

Capella Healthcare



Capella Healthcare

- Founded in May of 2005 by seasoned healthcare professionals with a vision to provide clinical, operational and financial expertise to community hospitals
- Owns 14 hospitals in 7 states
- Headquartered in Brentwood, TN
- 2011 revenue: \$684 million
- Privately held company with significant financial resources
 - Partners with GTCR Golden Rauner (investment firm)
 - GTCR Gold Rauner made an initial \$200 million equity commitment
 - GTCR Gold Rauner as since made an additional commitment to Capella for new growth opportunities

Capella Hospital Acquisitions

- Capital Medical Center (Olympia, WA)
- River Park Hospital (McMinnville, TN)
- Southwestern Medical Center (Lawton, OK)
- Hartselle Medical Center (Hartselle, AL)
- Jacksonville Medical Center (Jacksonville, AL)
- Mineral Area Regional Medical Center (Farmington, MO)
- National Park Medical Center (Hot Springs, AR)
- Parkway Medical Center (Decatur, AL)
- St. Mary's Regional Medical Center (Russellville, AR)
- White County Community Hospital (Sparta, TN)
- Willamette Valley Medical Center (McMinnville, OR)
- Woodland Medical Center (Cullman, AL)
- DeKalb Community Hospital (Smithville, TN)
- Stones River Hospital (Woodbury, TN)

Most Recent Headlines: Capella

- January 15, 2014: HCA announced it will purchase Grandview Medical Center from Capella Healthcare
- Michael Wiechart took over as CEO of Capella Healthcare
- September 2013: reported from Reuters, the Chicago based buyout firm GTCR had reached out to Bank of America Merrill Lynch for help looking for potential buyers
 - Two of Capella's possible buyers were LifePoint Hospitals Inc. and IASIS Healthcare. A third buyer, Regional Care Inc., was also a possibility.
 - According to the report from Reuters, the deal could have been valued around \$1 billion

IASIS Healthcare



IASIS Healthcare

- Founded in 1998, privately held IASIS Healthcare is a leading owner and operator of community-focused hospitals in high-growth markets
- IASIS Healthcare began principal operations in October of 1999, in transactions arranged by the management team and Joseph Littlejohn & Levy
- In 2004, Texas Pacific Group, a private equity firm managing more than \$48 billion in assets, led a group of investors to acquire IASIS.
 - Today, TPG is the single largest stockholder in IASIS
- 17 Hospitals spanning Arizona, Arkansas, Colorado, Louisiana, Nevada, Texas and Utah
- 2011 revenue: \$2.8 billion

IASIS Healthcare

- Strategy
 - Delivering Outstanding Quality Care
 - Growing Strong Physician Partnerships
 - Building Operational Excellence
 - Supporting Hospital Boards and Management Teams for Local Success

Most Recent Headlines: IASIS

- January 2014: IASIS Healthcare appoints a new Board of Director, Thomas C. Geiser.
 - Geiser has served as a senior advisor to TPG, IASIS' majority owner, since 2006
- October 2013: IASIS announced the completion of the sale of three Florida hospitals, Palms of Pasadena Hospitals, Memorial Hospital of Tampa, and Town and Country Hospital, to HCA West Florida
- September 2013: Announced the sale-leaseback transaction with Medical Properties Trust, Inc. involving the land and buildings associated with Glenwood Regional Medical Center in LA, Mountain Vista Medical Center in AZ, and The Medical Center of Southeast Texas.
 - IASIS continues to own and operate the business of these three hospitals and now leases the land and buildings associated with these facilities

Next Steps: Letter of Intent Process



Next Steps: External Letter of Intent Process

Next Step	Approximate Timing
Seek approval from Caucus to proceed with next steps below with all six interested parties	Today
Sign non-disclosure agreements	Week of February 10
Schedule meetings with MetroHealth and Cleveland Clinic	Weeks of February 17 and 24
Prepare data book and request for proposed letters of intent (RFP-LOI)	Complete by February 14
Seek input and approval from Step 2 Team for data book and RFP-LOI	Complete by February 19
Distribute data book and RFP-LOI to interested parties; provide approximately 1 month for responses	Complete by February 21

Typical Outline for Data Book

1. Executive Summary

- a. Hospital overview
- b. Corporate organization
- c. Summary financial data
- d. Recent developments
- e. Affiliation rationale

2. Considerations for an Affiliation

3. Market area and Competition

- a. Local market demographics
- b. Competition
- c. Community Health Needs Assessment

4. Hospital Description

- a. History
- b. Facility
- c. Services
- d. Medical staff
- e. Payer mix
- f. Corporate functions
- g. Lakewood Hospital Authority
- h. Relationship to City of Lakewood
- i. Licensure, Legal Issues and Compliance

5. Historical Financial Statements

Guiding Principles for Evaluation of Proposals



Context: How Will We Use Your Input in the Evaluation Process?

