

Healthy Change for a Healthier Lakewood

A Proposal Submitted by Cleveland Clinic

April 21, 2014

Cleveland Clinic appreciates the opportunity to share a proposed vision and plan for the future of health care services to the Lakewood community in support of the City of Lakewood's request. In 1995, we made a long-term commitment to Lakewood Hospital Association (LHA) and to the City of Lakewood to provide the highest quality health care services with Lakewood Hospital at the centerpiece of that commitment. In this, the 19th year of that commitment, LHA and City leaders, seeing the unprecedented paradigm shift in the delivery of health care, have wisely decided to consider a new direction that will benefit future generations of the community. In the pages that follow, we describe our vision and plans as well as our sincere desire to continue our commitment to future generations of the Lakewood community. For us, it truly is an honor to care for the residents of the City of Lakewood and it is our hope to remain the partner with the city in meeting the future health care needs of those we've had the privilege for care for over the past 19 years.

We submit this proposal (the "Proposal") in response to the Request for Proposal ("RFP") issued by Subsidium Healthcare on behalf of Lakewood Hospital. We intend that this Proposal describe a model for health-related activities that is in compliance with all applicable state and federal laws and regulations, including the requirements of tax-exempt organizations. The representations described in this Proposal are intended to serve as the guiding principles of a future contractual relationship, but the Proposal itself is of a non-binding nature. We have reprinted the questions appearing in the RFP and have placed them in bolded italics below for your convenience. As requested by the RFP, this Proposal is divided into "Minimum Criteria" and "Non-Mandatory Criteria."

MINIMUM CRITERIA

- 1. Operational Plan and Strategic Vision: Proposal must set forth the Respondent's operational plan and strategic vision for Lakewood following the completion of the Transaction, including the Respondent's overall plan to meet community needs. The overall plan should specifically identify the strategic plans for upgrading, enhancing, and expanding the facility and services, as well as specifying plans to modify or change existing services. Particular consideration should be given to addressing how the Respondent will continue to support the overall health needs of the local community, based on those needs identified in the Community Health Needs Assessment.***

In addition, Proposal should include an explanation to describe the primary rationale for any change or reduction in the current scope of services, given the Respondent's

announced intention to add inpatient services of roughly equivalent size (in terms of beds) at other nearby facilities.

Our strategic vision of healthcare for the Lakewood community is based on the knowledge that health care is changing from a facility- and physician-based paradigm, designed to care for the sick, to a population-based effort that aims to improve the health of an entire community by helping people live healthier lives, treating their health conditions early to prevent chronic diseases, and reducing the need for “sick care” in hospitals. This is the future of health care.

This vision can best be achieved with the City of Lakewood (“Lakewood” or the “City”), Lakewood Hospital Association (“LHA”), Lakewood Hospital Foundation (“LHF”), and The Cleveland Clinic Foundation (“we” or “Cleveland Clinic” or the “Clinic”) collaborating to transform the health care resources of Lakewood to improve the health status of its citizens, meet the changing needs of the community for health care services, and support Lakewood’s efforts to become the healthiest community in America. For the purposes of this Proposal, we have called this collaboration Lakewood Healthcare Partners (a name that is also used later in the Proposal to describe a proposed corporate entity) Our Proposal involves a transformation of services provided by Lakewood Hospital from a predominantly inpatient focus to a comprehensive ambulatory (outpatient)-based program of health care services, wellness activities, and outreach services that would touch the lives of a large number of Lakewood citizens, significantly more than are served currently by Lakewood Hospital.

If the Clinic is selected, the Clinic’s primary responsibility under this Proposal would be the construction, staffing, ownership, and management of a new comprehensive Cleveland Clinic Family Health Center (the “FHC”) on the north end of the current Lakewood Hospital property (envisioned and referred to herein as the “Lakewood Health Campus”). Our Proposal envisions that the Clinic’s FHC would be one component of dynamic Lakewood Healthcare Partners initiatives, but the FHC would be financially supported by the Clinic and not by the other participants in the collaboration.

The FHC would offer the following services (“Lakewood FHC Services”):

- Emergency department
- Primary care featuring an advanced medical home model
- Selected specialties (See Exhibit 1, Service Comparison)
- Extended hours/weekends
- Procedures including cardiac and pulmonary testing
- Radiology and lab services
- eVisits/My Chart
- Home care coordinated with the FHC and Fairview Hospital

The FHC would comprise approximately 50,000 or more gross square feet, subject to further review and approvals. The FHC and the land upon which it would reside would

be owned by Cleveland Clinic, and the financial and operational responsibility of the FHC would belong to the Clinic.

If we are selected, in addition to financially supporting the FHC, we would support the potential development of a Community Health and Wellness Center to be located on the south end of the Lakewood Health Campus that provides a variety of services (“Community Center Services”), which may include:

- Fitness assessments and wellness activities
- Rehabilitation services – cardiac, orthopedic, neurologic
- Nutrition/weight management
- Educational programs
- Pool/gym
- Meeting/conference space
- Coordinated services/linkages with the FHC and other Cleveland Clinic facilities.

