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Sent: Monday, June 30, 2014 8:59 AM
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Subject: Materials to review for our Step 2 Team call today
Attachment(s): "Initial negotiating points for CCF v2 062614.docx"

Step 2 Team members -
We have prepared our recommendation to you for our initial negotiating "platform" for our discussions with CCF.

You will notice that we have made some edits to the process we've recommended, but we will walk through our rationale for that on our call at 4:00 today. We look forward to hearing your input this afternoon.

Thanks in advance, Lisa

Lisa Fry
Partner

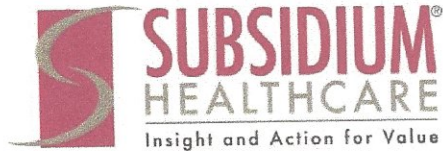


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Preliminary Recommendations to Step 2 Team for Initial Negotiating Points with CCF
V2, as of 6/26/14
DRAFT – FOR INTERNAL USE ONLY

Overall Approach:

- Subsidium and the LHA team believe that we must first negotiate with the Clinic to determine whether our current partner is a viable option for us in the future, and/or negotiate the principle terms of early termination.
- Within the next approximately 30 days (which we could extend later if needed), we will first focus on the top four overarching deal points to gauge whether we have a strong probability of reaching an agreement.
- If we cannot make substantial progress toward agreement on our four fundamental deal terms, then we will consider shifting our focus to negotiating the terms of an early termination option for Lakewood. (Note: this is a slightly different order than we discussed with the Caucus, but a faster way to gauge the Clinic's commitment to our major deal terms).
- We will communicate to MetroHealth that the Lakewood team is still very interested in their proposal and will need approximately 45-60 days to discuss the existing relationship with the Clinic, given there is no current provision to terminate for convenience.

Phase 1: Initial Negotiating Period: test the waters on the foundational terms

1. On the "closing" date, the Lakewood community ends up with a negotiated amount of money to fund a non-profit foundation to invest in the health needs of the Lakewood community. We will talk in general terms about the desire of Lakewood to retain its current cash (and equivalent) assets and some additional payments – but not offer a specific target amount in the 1st meeting.

Lakewood targets for amount to include:

- Retention of the current LTIP funds
- Retention of the current LHF funds
- An amount that acknowledges the economic value of an early termination of the current lease agreement or the impaired value of the asset under CCF management [still need to discuss/decide how we want to phrase this]
 - No less than current NPV of lease payments ~\$10M; and nearer to their projected liability of nearly \$150-200M
- Accounts appropriately for main property purchase, and for ancillary properties, if included in the transaction (e.g., 850 Columbia Road facility)

2. CCF takes on full responsibility for the transition and wind-down period (both operationally and financially) in exchange for greater autonomy over how and which services are delivered during the transition period
3. Size of facility and scope of services – must include ambulatory surgery services, and 23-hour/short stay beds to support ASC, and thus, be a larger facility than 50,000 sq. ft.
 - Business case for larger facility could/should include assumptions regarding the decanting of some outpatient services from Fairview campus to Lakewood campus
4. The City of Lakewood must retain a right to reclaim the land on Detroit Avenue if a change in use is contemplated

Other Point of Note:

- The Clinic team should be on notice at this point that they are working uphill against recent negative sentiments as a result of the recent Avon/Rehab decision

Phase 2: remaining significant terms if we get past the initial foundational terms in Phase 1

- Governance – dependent upon the ultimate mission/vision of the succeeding community organization, but no special reserve powers for CCF
- Demonstrable commitment to health care delivery in Lakewood in the long-term, and demonstrable commitment to test and provide innovative service models in Lakewood (e.g., population health, etc.)
- Residency programs in Lakewood
- Additional evidence of commitment to independent community physicians (e.g., guarantee to keep Fairview as an open medical staff)
- Guarantees on levels of charity care
- Parking – CCF must be accountable for its own parking needs and purchase additional land, if necessary to support it
- Timing commitments?
- Negotiations should include a guaranteed minimum numbers of ongoing jobs in Lakewood

Summary of goals for Phases 1 and 2

GIVE	GET
• Greater flexibility to CCF to make unfettered decisions about how to run the transition and wind-down period • City and LHA support CCF from a public relations perspective • Give up an inpatient facility • Jobs • Tax base	• Significant financial resources which will enable future investments in the health of the Lakewood community • Preserve the existing capital resources, and prevent the potential risk that the City ends up with an empty resources and significant expenses in 2026

Follow-Up Phase: if material progress cannot be made toward the fundamental terms in Phase 1

- If at the end of the initial 45-60 day negotiating period, both parties cannot agree that we are on a path to reaching an agreement and/or material progress has been made, negotiations will be shifted to focus more on negotiating the terms of a potential early termination of the existing agreements (if another agreement can be completed)
 - CCF agrees to allow LHA and the City to negotiate with another party (MetroHealth System)
 - Terms and conditions for potential payments, transition responsibilities, etc. would need to be negotiated in case another arrangement can be made
 - Current lease stays in place until alternative agreements could be negotiated, approved and executed