External-Facing: for the request for proposals for letters of intent

- Minimize the structured requirements to maximize flexibility for potential responders
- Focus on key tenets:
 - Proposal must address how bidder will meet the health needs of the community
 - Proposal must demonstrate a long-term commitment to health care in Lakewood, particularly economic commitment
 - Will include certain minimum service components (e.g., inpatient services)

Internal Use: evaluation criteria for proposed for letters of intent

- Must meet minimum requirements shown to the left
- Extra consideration for key areas of interest based on Trustees' input:
 - Physician alignment strategy
 - Innovative approaches, focused on population health and medical home models
 - Financial terms which position Lakewood and the future Foundation to make additional health-related investments in the community

Summary of Trustees' Input

Category	Number of Responses	Themes / Observations			
		Hot Topic	Consistency in Responses	Diverse Responses	Comments
1. Scope of Services - Option A: Ambulatory Care/Comprehensive Health Park Campus	12				ASC, ED, Behavioral Health are must have's
2. Scope of Services - Option B: Inpatient Facility	8				Dependent on partner
3. Innovation/Technology	10				Must include innovation approaches to care
4. Physician Relationships	10				Private physicians need to be included
5. Financial Terms	11				Focus on land asset, replacing the value of the lease and payroll taxes, and funding future Foundation
6. Exclusivity or Non-Competes	9				Dependent on terms; not a must have
7. Charity Care Commitments	8				Charity Care is a must have
8. Governance Roles	9				Dependent on partner
9. Timing/Transition/Implementation Plans	9				Consistent leaning toward 2016 timing
10. Fund Raising (Foundation Support, Collaboration)	7				Consistent responses - important to continue
11. Branding, Naming, and Looks and Feel	10				Needs further discussion - dependent on partnership
12. Prior Liability "Runout"/Indemnification	7				Legalities have to be discussed no matter what
13. Other Key Elements	6				See Appendix

Category: Scope of Services – Option A: Ambulatory Care/ Comprehensive Health Park Campus

Overall Themes:

- Strong supported opinions
- Very consistent
- ASC is a Must

Number of
Responses:
12

Examples of Specific Input Points:

- Overall strategy could be to make Lakewood the center for all outpatient activities for Lakewood/Fairview service area
- Primary Health Services tailored to needs of Lakewood residents
- Service examples stated include: outpatient surgery, primary care, behavioral health, emergency department/urgent care, laboratory, imaging, chronic condition care, PT/Rehab, wellness, home care, rotating specialists and mobile diagnostics
- Maintaining the service examples above will attract physicians

Category: Scope of Services – Option B: Inpatient Facility

Overall Themes:

- Dependent on Partnership
- Scattered Responses
- Full Service Hospital

Number of
Responses:
8

Examples of Specific Input Points:

- This option seems entirely dependent upon what potential partner(s) we select
- Full service hospital – services dependent on what our partner thinks makes the most economic sense
- There seems to be limited interest in retaining inpatient services
- Might not be the practical option
- MetroHealth – it is a great institution but it has to deal with County politics which could be a distraction

Category: Innovation/Technology

Overall Themes:

- State of the Art
- Very consistent responses
- Access to latest technology
- A Must Have

Number of
Responses:
10

Examples of Specific Input Points:

- State of the art connectivity for home health care
- Comprehensive program to improve health and wellness in the Lakewood Hospital Service area
- Examples of Technology and Innovation mentioned include:
 - Medical Home/Healthcare Home Model
 - Creation of an Accountable Care Organization
 - Health Screenings
 - Centralized record keeping and patient data

Category: Physician Relationships

Overall Themes:

- Responses across the board
- Private physicians included
- Must have
- Community physicians

Number of
Responses:
10

Examples of Specific Input Points:

- Preference for local private practice access; absolutely need non-CCF physicians
- Subsidize private practice and specialty groups to open/maintain offices in Lakewood
- Broad relationships to maximize number of physicians working in community

Category: Financial Terms

Overall Themes:

- Hot Topic
- Concern for Lakewood Community
- Compensation for land and fund a Foundation

Number of
Responses:
11

Examples of Specific Input Points:

- Focus on sale or lease of land; must be compensated for this asset if transferred; some suggested including covenants about the use
- Should include some mechanism for funding the new Foundation for Lakewood community health investments
- If the deal is with the Clinic, several comments that it should include compensation for early termination of the lease and lost payroll tax revenues
- Some input regarding sharing the demolition costs or capping the costs to Lakewood/LHA

Category: Governance Roles

Overall Themes:

- Dependent on Partner/Investor commitment
- Differing views

Number of
Responses:
9

Examples of Specific Input Points:

- Depending on partner/investor commitment and city compensation – board may include city officials
- LHA should be a partner in governance
- Governance over certain components depends on what we end up with
- Appointment of several board members by the City of Lakewood