In addition, our vision for the new care paradigm includes community outreach activities designed to promote positive health-related behaviors and supports the goal of a “Healthier Lakewood”. It is contemplated that the resources needed for the Community Center and Outreach Programs would be funded in whole, or part, through the residual resources of LHA and LHF.

We would not have operational or financial responsibility for the Community Center or Outreach Programs, but we would support its activities through educational offerings and other activities. Both the FHC and the Community Center would be geared toward providing services that are responsive to Lakewood Hospital’s Community Health Needs Assessment, including Chronic Obstructive Pulmonary Disease (COPD), adult asthma, congestive heart failure and diabetes.

A Site Transition Plan is included as Exhibit 2.

The primary rationale for recommending transition from inpatient care to a comprehensive outpatient Family Health Center is based on the future direction of health care delivery in this nation, declining inpatient volumes locally, regionally and nationally, as well as at Lakewood Hospital, the migration of health care services from inpatient to outpatient, and the City of Lakewood’s stated goals to improve the health status of the Lakewood community. Other considerations leading to our recommendation include the projected decline of inpatient demand in selected markets, as well as significant capital needs of the Lakewood Hospital facility today and in the future to maintain operations.

The strategy behind adding inpatient capacity in certain locations is based on market analysis, current business needs, population migration, and distance from other available Cleveland Clinic facilities, and is consistent with adding or reducing services as commensurate with patient demand.

2. **Assurance of Orderly Transition and Continuity and Quality of Care for Hospital Patients:** *Proposal must specify what measures the Respondent will take to assure an orderly transition from existing services to the Respondent's proposed scope of services and to assure continuity and quality of care.*

Our proposed strategic vision to transform Lakewood Hospital (the "Hospital") from an acute care hospital to a comprehensive outpatient facility would be carefully planned and executed to assure that patient safety and quality of care is not impaired. The period beginning with a joint public announcement until final closure of the Hospital would be a critical period for monitoring and addressing issues that may present risk. Based on our experience and familiarity with the Hospital, we believe we are uniquely qualified to lead this transition in a safe and secure manner.

If selected, our administrative team would draw on its experience in the transitioning of Huron Hospital to the Stephanie Tubbs Jones Family Health Center in 2011 and the development of similar projects, most recently in Avon (2012) and Twinsburg (2011.) A vitally important need during transition would be to maintain close communication with caregivers. The Clinic's communications team is experienced and prepared to provide this support and guidance. We would support and be part of the Hospital leadership in closely monitoring staffing levels and patient safety indicators. The Clinic would deploy resources to address key deficiencies that may occur during transition, whether it is staffing, security, supply shortage or building, equipment or information technology failure.

The need for Lakewood residents for inpatient care can be readily met by Fairview Hospital and other Cleveland Clinic facilities.

To assist in identifying potential risks, the Clinic would work closely with Hospital leadership to direct an emergency management process that would bring key leaders together at least daily to report on functional readiness. This process would be important in addressing issues immediately and in projecting the importance of patient safety consistently and persistently.

We view the complete transition, including the construction of the FHC and the decommissioning of the Hospital, as taking approximately thirty (30) months to complete. If we are selected, there would be four major phases:

Phase 1 – Vacate and demolish Buildings A & B and the Detroit-Marlowe Building. Services and functions currently in Buildings A & B would be relocated or closed. All furniture, equipment, and other salvageable assets would be removed and monetized. A full-service Emergency Department along with appropriate ancillary services would continue to operate on the first floor of the main Hospital. The Emergency Department would remain operational until the FHC opens.

Phase 2 – Construction of the Family Health Center begins. (approximately 16 months construction). The Emergency Department would continue to operate in its current location until the FHC opens.

Phase 3 – This Phase deals with the decommissioning functions and services housed within the main Hospital and not required for the Emergency Department. It would also include the removal and monetizing of all furniture, equipment, and other salvageable assets. The timing of this Phase is to be determined and is dependent upon the Hospital's capability to maintain adequate staffing to assure the delivery of safe quality care. This process could begin immediately after the Phase 1 decommissioning or at an appropriate later date.

Phase 4 – Upon completion of the construction of the FHC, the Emergency Department and ancillary services would transfer to the new FHC. Remaining furniture, equipment, and other salvageable assets would be removed and monetized. Final demolition of the Hospital would also be completed in this Phase.

Preparing the Hospital for demolition would require a carefully planned decommissioning plan that addresses the handling and final disposition of furniture and equipment, artwork, archives, Protected Health Information (PHI) as defined by HIPAA, salvageable infrastructure, and hazardous materials. Contractors and vendors would need to be notified and successor responsibilities for record retrieval, phone, mail, etc. established. Drawing on experience from similar projects, we believe we are well-qualified to manage this process to safely provide care to our patients during this transition and deliver the highest possible value to Lakewood Hospital, LHA, and the City.

