approve the 60-day extension, and I will keep you informed as the Authority moves forward in seeking this legislative change to its mandate. Thank you for your consideration.

Very truly yours,


Kenneth E. Glover
Chair

cc: Members of the Prince George's County Hospital Authority