Category: Timing/Transition/Implementation Plans

Overall Themes:

- Fairly consistent on timing (2016, align with Avon)
- Dependent on deal

Number of
Responses:
9

Examples of Specific Input Points:

- Needs to happen before 2016
- Alignment with timing and expansion of Avon Clinic
- Critical to balance the need to move fast, but carefully

Category: Branding, Naming, and Look and Feel

Overall Themes:

- Strong PR
- Hot Topic
- Dependent on Partner

Number of
Responses:
10

Examples of Specific Input Points:

- Naming will depend on commitment of partner
- Lakewood City Planning Department should guide decision making
- Must be something the citizens of Lakewood would take pride in
- Brick facade. No glass or stainless steel structure

Preliminary Guiding Principles for Evaluation of Proposals and the Negotiating Process

- In keeping with the input from Trustees and per the Board's resolution in December 2013, the future health care system in Lakewood should be defined and evaluated relative to two critical criteria:
 - Support the community health needs in the future; and
 - Financial viability in the near term and sustainability for the future.
- Therefore, the Guiding Principles for negotiations should also be consistent with those two key criteria

Preliminary Guiding Principles for Evaluation of Proposals and the Negotiating Process

Community Health Needs

- Include minimum set of services required to appropriately serve the health needs of the community
- Incorporate innovative services
- Transition plan is critical
- Ensure services are available to all Lakewood residents
- Retain some level of influence over services offered in Lakewood (e.g., governance or covenants related to land)
- Increased focus on prevention and health promotion

Financial Viability/ Sustainability

- Demonstrate long-term economic commitment to health care in Lakewood
- Understand the full “value” of the existing lease and what early termination implies
- Proactive approach (possibly including economic commitment) to retaining and growing physician presence in Lakewood
- Economically viable solution for the City

Appendix



Category: Exclusive or Non-Competes – i.e., Would Lakewood Agree to Exclusivity

Overall Themes:

- Scattered responses
- Dependent on agreements/financial terms

Number of
Responses:
9

Examples of Specific Input Points:

- No exclusivity
- Best option – in addition to a CCF outpatient facility, there are outpatient facilities for competing health care systems
- Unsure
- It should cost more for an exclusive contract
- Hard to achieve if non-employed physicians continue serving Lakewood

Category: Charity Care Commitments

Overall Themes:

- Must Have
- Very Consistent

Number of
Responses:
8

Examples of Specific Input Points:

- Expectation that CCF's Charity Care program would continue in the future
- Fundamental to retaining tax exempt status
- Charity Care Commitments should be part of the deal

Category: Fund Raising (Foundation Support, Collaboration)

Overall Themes:

- Must Have
- Consistent responses

Number of
Responses:
7

Examples of Specific Input Points:

- It is in the self interest of any partner to support the Foundation since the Foundation exists to support the hospital
- Would have support of the LHF and donors as long as the final project is in the best interest of the community
- LHF would need to change its charter to embrace combined Lakewood/CCF effort for health and wellness

Category: Prior Liability “Runout”/Indemnification

Overall Themes:

- Few responses
- Must Have

Number of
Responses:
7

Examples of Specific Input Points:

- There will be a negotiated legal matter with any partner
- Not an issue – has to be addressed with old party or new party

Category: Other Key Terms

Overall Themes:

- Fewest responses
- Scattered

Number of
Responses:
6

Examples of Specific Input Points:

- Need to be careful with “Health Campus” concept
- Early termination of the lease is a big factor
- Keep in mind key services per community assessment
- Mindfulness of financial impact of any new operations on the City
- Winterhurst site location would probably be better

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Insight and Action for Value

Lakewood Hospital Association Trustees Caucus
Discussion Document

December 10, 2014



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Summary of Letter of Intent: Key Terms

Section/Topic	Summary of Terms
Parties to Agreement	CCF, LHA, LHF and the City
Founding Principles	Based on the changing health care environment (from sick care to population-based care); objective to transform services in Lakewood from inpatient to comprehensive outpatient, wellness and outreach services
Key Components: FHC and Services	<ul style="list-style-type: none"> • CCF would build the FHC: approx. 62,000 sq. ft and ~\$34M • Requires estimated 2.5 acres • Parking still under discussion, but intent is to maximize parking in the Belle Avenue deck and ensure it covers ongoing operating and maintenance costs • Includes 24/7 Emergency Department • Buyback provisions for the City for the land and improvements