3. Employment of Hospital Employees: Proposal must:

- (i) *address whether and the extent to which the Respondent will commit itself to the continued employment of persons who are Hospital employees as of the date of the completion of the Transaction***

Our first priority would be to provide adequate staffing while Lakewood Hospital is still operational to ensure the safest and highest quality of care for the Hospital's patients. The Clinic would determine staffing needs at neighboring Cleveland Clinic facilities that may increase as a result of services and/or volume shifting and invite Hospital employees to apply for those positions. Depending on the timing of the Hospital closure and the opening of the FHC, Lakewood Hospital employees would be invited to apply for those positions for which they qualify. Additionally, all Hospital employees would be encouraged to bid internally for all position vacancies within the Clinic's system for which they qualify. As we indicated below in the response to Question 4, members of Lakewood Hospital's Medical Staff who are not on the Fairview Hospital Medical Staff would be invited to apply for privileges at

Fairview Hospital. The majority of current medical staff and LH currently have privileges at Fairview Hospital.

(ii) *set forth the plan and methodology by which the Respondent would intend to accomplish such a transition*

We would identify those positions (leadership, administrative and clinical) that are critical for the safe delivery of patient care and the successful transition of inpatient hospital services. If necessary, we would implement a retention incentive plan to retain those employees through the transition. Additionally, a communication plan would be used to apprise Lakewood Hospital employees of other position vacancies throughout the Clinic's enterprise. The Hospital's employees would be offered various levels of professional support in areas of resume writing, interviewing and job search techniques. Historically the Clinic has between 1,200 and 1,500 position vacancies at any given time, but this number may fluctuate depending on a number of conditions including but not limited to patient volumes and market conditions. A staffing transition plan would be designed to successfully place as many employees as possible and is described below in three phases.

Phase	Goal	Objectives
Phase 1	Ensure adequate staffing while Lakewood Hospital is still operational	- Identify those leadership positions critical to transitioning Hospital through transition - Identify those clinical positions (title and number) necessary to provide safe, quality care through transition - If need arises, create and implement retention incentive program to retain those employees needed for above stated objectives - Identify the process by which employees would be selected and relieved of duties as census drops
Phase 2	Ensure adequate staffing at neighboring Cleveland Clinic facilities where Lakewood volume/business lines may shift	- Identify staffing plan (position, shift, FTEs) where volumes are expecting to shift - Develop timeline on when these employees would need to be in place - Identify the process by which employees would bid and hence be selected for opportunities - Establish a mutually agreed upon transfer date for selected employees

Phase 3	Provide support and ensure a dignified transition for all other employees	• All displaced Lakewood Hospital employees would be given an opportunity to bid on all vacant positions for which they qualify. • For those full- and part-time employees without positions after transition, the Clinic would provide transition benefits that include severance pay, continuation of benefits through severance period, outplacement assistance and continued bidding privileges for vacant positions. Amount of severance pay would be based on length of service and job class.
---------	---	---

(iii) Affirmatively state the Respondent's commitment to comply with all applicable federal and state labor laws.

Cleveland Clinic would comply with all applicable federal and state labor laws; inclusive of any WARN Act notifications.

(iv) Specifically, Proposal must also include a summary of expected changes to staffing levels, if any, by major category (physicians, nurses, other clinical staff, non-clinical support staff, and administrative staff).

The changes in staffing levels are not available at this time with specificity. We would be able to add specificity as we get a better idea of timing, staffing needs throughout the region, and other operational issues. Upon request the Clinic would be pleased to supplement this Proposal with summaries of initial staffing modeling from its experiences in opening other family health centers elsewhere in Northern Ohio.

4. Preservation and Expansion of Medical Staff: Proposal must specify the extent to which Respondent is committed to the preservation of the Hospital's existing independent medical staff, and to the recruitment and availability of primary care and specialist physicians.

The Cleveland Clinic is absolutely committed to the preservation of the Hospital's existing independent medical staff. For over one hundred years the independent physician practice has represented the lifeblood of Lakewood Hospital. The Clinic views the presence of the Hospital's Medical Staff physicians, not only as an asset to the Lakewood community, but to the continuity of high quality patient care. We would encourage the continuing presence of the Medical Office Building as a location for private practitioners to treat their patients and they would be welcome to use the FHC Emergency Department and the radiology and laboratory resources of the FHC. Additionally, our EMR (Electronic Medical Record) system is currently used by many

independent physicians, which continues to fully supports the improved care coordination. We would continue to offer the use of our EMR system by independent physicians, subject to compliance with all pertinent federal and state laws and regulations.

If we are selected, the transition plan would include meeting with independent physicians to describe the vision for health care for the City of Lakewood and the value of their role in meeting the health needs of the community. The Clinic is well positioned to meet their current and future needs.

- **Credentialing** – For those physicians whose practices are more inpatient care based and who desire to be credentialed at another Cleveland Clinic hospital, the Clinic would encourage and assist them with that process. As indicated in the response to Question 3 above, they would be invited to apply for privileges at Fairview Hospital.
- **Quality Alliance** – The vast majority of Lakewood Hospital's independent physicians are members of the Cleveland Clinic's Quality Alliance and have offices in the City of Lakewood. This gives those physicians the opportunity to participate in quality/value partnerships with managed care organizations, access to reduced malpractice premiums, electronic medical record (EMR) implementation and other services.
- **Family Health Center Services** – Program planning for the Lakewood FHC would address those services that independent physicians rely on most to meet their patients' needs and those that are supported by the Community Health Needs Assessment.
- **Employment** – For those physicians interested in exploring employment with the Cleveland Clinic, we would work with those physicians to determine if employment would meet their needs and make best good faith efforts offer an appropriate position.

