

Board of Commissioners' Statement on Process Leading to Sale of Conestoga View

March 31, 2006

Conestoga View is an important part of Lancaster County's heritage and has for many years provided high quality nursing home care for our residents. With significant changes in the nursing home industry, the sale of Conestoga View became a major decision for the Commissioners and the County. Unfortunately, the process utilized to consider and pursue the sale – although intended to reduce apprehension of residents and employees – unintentionally aggravated concerns regarding the ultimate sales decision.

Today we are not commenting on the result of the sale. We believe the result will be addressed in part through the financial closeout report being undertaken by Reinsel Kuntz Leshner, the independent accounting firm engaged to evaluate the financial status of Conestoga View at the time of sale. After we receive this report and consider the firm's evaluation, we will address the result of the Conestoga View sale based on the report and other considerations.

Entirely aside from the result of the sale, we acknowledge that the *process* leading to our decision was flawed. With the benefit of hindsight, clearly we would have handled the process differently.

As Churchill said, "Criticism may not be agreeable, but it is necessary. It fulfills the same function as pain in the human body. It calls attention to an unhealthy state of things." Rest assured that over the past few months, our attention has been called to the unhealthy state of public concern with the process that preceded the sale of Conestoga View.

Following are specific issues related to the process that should have been handled better:

1. Some flaws in the process relate to the manner in which the Commissioners retained Stevens & Lee and certain aspects regarding legal guidance.
 - The appointment of Stevens & Lee as Special Counsel, which was not disclosed to Commissioner Henderson, should have been authorized by a majority vote of all three Commissioners at a public meeting and approved by the court before the attorneys commenced work. At the very least, such vote and court approval should have been obtained as soon as possible after legal work commenced.
 - Further, a public vote to retain Stevens & Lee as Special Counsel should have been pursuant to a written engagement letter (or other document prepared by counsel), setting forth the scope of engagement and the fees to be charged. The Commissioners understood Stevens & Lee would be charging its customary hourly rate, and did not authorize a fixed fee arrangement. Apparently Stevens & Lee thought otherwise. There would be no confusion had an appropriate document been prepared at the time.
 - It would have been beneficial for Stevens & Lee to advise the Commissioners about a possible interpretation of the Municipalities Planning Code that the

Lancaster County Planning Commission was required to review the sale of Conestoga View prior to closing. The LCPC Director and its legal counsel agree with Stevens & Lee's interpretation that no such review is required – and we are comfortable with their opinion – but had we been advised of a possible disputed interpretation we might have opted for LCPC review in order to avoid any controversy over the issue. In any event, we should have been told about the issue beforehand.

- Based on information provided by Stevens & Lee, the Controller's Office and others, all three Commissioners ultimately developed the view that continuing County operation of Conestoga View was not economically feasible. To avoid any dispute over whether the Board had reached such a determination (as required by the County Code in order to sell the real estate and personal property together), Stevens & Lee should have prepared an explicit statement of our conclusion to be included in the official action approving the sale.
- After the Board approved the original sales agreement with CHR that was recommended by legal counsel in July 2005, questions arose regarding certain items of importance that had been omitted from the agreement. Although CHR readily agreed to incorporate such items by amendment, it would have been preferable had Stevens & Lee identified such details beforehand and included them in the original agreement.

2. Commissioners should also have required a written engagement letter from its financial advisor Access Financial, detailing the scope of engagement and fees to be charged, and the appointment of Access Financial to address Conestoga View issues, which was not disclosed to Commissioner Henderson, should have been by a majority vote of the Commissioners at a public meeting.

3. With regard to disclosure of the proposal to sell Conestoga View, it is helpful to address how the decision evolved. Commissioners Shaub and Shellenberger had discussed the concept of privatizing Conestoga View even before the current Board began its term in office. In March of 2004, they had the first meeting with Stevens & Lee to obtain preliminary legal advice on the concept. Commissioner Henderson was neither invited nor told about meetings with counsel, but she learned about one such meeting that occurred in September 2004 – although she was not aware of details discussed at the meetings and was not told that attorneys and staff were working on the possibility of selling Conestoga View. Commissioner Henderson was not advised of such plans until April 2005. She should have been told before that time. It was unfair and inappropriate to wait until then to tell her about the proposed sale.

4. Further, the public should have been advised of the proposal to sell Conestoga View before July 2005. The motivation for not advising the public any earlier was to not unduly alarm residents and staff. Obviously, in hindsight, this proved to be unwise and counterproductive.

Indeed, we acknowledge that inviting public input and debate on whether to sell Conestoga View would have been highly preferable and should have occurred. Our motivation –

however well-intended and prudent it seemed at the time – does not justify this failure in judgment.

There were various opportunities for public discourse. The County could have issued an RFP to potential purchasers (as Commissioner Shaub had suggested). Or, the Commissioners could have postponed in July 2005 their vote to enter a contract to sell Conestoga View in order to provide time to obtain public input (as Commissioner Henderson had suggested through her motion that was not seconded). Or, the Commissioners could have simply accelerated public disclosure of the proposed sale.

Failure to provide additional opportunity for public input was a major flaw in the sales process – and is probably the underlying factor that inadvertently created the most public consternation about the sale.

5. In addition, the Commissioners did not explain fully to the public the background and reasons for negotiating a sales agreement with CHR instead of issuing an RFP to other potential purchasers.

Although consideration was given to the possibility of issuing an RFP, the Board ultimately approved the CHR sales agreement in July 2005 because (1) CHR had demonstrated its ability to operate Conestoga View through its management of the facility for 12 years, (2) CHR agreed to commitments that would maintain important aspects regarding the quality and level of resident care and employee protections, and (3) we were told by our team of advisors that the sale to CHR was lawful and for a fair market value price.

In light of all these factors and assurances, the Board unanimously approved entering into the sales agreement in July 2005 because we believed it was preferable to sell Conestoga View for a fair negotiated price to CHR, which had proven itself to be capable and protective of residents and employees at Conestoga View.

We might have undergone an RFP process and still ultimately sold Conestoga View to CHR for all the reasons discussed above. However, that might not have resulted in the same level of cooperation we received from CHR in protecting residents and employees. We believe that by negotiating exclusively with CHR, we developed goodwill that has and will continue to flow through to the benefit of staff and residents.


6. With respect to questions raised since the sale about the County's valuation process for Conestoga View, our advisors should have provided – and the Commissioners should have required – a more detailed public analysis of value, and a clearer explanation of how the sales price reflects fair market value of the property.

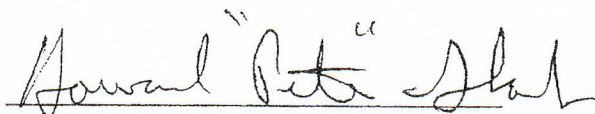
In closing, our sale of Conestoga View was well-intended and was solely to benefit the citizens of Lancaster County. We believe that, in time, all concerned will recognize the positive

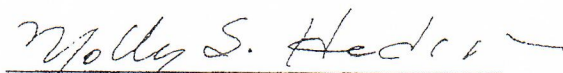
results of the sale. We readily acknowledge, though, that the process was flawed. Most importantly, we should have provided greater opportunity for public input and debate.

We have learned from our mistakes. We apologize for them, and pledge to do better going forward. As American theologian Tryon Edwards put it, "Right actions in the future are the best apologies for bad actions in the past."

BOARD OF COMMISSIONERS FOR LANCASTER COUNTY


Dick Shellenberger


Howard "Pete" Shaub


Molly Henderson