Summary of Letter of Intent: Key Terms

Section/Topic	Summary of Terms
New Agreement	We would develop a new “2015 Definitive Agreement” which would replace the existing Lease and Definitive Agreement from 1995
New Tax-Exempt Entity	<ul style="list-style-type: none"> • Create a new tax-exempt, community-based foundation • CCF would fund \$24.4M to the foundation (<i>timing of payment is still under final discussion</i>) • CCF would also contribute additional payments of \$500K per year for 16 years (total of \$8M)
Role of CCF in New Entity	<ul style="list-style-type: none"> • Board seats: CCF would have 1 out of every 6 seats • 2015 Definitive Agreement would include a mutually agreed-upon naming opportunity for CCF related to a program or facility funded by the new entity, as long as it doesn’t conflict with a donor naming opportunity • CCF has right of first refusal to be the provider of programs/services over \$500K/year

Summary of Letter of Intent: Key Terms

Section/Topic	Summary of Terms
Wind-down/ Dissolution	<ul style="list-style-type: none">• The President of the LHA will direct the dissolution plan• Dissolution plan will be an exhibit to the 2015 Definitive Agreement• LHA Trustees can be substituted by the Member during the wind-down period (except at least one representative of the City of Lakewood)• LHA balance sheet will be used to fund the wind-down with CCF covering any costs in excess of the LHA assets• 850 Columbia Road will be sold to CCF at estimated current market value• All assets of LHF excluded• The land under the Hospital, except what is sold for FHC remains the property of the City• City also retains ownership of other property, including parking garage, MOB, Community Health Center, homes and paved lots

Summary of Letter of Intent: Key Terms

Section/Topic	Summary of Terms
FM Residency	The FM Residency program will relocate from Fairview to Lakewood FHC
Emergency Dept	<ul style="list-style-type: none"> • The President of LHA will continue to operate the current ED at Lakewood during the wind-down, if reasonably possible, until the FHC's ED opens • Members of the LHA Board of Trustees will cooperate with and support the LHA President except where they believe in good faith it is contrary to their fiduciary obligations
Records	CCF will administer archival recordkeeping
Support	<ul style="list-style-type: none"> • The City's Mayor will publicly support the transition • The City will promptly grant needed regulatory approvals, etc., which are within its authority • CCF, in turn, will work with Avon to help negotiate an agreement with Lakewood on payroll tax-sharing

Summary of Letter of Intent: Key Terms

Section/Topic	Summary of Terms
Other Terms	<ul style="list-style-type: none">• No other health system provider on the same land• CCF will cover insurance runout• CCF will use its brand and market position to help Lakewood attract a wellness center partner (if desired)• The City will include at least one employee benefits health plan choice that includes CCF as a preferred provider• All parties are subject to confidentiality agreement during the period prior to Definitive Agreement

Financial Terms Summary



Summary of Discussions and Recommended LOI

	Date	Transition payment	Contribution to Foundation	Retained assets	850 Columbia Road	Total
CCF 1 st Offer	Sept. 11 th	\$20	\$5	6	n/a	\$31
LHA counter	Sept. 24 th	50	12	6	n/a	68
Caucus poll		31.95	5	6	8.2	51.15
CCF response	Nov 5 th	26	8	6	n/a	40
LHA counter		31.95	5	6	8.2	57.15
CCF response	Nov 10 th	26	8	6	5	45
LHA counter	Nov 24 th	26	8	6	8.2	48.2
<i>Current LOI -- recommended</i>	<i>Dec 9th</i>	<i>\$24.4</i>	<i>\$8</i>	<i>\$6</i>	<i>\$8.2</i>	<i>\$46.6</i>

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Lakewood Hospital Association Trustees Caucus
Discussion Document

April 3, 2014



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Agenda

- Updates on the external RFP process
- Review/discussion of the internal financial projections
- Summary of key decision milestones, interdependencies and implications
- Discuss draft vision for future Lakewood health system (based on small group meetings with Trustees)
- Next Steps, other questions from Trustees

RFP Updates



RFP Updates

- Refresher: approached a total of 10 organizations about a potential strategic relationship with Lakewood Hospital
- Sent formal Requests for Proposal to six organizations
- Expecting proposals from two organizations
- Proposals due in two weeks

Internal Financial Projections



Financial Projections: Objective and Approach

- **Objective:** Calculate current net present value of lease payments; and develop preliminary estimates of financial impact of remaining in the current lease arrangement
- **Approach to Cash Flow Projections:**
 - Base Case EBIDA Projections
 - Avon impact on EBIDA Projections
 - Revenue loss from Avon is based on estimates of changes in physician referral patterns
 - Patient level financial accounting allows specific identification of revenues and costs that would be impacted
 - Revenue loss and cost impact was calculated separately for inpatient and outpatient
 - Additional projections of capital expenditures, net working capital and rate of return on investments to develop a range of potential free cash flow through 2026

Net Present Value of Lease Payments

As of: Year	Net Present Value of Remaining Unpaid Lease Payments
2014	\$9,926,962
2015	\$9,372,580
2016	\$8,784,935
2017	\$8,162,031
2018	\$7,451,753
2019	\$6,698,858
2020	\$5,900,789