To meet the future physician specialty needs of the Lakewood population, the Clinic regularly monitors community health needs and would address those needs through recruitment or deployment from the Clinic's 19 primary and specialty institutes and in collaboration with independent community physicians.

5. **Capabilities of Respondent's Organization:** *Proposal must generally describe:*

- (i) ***the business or businesses in which the Respondent and/or the Respondent's affiliates are currently engaged;***

Delivery of medical, surgical, hospital, and other health care services and related activities, as well as medical education and research

- (ii) *the legal entity that will enter into a definitive agreement for the Transaction (the “Definitive Agreement”);*

The Cleveland Clinic Foundation

- (iii) *the legal entity or entities that will own, operate and hold any required licenses for the delivery of healthcare services, as applicable.*

The Cleveland Clinic Foundation for the FHC; and, separately, Lakewood Healthcare Partners, Inc. (as described below in response to Question 6 for any other activities on the Lakewood Health Campus requiring licenses

In responding, please provide the following information:

- a. *A description of the Respondent’s experience in developing community based programs such as the Family Health Center and their experience and ability to smoothly transition from inpatient care to an outpatient based campus.*

The Cleveland Clinic currently owns and operates 16 family health centers in Northern Ohio. Three have been developed since 2010. These include the Richard E. Jacobs Family Health Center in Avon. All of our family health centers are outpatient-based with an extensive primary care medical staff and mid-level providers, and additional specialties customized to best meet the needs of the communities that they serve.

The Clinic has extensive experience in responding to the changing environment of health care. The Clinic’s FHC’s and other outpatient facilities have developed extensive capabilities to care for many patients who previously required inpatient resources.

- b. *A description of the Respondent’s commitment to maintaining and enhancing employee satisfaction within the healthcare facility or facilities that it operates, and the mechanisms by which such commitment is implemented and assessed.*

We believe our commitment to maintaining and enhancing employee satisfaction is noteworthy. We distinguish between employee satisfaction and employee engagement. At Cleveland Clinic, employee engagement means that an employee is involved in, enthusiastic about and committed to his or her work. Since 2008, the Clinic has implemented several strategies designed to significantly improve employee engagement. Key components include: the introduction of serving leadership, caregiver wellness programs, investment in recognition programs, “Cleveland Clinic Experience” training and changes in

institutional vocabulary. Since 2008, the results have shown a dramatic improvement in engagement as measured by the Gallup Q¹² survey, with parallel improvements in patient satisfaction, as measured by the Clinic's scores on the Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS) survey. The primary measure from the Gallup¹² survey is the Grand Mean score. Between 2008 and 2013, the Clinic's Grand Mean score improved from 3.8 to 4.25 on a 5.0 scale. Gallup considers this 6-year increase as a "best practice" level. While we are proud of these results, we nonetheless remain committed to continuing to strive for improvement in employee engagement.

c. *A description of the Respondent's existing charity care and community benefits programs and plans for an outpatient based campus.*

As a charitable tax-exempt healthcare organization, the Cleveland Clinic has a tradition of addressing health needs and providing benefits to the communities the Clinic and its affiliated providers serve. The Clinic uses the national standard quantification of the Catholic Health Association (CHA) for reporting its Community Benefit. In 2012, Cleveland Clinic reported \$754.2 million in total Community Benefit. Contributing to these results are Cleveland Clinic's charity guidelines, which are among the most generous in the industry, benefiting uninsured individuals up to 400% of Federal poverty guidelines. A copy of the Cleveland Clinic's 2012 Community Benefits Report is attached as Exhibit 3.

A significant portion of the Clinic's Community Benefit relates to a broad array of outreach programs including health fairs, free screenings, community health services and community building programs. In 2012, the Clinic provided more than 300 outreach activities for a total net community benefit of \$50.0 million.

The local Family Health Center envisioned for Lakewood affords more opportunity to promote these programs consistent with Lakewood Hospital's Community Health Needs Assessment ("CHNA"). For example, outpatient chronic disease management programs should be given special priority toward addressing Chronic Obstructive Pulmonary Disease (COPD), adult asthma, congestive heart failure and diabetes as cited in the CHNA.

d. *A description of the basis on which the Respondent believes that it (or the successor healthcare organization) has sufficient current and future financial resources to carry out the intent of the Transaction (including payment of the Purchase Price and funding of capital improvements and service additions, as applicable), in the manner described in the Proposal.*

Cleveland Clinic is a AA rated healthcare organization with a strong financial position. The 2013 audited financial statements and disclosures are attached as Exhibit 4.

- e. The identity of the individuals who will be responsible for any final negotiations and who will be the key contact person.*

David L. Bronson, M.D.

- f. A summary of Respondent's typical approval process and anticipated timeline to complete the Transaction.*

David L. Bronson, M.D. would coordinate the approval process within the Cleveland Clinic, subject to governing board approval. Completion of the Transition would be timely.

