

January 16, 2013

Dear Physicians,

Subject: Public-Private Partnership Evaluation

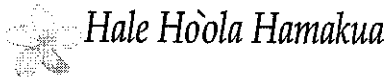
Approximately four years ago, the Hawaii State Legislature commissioned Stroudwater Associates to evaluate our Hawaii Health System Safety Net Hospitals. A primary finding and/or recommendation by Stroudwater was that HHSC should pursue private-not-for profit status given the ever increasing costs and the State's challenges in continuing to fund HHSC under its current structure. At that time, the State was providing a General Fund subsidy of \$110 million to our HHSC hospitals per annum.

Health care reform is indeed changing the way every hospital in this country does business, and HHSC continues to face a complex and ever-changing healthcare environment. A primary element of the Affordable Care Act is cost efficiency. Furthermore, all hospitals are faced with reimbursement pressure and payment reform is impacting Medicare and Medicaid reimbursement. These pressures will require us to explore ways that we can operate more efficiently and enhance our ability to focus our resources on the delivery of high quality patient care. In order for HHSC to provide continued exceptional healthcare to our island communities, it is necessary to take a look at all methods of providing that care in the best way possible.

Our dependence on general funding from the State is unsustainable, and unfortunately, each year, HHSC has seen the financial support decline. Today, all five regions divide \$82 million dollars in State appropriations as our facilities age and improvements go unfunded. The purpose of exploring a partnership with an existing care network like Banner or any other organization is to ensure our community quality healthcare in five, ten, and twenty years from now. Our hope is to provide these needed health services without requiring our patients to fly off-island.

Last August, the Maui Regional Board which operates Maui Memorial Medical Center, Kula Hospital, and Lanai Community Hospital, announced that it had initiated preliminary discussions to explore alternatives for a new public/private partnership with Arizona-based Banner Health.

Subsequently, Banner Health met with the HHSC Corporate Board and the Regional Systems Board Chairs to provide a presentation of its vision for a partnership discussion. At this time Banner Health also provided a brief presentation to key State legislators and the Governor in separate meetings. These meetings are preliminary in nature, and HHSC will evaluate the potential impact.



MY HOSPITAL
Hilo  **Medical Center**
MY COMMUNITY

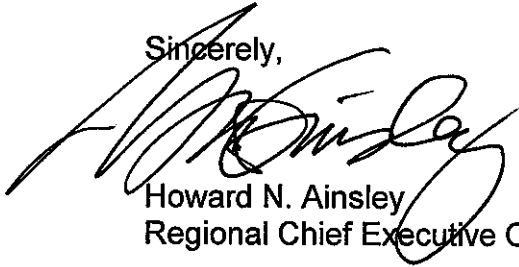


Banner Health is an integrated care network that is financially strong with a reputation of quality, and is one option of ensuring accessibility to care, quality improvement, patient safety and continued critical services to our community.

HHSC is also looking at potential partnership opportunities with health systems in Hawaii. Again this evaluation is preliminary in nature.

The article in the Hawaii Tribune Herald yesterday took us by surprise. It would have been a better situation for all of us if we knew and shared information with all of you before you had to read it in the newspaper. As we continue to evaluate this process, we will strive to keep you informed and the process as transparent as possible. We will post information on the TODAY as new information becomes available. Thank you very much.

Sincerely,

A handwritten signature in black ink, appearing to read "Howard N. Ainsley".

Howard N. Ainsley
Regional Chief Executive Officer