As of: Year	Net Present Value of Remaining Unpaid Lease Payments
2021	\$5,054,837
2022	\$4,158,127
2023	\$3,207,614
2024	\$2,200,071
2025	\$1,132,075
2026	\$0

Summary of Key Assumptions: Financial Projections

Base Case Income Statement	Volume Impact of Avon on Income Statement	Cash Flow Projections			
3 Scenarios	2 Scenarios	3 Scenarios			
<ol style="list-style-type: none"> 1. Base case: Decrease revenue by 3% per year (2013 rate of change) 2. Decrease revenue by 6% per year through 2016, and 2% thereafter 3. Best case: -1% after 2016 	<ol style="list-style-type: none"> 1. CCF moves 80% of its current volumes out of LKH to new Avon hospital 2. CCF moves 50% of current volumes 	<ol style="list-style-type: none"> 1. Capital Expenditures per year as a percent of depreciation 2. Net working capital % assumption 3. Assumed rate of return on investments 			
<p>Notes/Caveats:</p> <ul style="list-style-type: none"> • Assumed expenses would decrease proportionally; but expense reductions may not be able to keep pace with revenue reductions 	<p>Notes/Caveats:</p> <ul style="list-style-type: none"> • If we continue the current lease, CCF would likely find programs to maintain at LKH, so could assume a much smaller volume loss 		<p>CapEx % of Deprec</p>	<p>Net Working Capital</p>	<p>Rate of Return on Investmt</p>
		Base Case	100%	8%	6%
		Favorable	66.7%	6%	10%
		Unfavorable	100%	9%	5%

Financial Projections: Cash Flow Impact

Base Case

	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Audited	Unaudited	Budget	Projected	Projected	Projected	Projected	Projected	Projected
Free cash flow									
EBIDA	3,479,000	6,430,000	4,955,318	5,090,670	(10,917,480)	(26,923,726)	(26,881,890)	(26,839,028)	(26,795,501)
Less:									
Change in net working capital		(276,240)	(412,800)	(167,300)	(172,057)	(168,962)	(165,954)	(163,028)	(160,178)
Capital expenditures		2,259,000	5,568,000	5,134,000	5,439,321	5,420,382	5,421,557	5,421,484	5,421,488
Free cash flow		4,447,240	(199,882)	123,970	(16,184,745)	(32,175,145)	(32,137,493)	(32,097,484)	(32,056,810)
Cash flow deficit		-	199,882	-	16,184,745	32,175,145	32,137,493	32,097,484	32,056,810
Long term investments									
Rate of return			6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Beginning balance		45,110,000	50,310,000	50,789,600	51,297,976	38,191,110	8,307,431	n/a	n/a
Change in value		7,739,000	3,018,600	3,047,376	3,077,879	2,291,467	498,446	n/a	n/a
Sales of investments		(2,539,000)	(2,539,000)	(2,539,000)	(16,184,745)	(32,175,145)	(32,137,493)	n/a	n/a
Ending balance		50,310,000	50,789,600	51,297,976	38,191,110	8,307,431	(23,331,615)	n/a	n/a

- With the assumed loss of volume due to Avon, operating cash flow turns negative.
- Shortfalls are funded by the LHA assets—investments.
- In the base case, a rate of return on investments of 6%, results in depletion of the investments assets *by the end of the 2nd year of Avon's operations.*

Range of Potential Cash Flow Impacts

- In terms of the LHA investment balance, if we assume a more favorable shift in CCF volume (only 50% shift to Avon vs. 80%), then we could preserve a positive LHA investment balance for approximately one additional year
- Potential obligations for additional funding of cash flow deficits:
 - *We don't currently have a definitive legal opinion about whether CCF would remain obligated to fund any operating losses and negative cash flow throughout the remainder of the lease*
 - If they were somehow obligated to fund cash flow for LKH until the end of 2026, they would likely take action to stem the losses, and the impact of their potential action cannot be projected