- 6. Governance; Local Representation on Successor Healthcare Organization Governing Body. Proposal must contain a description of the legal structure of the affiliation (e.g., a full affiliation, addition of a sole member, full merger or joint venture), or in the case of a purchase, the extent to which Respondent plans to retain or include representation on the governing body of the Hospital or successor healthcare organization, as applicable, of residents of the Hospital's service area, Hospital representatives/City Officials and medical staff. If Respondent plans to include an Advisory Board, the construct of that board and the typical members of such a board should also be described.**

- A. This response involves considerations regarding tax-exempt status and other legal matters. The Clinic's response to this question represents its recommendation in part for the structure of the ongoing operation and is not legal advice. The Clinic may be open to alternative approaches. The primary components of the Clinic's recommendation for the legal and governance structure would be as follows:

1. Lakewood Hospital Association ("LHA") would be formally dissolved after the operations of Lakewood Hospital are wound down.
2. Lakewood Hospital Foundation ("LHF") or a newly formed Ohio nonprofit corporation (either of which being referred to hereinafter as Lakewood Healthcare Partners, Inc. or "LHP"). LHP would be the legal owner and/or oversight entity for certain future health and wellness activities within the City of Lakewood, including:
 - The new Community Health and Wellness Center described in the response to Question 1 above, potentially to be managed by an outside company, e.g., YMCA, to be constructed and operated on the Lakewood Health Campus, that may offer the Community Center Services described in the response to Question 1 above,

- A Health and Wellness Education Program for the Lakewood Schools, and
 - Outreach activities, including the awarding of grants and other financial assistance, associated with health and wellness activities of the Lakewood community.
 - LHP would not be a legal partnership. The name “LHP” is used in this Proposal to facilitate discussion of a potentially new legal entity, and the use of this name for this purpose would require Law and Marketing Department approvals from the Clinic.
3. One or more new written agreements (collectively, the “2014 Definitive Agreement”) would be entered into among the Clinic, LHA, LHF, LHP, and/or the City that would include our responses to Question 9 below, including:
- The wind-down of LHA’s hospital operations and LHA’s dissolution under Clinic management and oversight,
 - The creation of a new nonprofit corporation called LHP (or alternatively the repurposing of LHF as to become what is described herein as LHP) and LHP’s future roles and governance structure,
 - The conveyance of certain land to the Clinic (the “FHC Land”) for the ownership and operation of the FHC, with a right of first refusal of the City for the land and its improvements to enable the City to control the nature of activities on the Lakewood Health Campus, and the Clinic’s future role in owning and operating that facility and in participating in LHP, including its role as Special Member,
 - The financial terms described below in response to Questions 6 and 7, and
 - The termination of the current definitive agreement (the “1995 Definitive Agreement”) between LHA and the Clinic; the termination of the current lease (the “1995 Lease”) between the City and LHA; the satisfaction of LHA’s obligation to give notice of the termination of the Centers of Excellence services as described in certain correspondence from LHA to the City; and the creation of a new lease (the “2014 Lease”) between the City and LHP for all real property described in the 1995 Lease except for the FHC Land.
- B. If LHF is to serve as LHP, LHF could be renamed if desired and would be repurposed as set forth in revised Articles of Incorporation and Code of Regulations. If LHF is not to serve as LHP, then LHF should probably be repurposed as a Sec. 501(c)(3) Type I support organization of the newly created LHP, to which the net assets of LHA would have been transferred during the wind-down of LHA as described below.

1. Although we are open to options as to whether or not LHF should be the entity that is used as LHP, the Clinic's administration believes it would be wise for LHF to be so used as LHP instead of LHP being created by forming a new corporation for the reasons described below in Paragraph E.
- C. If selected, we propose that LHP, whether it is a new corporation or a continuation of LHF, would be overseen by a fiduciary governing board ("Governing Board") of approximately 20-25 persons, to which we would appoint three (3) voting ex-officio members and would have representation on all fiduciary committees, e.g., an executive committee. We think the Governing Board should have representatives from City official(s) and the Lakewood community. The City may wish to appoint city officials and community representatives similar to the process used to select the current LHA Board of Trustees. The Clinic would serve as a special corporate member of LHP and have the following reserve powers: (1) absolute approval of any amendments to the primary governance documents of LHP that affect the rights or interests of the Clinic, (2) pre-approval of the appointment or removal of the chief executive officer of LHP, and (3) absolute approval of any contracts or other arrangements between or among LHP, the City, LHA (if still in existence), and LHF (if LHF is not serving as LHP) and any health care provider or competitor of the Clinic regarding any matter or any permission to be granted to such a provider or competitor for rights to signage on or near the Lakewood Health Campus. Neither representatives of the City, LHA, LHP, LHF, nor the community would have a role in the ownership or management of the FHC.
- D. LHP would be the "successor organization" to LHA in the (corporate) sense that LHA's net assets would be transferred to LHP and that LHF would continue to justify its tax-exempt status in part by supporting (or actually serving as) LHP. In the sense of maintaining the archival records of LHA, including patient records and other PHI within the meaning of HIPAA, Cleveland Clinic would provide that service as further described in the response to Question 9 below.
- E. The Clinic's management does not believe that LHA should continue to exist for the purpose of serving as LHP or for any other purpose. We believe it would be wise to wind down and dissolve LHA—the corporation that has operated the hospital—since there would not be an inpatient hospital in the future planning and because future liability would be theoretically extinguished once the corporation is duly dissolved. It is recommended, therefore, that LHP be either created as a new nonprofit corporation or else be the continuation of LHF, an existing nonprofit corporation, in a repurposed model. Although the Clinic is open to options as to whether or not LHF is the entity that should be used as LHP, we believe it would be wise to use LHF as LHP instead of forming a new corporation to serve as LHP, for the following reasons:

Whatever the basis for the origin of LHP, LHP should be an Ohio nonprofit corporation and tax-exempt as a public charity under Sec. 501(c)(3) of the Internal Revenue Code. At the present time, LHF is a Sec. 501(c)(3) supporting organization, which means it is limited to being a support organization for a public charity; LHF is limited to supporting LHA. LHP, however, must engage in activities other than supporting LHA, because LHP's mission would be to support the future health and wellness of the people of Lakewood, whereas LHA's mission is to own and operate a hospital—a hospital that would cease to exist. In the event LHF is repurposed to serve as LHP, LHF should be reclassified to a Section 501(c)(3) public charity. Public charities receive their support from the general public and carry out directly their charitable missions, which is a function desired of LHP.

If a new corporation were created to serve as LHP and the net assets of LHA were transferred to that new corporation, LHF could probably continue to exist without major repurposing because the new corporation would be the recipient of the net assets of LHA and LHF is already purposed to support LHA, and arguably LHA's corporate and tax-exempt purpose would follow LHA's assets to the newly formed corporation.

Of possible concern, however, would be that a newly-formed LHP, whether a repurposed LHF or a new entity, would need approval from the IRS of Sec. 501(c)(3) public charity status while indicating that one of its major activities would be to operate, or arrange for the operation of, a wellness and fitness center; fitness centers can be viewed as commercial (and therefore taxable) activities. (Sec. 501(c)(3) status may be difficult to receive or maintain if the fitness center were open to membership by non-Lakewood residents thereby enabling the fitness center to compete with taxable fitness centers.) A newly formed corporation, to achieve and maintain Sec. 501(c)(3) status, would need to demonstrate that its philanthropy and support for the Lakewood Schools and other Lakewood community health outreach activities outweigh its status as the operator of a fitness center. If LHF were to repurpose itself as the new LHP, it would need to notify the IRS of a change in purpose and request a change in its Sec. 501(c)(3) status from a supporting organization to a public charity. There may be operational and experiential reasons to maintain LHF as an exclusively philanthropic organization, but the Clinic's management team does not feel that a compelling legal or operational reason exists to have a philanthropic organization supporting the mission of a separately incorporated LHP so long as LHP would be tax-exempt under Sec. 501(c)(3) in its own right.

It has not been discussed whether or not the City should directly own and operate the community center while LHP would engage in grant-making activities. In that regard, we continue to believe that LHP should be the entity operating the center (in

addition to its other planned activities) because the operation of such a center more closely resembles the health activities of LHA than merely making grants to the community. This should strengthen LHP's ability to maintain and use funds that had been donated to LHF to support LHA. We believe that LHF is currently reviewing the number and nature of potentially restricted donations—this process should be completed in advance of making any changes to LHF's governance documents and may inform that process.

7. ***Purchase Price/Financial Terms:*** *As applicable, the Proposal must state the purchase price that the Respondent is willing to pay for any of the Hospital Assets (the "Purchase Price"), the manner in which the Purchase Price will be paid, and how the Respondent intends to finance the Purchase Price. The Proposal must also state all other financial terms such as who bears the cost of operating losses during transition, who bears the costs of demolition (if any), site work, design, construction, any commitments regarding compensations for early termination of the existing lease agreement, etc.*

The Clinic proposes to acquire the FHC Land that is necessary to construct and provide access to the FHC, as described below in the response to Question 9.G. The price of the land would be negotiated. In addition, we wish to discuss with you separately an arrangement regarding our continued long-term presence in the 850 Columbia Road building.

Capital costs for construction of the FHC would be funded by the Clinic. LHA would bear the costs of demolition to prepare the FHC Land for construction. The Clinic would be financially responsible for the design, site work and construction of the FHC.

LHA's obligation regarding lease payments would be addressed in the 2014 Definitive Agreement. LHA would bear operating costs during transition and wind down.

Other financial considerations are discussed in the responses to Question 9 below and include the Clinic's readiness to manage LHA's archival records for a one-time fee and to provide insurance protection to LHA at fair value for protection against prior or future LHA-related occurrences. To the extent we would acquire a future leasehold interest in current LHA-owned real estate, we would request a purchase option to be included.

8. ***Capital Commitment:*** *Proposal must specify the nature and extent of its capital commitment to the envisioned campus, including the type of improvements (renovations/additions) and equipment upgrades/acquisitions that it anticipates based on existing and Respondent's proposed new service lines, if any, the amount of capital expenditures to which it will commit and the period of time over which the commitment will be made.*

As described elsewhere herein, the Clinic proposes to make a significant capital commitment at a minimum in the range of \$35-40 million to the Lakewood Health Campus in the form of the design, construction and equipping of the FHC. Beyond

opening of the FHC, the Clinic would expend whatever capital is required to maintain the building and equipment to the highest standards of safety and appearance.

