

**MEMORANDUM OF UNDERSTANDING
BETWEEN THE CITY COUNCIL FOR THE CITY OF COLORADO SPRINGS
AND ITS APPOINTED
MEMORIAL HOSPITAL BOARD OF TRUSTEES**

This Memorandum of Understanding is made and entered into as of March 13, 2001, by and between the City Council for the City of Colorado Springs and its appointed Board of Trustees for Memorial Hospital, owned and operated by the City of Colorado Springs.

WITNESSETH

WHEREAS the Memorial Hospital Ownership/Governance Strategic Planning Committee (the "Committee") was formed by Mayor Mary Lou Makepeace pursuant to the Rules and Procedures of City Council for the City of Colorado Springs in late 1999 and its members were Martha Barton, Tom James, William North, Bruce Shepard, Peter Susemihl and Jan Weiland with Mayor Mary Lou Makepeace and Board Chair Harlan Loomas as co-chairs; and

WHEREAS the Committee was charged to answer certain questions: "What is the role of Memorial Hospital in the community, and what is the most appropriate form of ownership and governance to achieve that role?" and to further identify the current status of Memorial Hospital, formulate options available to answer the above questions, gather information, study and analyze all options.

WHEREAS the Committee met each week of January and February, 2000 to review various documents and information including the City Charter, City Resolutions regarding Memorial Hospital, Memorial Hospital Mission, Vision, Strategic Plan and Performance Improvement Plan, Memorial Hospital Audited and Unaudited Financial Statements and other financial documents for Memorial Hospital, legal opinions issued regarding Memorial Hospital, the Citizens' Goals Memorial Hospital Report dated July 1993 and industry studies concerning trends in hospital ownership; and

WHEREAS the Committee also received presentations concerning a matrix of legal options and by Universal Health Services, Inc., a for-profit management company, by the Voluntary Hospitals of America Association and by Mr. Bruce Rockwell regarding his work in restructuring Denver General Hospital from a City-owned hospital to an independent Hospital Authority formed under Colorado law; and

WHEREAS the Committee issued its recommendations on the future ownership and governance of Memorial Hospital for consideration by City Council on February 24, 2000 and requested that City Council implement the recommendations as a whole and reconvene the Committee in twelve months from the time the recommendations are implemented to assess the degree to which the recommendations have been acted upon and withheld a recommendation as to lease or transfer of ownership of the hospital to another entity pending implementation of the recommendations; and

WHEREAS the City Council and its appointed Board of Trustees of Memorial Hospital wish to commit, to the extent legally possible, to a memorandum of understanding to implement the recommendations of the Committee that are accepted by City Council.

NOW THEREFORE BE IT AGREED AS FOLLOWS:

Section 1. The City of Colorado Springs should retain ownership of Memorial Hospital as improvements in governance have been made. Local ownership and control remain a benefit to the community and the fiscal soundness of Memorial Hospital remains in good standing with rating agencies.

Section 2. The City Council will commit to actively seek community leaders and other qualified candidates who are committed to health care and Memorial Hospital's interests, are willing to serve on the Board of Trustees and are free of competing or conflicting interests. City Council members and City employees should not serve on the Hospital Board.

Section 3. The City Council and the City Manager are required to exercise general supervision and control over Memorial Hospital in accordance with Ordinance #1856. Although such terms are not defined by the Ordinance, general supervision and control for City Council will include responsible appointment of Board members. General supervision and control for both City Council and the City Manager will also include review of Board meeting summaries issued immediately following each Board meeting, participation in an annual meeting between the City Council and Memorial Hospital Board of Trustees as deemed appropriate by City Council and all other actions as necessary by law.

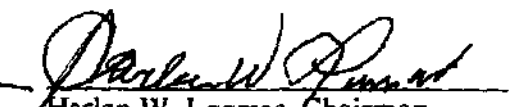
Section 4. The City Council and Memorial Hospital Board of Trustees recognize that Memorial Hospital is an integral part of the City of Colorado Springs. As such, Memorial Hospital has the responsibility to work closely with city agencies, other providers of healthcare services, community-based organizations and other groups to meet the healthcare needs of people throughout the community. Therefore, there should be a financial return to the City that may be accomplished in a variety of ways including the provision of indigent care to the people of this community or cash contributions made to the Memorial Hospital Foundation. The City Council further recognizes the mission of Memorial Hospital to include optimal health and comfort for hospital patients and their families as well as involvement and support for various health outreach programs to the community. Therefore, upon careful review by both the City Council and the Board of

Trustees, it is hereby agreed that Memorial Hospital currently needs all of its existing reserves as well as those that may be created in the foreseeable future in order to fulfill its mission. If Memorial Hospital's financial condition improves significantly, City Council may direct Memorial Hospital to set aside funds for the sole purpose of health related outreach programs or community service activities as allowed by law. City Council will not request that Memorial Hospital set aside funds for additional enhanced programs or activities until Memorial Hospital is in a financial position which meets or exceeds the "cash test"¹ and the "net income test"², at a minimum, or such other financial test as may be generally accepted in the healthcare industry.

Section 5. Memorial Hospital has begun a strategic plan for philanthropy initiated by the formation of the Memorial Hospital Foundation. The Foundation should support the mission of Memorial Hospital and serve as a link between Memorial Hospital and the community in order to assist Memorial Hospital with community outreach and fulfillment of its responsibility to work closely with city agencies, other providers of healthcare services, community-based organizations and other groups to meet the healthcare needs of people throughout the community.

IN WITNESS WHEREOF, the City Council through its Mayor and the Board of Trustees through its Chairman have caused this Memorandum of Understanding to be executed as of the date first set forth above.


Mary Lou Makepeace, Mayor
City of Colorado Springs


Harlan W. Loomas, Chairman
Memorial Hospital Board of Trustees

¹ "Cash Test" shall mean unrestricted cash and investments, as of the previous year-end, that equals or exceeds the Hospital's accumulated depreciation of its existing property, plant and equipment, adjusted to current replacement cost.

² "Net Income Test" shall mean the adjusted net income for the previous year (net income adjusted for depreciation at current replacement cost) that has averaged at least an amount necessary to equal the growth in operations for the last five years (measured by the change in gross operating revenues adjusted by the estimated annual rate changes included in those revenues), plus an amount to provide for changes in technology (currently estimated at one percent (1%) per year).