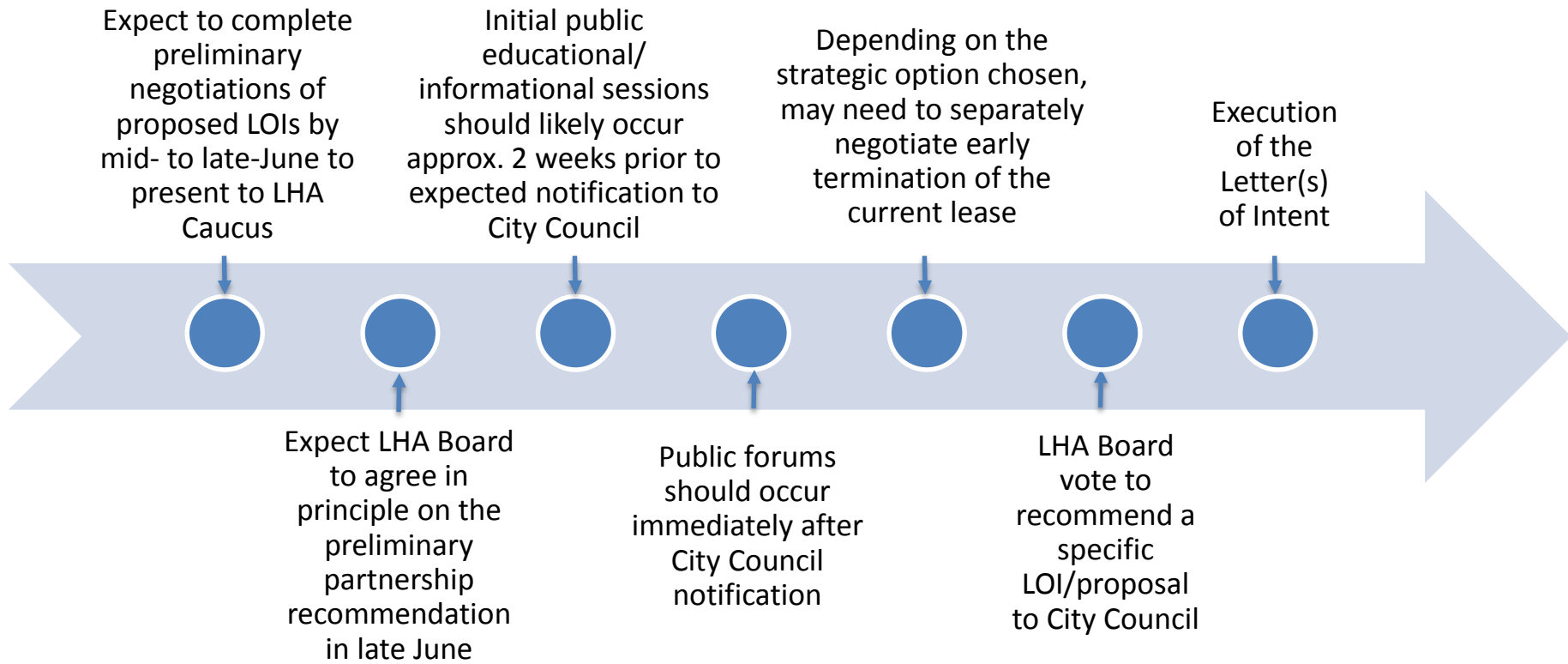
However, if we assume the range of scenarios that are shown on page 9, then the total net present value of the cumulative cash flow deficit from mid-2018 through 2026 could be between \$158M and \$214M

Milestones and Key Decision Points



Summary of Key Decision Milestones, Interdependencies and Implications

As we have discussed previously, this will be a complex decision-making and approval process, and involves numerous, significant communications milestones which must be aligned with key decisions



Future Vision for the Lakewood Health System



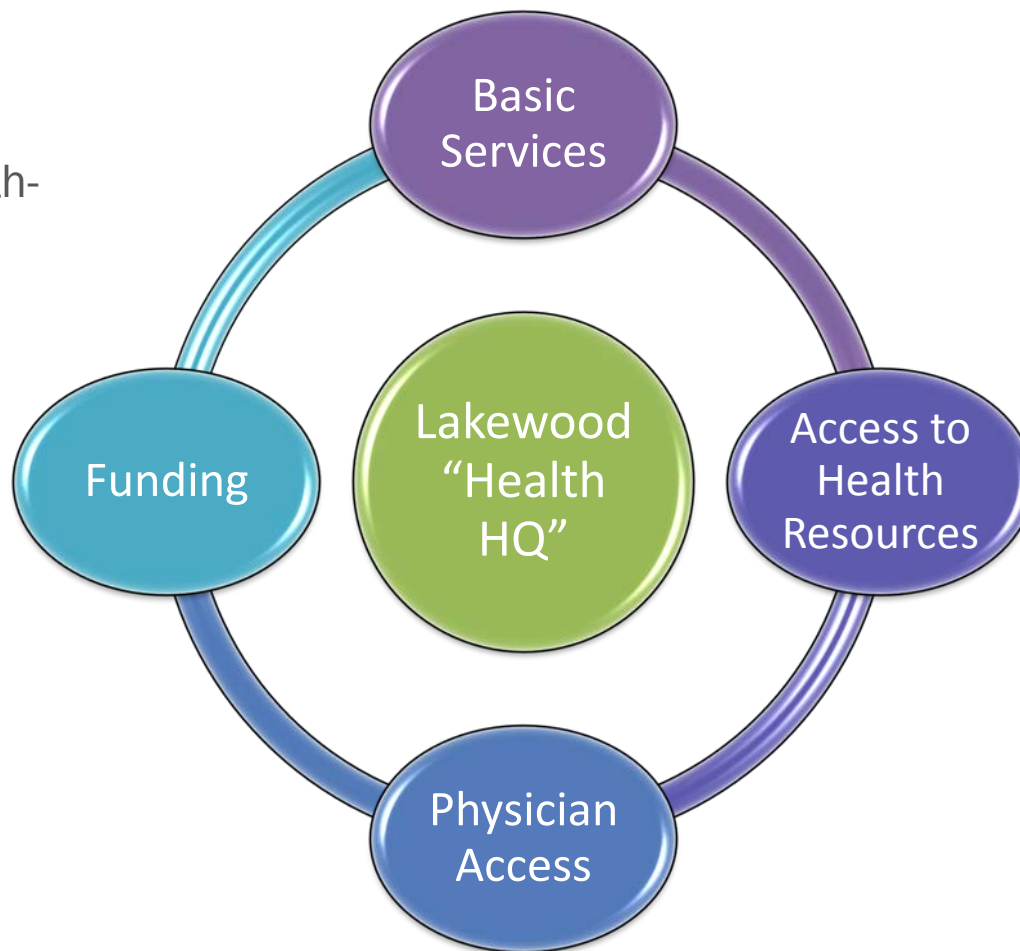
Draft for Discussion: Vision for Future Health Care System in Lakewood