- 9. Description of Contingencies and Other Requirements in Definitive Agreement: The information conveyed in this RFP and in the Hospital Information are designed to provide Respondents with sufficient information, or the opportunity independently to obtain sufficient information, fairly to evaluate the risks and benefits of completing the envisioned affiliation. Therefore, Respondent should detail any contingencies or other terms and conditions that it would require in the Definitive Agreement, if any.***

The 2014 Definitive Agreement would address the following:

- A. As we indicated above, the City would authorize the cessation of Lakewood Hospital inpatient operations and the razing of buildings owned by LHA that comprise the Lakewood Hospital complex as appropriate for the wind-down of hospital operations, while continuing to run the hospital's emergency department during the wind-down of LHA inpatient operations and, if reasonably possible, until the emergency department of the FHC is operational and open. The schedule of the cessation of inpatient operations may be accelerated to protect patient safety or to preserve the assets of LHA.
- B. The City would agree that all notices of the closure of hospital services, either as "Required Services" described in the 1995 Lease or as Centers of Excellence described in correspondence dated June 9, 2010 from the President of the Cleveland Clinic Regional Hospitals to the City are waived or deemed duly provided, even if the closure of inpatient operations were accelerated as described above.
- C. The 1995 Lease and the 1995 Definitive Agreement would be terminated upon effective dates to be negotiated. The Clinic's obligation to serve as Regular Member would be terminated. All obligations of LHA or the Clinic regarding the cost to debt ratio described in the 1995 Lease would end when inpatient hospital operations were terminated.
- D. LHA, under direction of its Board of Trustees, would be authorized to monetize the net assets of LHA and transfer them, whether monetized or not, to LHP effective upon the formal dissolution of LHA, or sooner if so determined by the mutual agreement of the Clinic, LHA, and LHP. The Clinic would have a right of first refusal to purchase any assets of LHA.
- E. The Clinic would provide its in-house administrative expertise and support to create LHP as a new corporation, or else modify the governance documents of LHF to convert it into LHP, and submit appropriate applications or notices regarding tax-exempt status or assist designates of the City in doing so. LHP or LHA or LHF or the City would incur the costs of any outside or consulting activities in connection

therewith. Neither the Clinic nor LHA make guarantees as to the success of such applications. The Clinic would not be responsible for any operational, management, or fiduciary aspects of LHP, except for appointing three members of its Governing Board as described above.

- F. If selected, the Clinic, as current manager of Lakewood Hospital, would provide administrative management, including the seeking of regulatory approvals, of the cessation of all Lakewood Hospital operations, including the wind-down of all hospital and other operations of LHA. The wind-down period would extend from the cessation of inpatient operations through the formal corporate dissolution of LHA. The wind-down period would include the continued operation of the LHA emergency department until its closure, as well as those ancillary departments (laboratory, radiology, etc.) needed to support the emergency department during the wind-down. All expenses and costs of the wind-down, including the razing of buildings to prepare the FHC Land for the construction of the FHC, would be borne by LHA. Subsequent to the dissolution of LHA and the Term of the Clinic's obligations hereunder, the Clinic would maintain and administer the archival recordkeeping operations of LHA, complying with applicable laws, pursuant to the Clinic's record retention policies. LHA would continue to incur the salary and benefit expense of LHA's executive leadership appointed by the Clinic and other appropriate expenses allocated by the Clinic subsequent to the cessation of inpatient hospital operations through dissolution. Since responsibility for the post-dissolution recordkeeping operations is significant and was not contemplated or compensated for in the 1995 Definitive Agreement, we propose that the Clinic assess LHA a one-time fee to be negotiated for the post-dissolution and post-Term archival recordkeeping responsibilities.
- G. The City would convey the land bordering Detroit Rd. between Belle Ave. and Marlowe Ave., and extending to the south for a sufficient distance mutually agreed upon, (the "FHC Land") for a value to be negotiated with the Clinic, as the location of the Lakewood FHC. This conveyance of land would be subject to a right of first refusal to be held by the City entitling the City to purchase both the land and any building(s) thereon upon the same terms offered to the Clinic by a potential buyer, thereby enabling the City to ensure that the activities on the city block referred to herein as the Lakewood Health Campus are consistent with a health and/or wellness mission.
- H. The City would grant zoning, architectural, construction, engineering, regulatory, tax-exemption or other approvals within its authority as requested by the Clinic in the design, construction, and maintenance of the Lakewood FHC. The City would support publically and otherwise the Clinic's request for any such approvals that are not within its authority to grant.