- Vision Statement:
 - The Community of Lakewood, Ohio will invest in a portfolio of effective and innovative programs to make Lakewood the healthiest community in Ohio, and to advocate for the health-related needs of our most vulnerable populations
- Key Guiding Principles:
 - Promote a culture of health in Lakewood that truly differentiates our community and attracts people to live and work here
 - Provide a strong base of health-related programs and services to keep physicians in Lakewood (to live and work)
 - Develop a mechanism to ensure strong coordination and collaboration across all health-related services, programs and providers in Lakewood
 - Help to make health care easier to navigate for our people

Draft for Discussion: Vision for Future Health Care System in Lakewood

The Community Health Needs Assessment completed in 2011-2012 reflects four primary health-related needs of the community

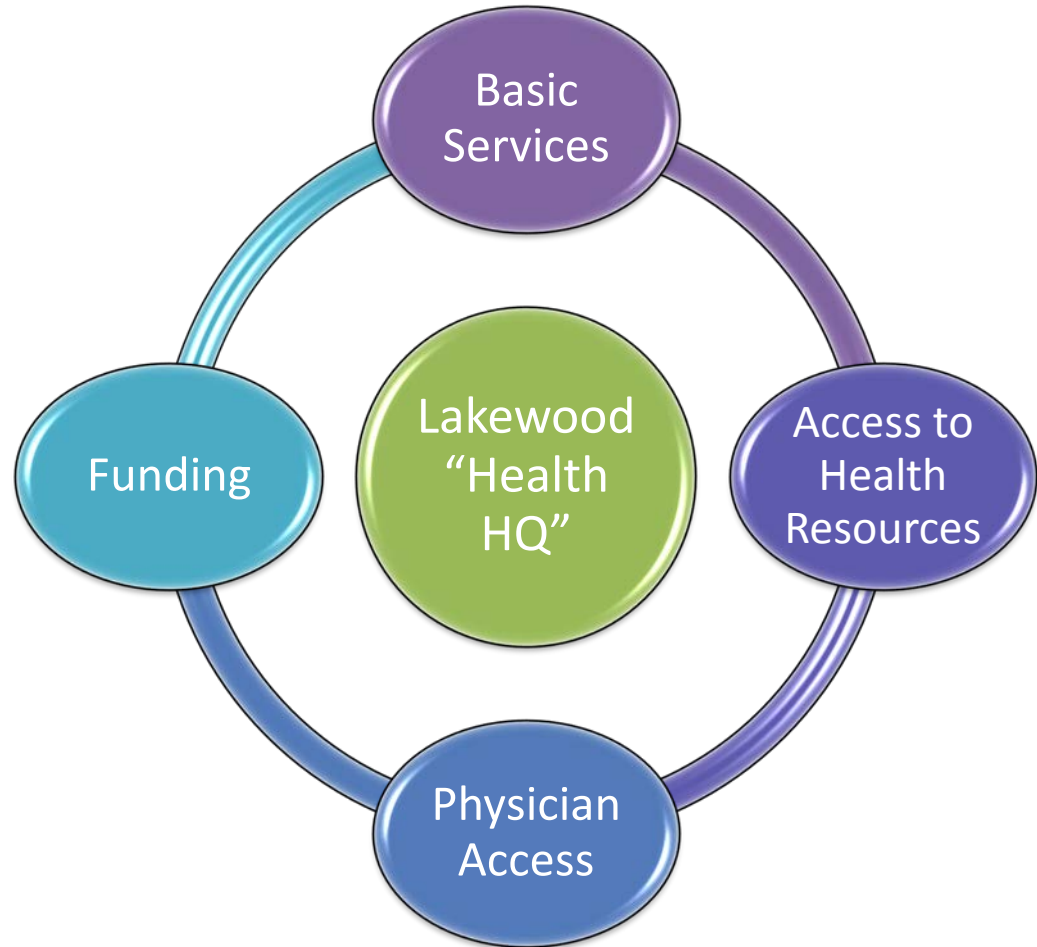
- Basic services
- Access to health resources
- Physician access
- Funding