- I. The Clinic would construct at its cost, and own and operate, the FHC on the FHC Land and maintain and provide the services referenced as the Lakewood FHC Services in the response to Question 1 above.
- J. The City, either directly or by agreement with NHCF, would provide and maintain safe and adequate parking, at no cost to the Clinic or its patients, for the FHC at some location on the land currently leased by the City to LHA and that is within 100 yards of the FHC.
- K. Neither the City, NHCF, LHA, nor LHF would have a role in the ownership, governance, management, operation, or finances of the Lakewood FHC.
- L. Unless the Clinic were to grant prior approval, no provider of health care services other than the Clinic would be permitted to operate or manage a facility, and no signage identifying such provider would be permitted, on the land currently leased by the City to LHA while the Clinic owns and operates the Lakewood FHC.
- M. We will ensure that Fairview Hospital and our other nearby hospitals are capable of meeting the inpatient community hospital needs of the Lakewood community.
- N. The Clinic, LHA, LHF, NHCF, and the City, and all of their officers and board members would hold harmless each other and their affiliates, and their officers and other fiduciaries in connection with the management, cessation, wind-down, or dissolution of LHA. These entities would also hold harmless and indemnify, to the extent permitted by law, each other in connection with claims and losses going forward. LHP would provide indemnification and directors and officers insurance protection (indemnity and expense) for the three individuals on its Governing Board who are appointed by the Clinic.
- O. In consideration for insurance premiums of fair value paid by or allocated to LHA, the Clinic will provide insurance protection (indemnity and defense), including without limitation professional liability and directors and officers insurance, for the officers, trustees, employees, and other agents of LHA, for LHA-related occurrences both prior to and subsequent to the dissolution of LHA and the Term of the Clinic's obligations.
- P. If we are selected, the duration of the Clinic's rights and obligations as described herein to operate the Emergency Department at the FHC would extend through the initial 30-year term of the 1995 Lease and all of our other obligations, including operating the FHC itself, would extend through January 1, 2030, automatically renewable annually for additional one-year terms. We would reserve for the Clinic the ability to terminate the relationship earlier than that if certain significantly adverse conditions arose, and these can be discussed separately; however, the

Clinic's obligation to maintain and administer the archival records of LHA pursuant to the Clinic's record retention policies and to provide insurance protection would extend beyond the Term or any early termination of the Term..

- Q. If we are selected, legal language describing these and other customary contractual terms would be included in the 2014 Definitive Agreement, including the fact that sufficient and valuable consideration is afforded and received by all parties. Standard legal terms would be included in the Definitive Agreement, as well as provisions requiring compliance with all applicable laws including those that apply to tax-exempt organizations. The Clinic reserves the right to require other terms not described herein.

10. Regulatory Approvals: Proposal should state Respondent's understanding of and experience relative to obtaining approvals for corporate affiliations or any other regulatory approval of any federal, state and/or local agency ("Required Regulatory Approvals") by the date of the completion of the Transaction. At a minimum, the Respondent must (i) describe in detail how it intends to obtain any Required Regulatory Approvals, (ii) state the time frame in which the Respondent anticipates the Required Regulatory Approvals will be obtained, (iii) identify the individuals in the office of each federal, state and/or local agency with which the Respondent will discuss the process of obtaining a Required Regulatory Approval, and (iv) state what collaboration or assistance will be required from the Hospital in obtaining the Required Regulatory Approvals.

As described in response to Question 2 above, the Clinic has considerable experience in collaborating with applicable regulatory officials in the closure of a hospital in the Cleveland, Ohio area. In many cases, the manner in which regulatory approvals would be sought and the offices and personnel to be contacted is contained in proprietary and confidential privileged files of the Clinic's administrative team and can be accessed for the purpose of advancing this Proposal. The Clinic's administrative team would work seamlessly with the Hospital's management to achieve the goals of this Proposal. The Clinic is willing to discuss specific requests in this regard.

NON-MANDATORY CRITERIA

The following non-mandatory criteria reflects those features of a Proposal that the Hospital prefers to be included in this Transaction. These criteria are not mandatory, however. The Hospital will use the responses to the non-mandatory criteria in its evaluation of the Proposals.

1. **Assumption of AR and AP; Collection of Accounts Receivable:** Respondent may include a proposal for the purchase of the Hospital's accounts receivable and the assumption of its accounts payable. For Respondents who do not wish to purchase the receivables, Proposal should state whether the purchaser, as the successor healthcare organization, has the capability and is willing to direct its financial and accounting staff, on behalf of and for the benefit of the Hospital and using billing and patient records acquired as part of the Hospital Assets, to diligently collect and pay to the Hospital the accounts receivable owed to the Hospital in connection with its provision of hospital services prior to completion of the Transaction.

During the wind down, LHA, under management provided by the Clinic, would run out its own accounts receivable and accounts payable.

2. **Staff Training:** Respondents may include proposals as to a plan or program of staff training and educational opportunities and benefits for Hospital employees.

Education is part of the Cleveland Clinic's mission. The Clinic has made substantial investments in training and education programs in career development, on-line education and training, medical libraries and health care training programs. The Clinic encourages its employees to advance themselves professionally through the numerous offerings, including the following:

- **COMET & eLearning** – All employees complete mandatory annual training refreshment on topics such as, patient safety and HIPAA,
- **Computer Training** – Classes offered through the Cleveland Clinic Information Technology Department,
- **Cleveland Clinic Academy** – Offers a broad spectrum of classes in leadership, education and management. Course credits are transferrable toward a Master's Degree at local participating universities,
- **Center for Continuing Education** – Offers classes in 27 clinical specialties on a variety of media including live events, web casts and text-based programs, and
- **Tuition Reimbursement** – The Clinic offers a generous college tuition reimbursement benefit to employees.