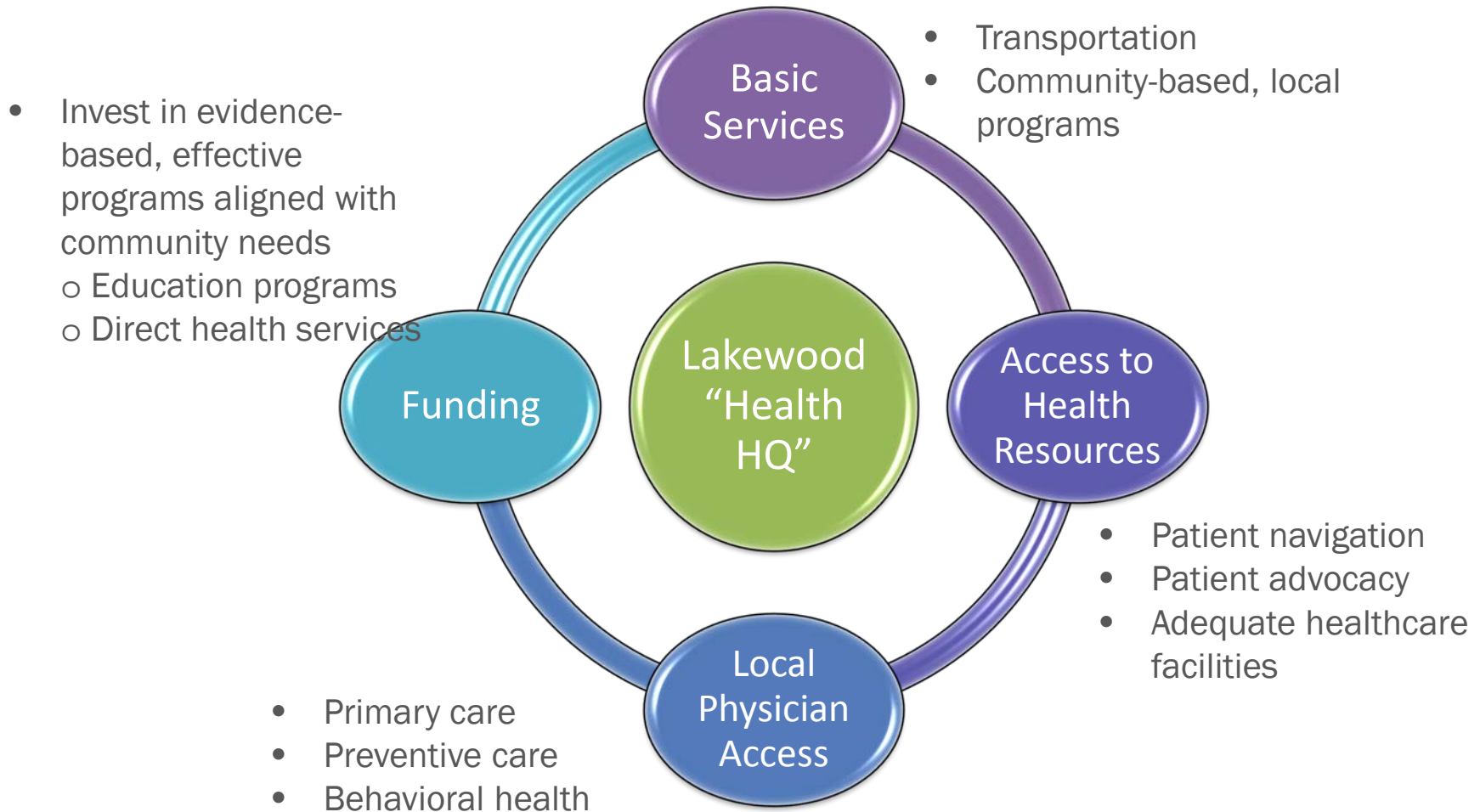
Draft for Discussion: Vision for Future Health Care System in Lakewood

Lakewood Health HQ can be a:

- Charitable foundation
- Location/facility to house certain programs
- Research group to measure outcomes, impacts of programs
- Innovator of new pilot programs
- Facilitator of collaboration across previously-siloed programs and community groups
- Advocate for health-related needs of the community



Draft for Discussion: Vision for Future Health Care System in Lakewood



Making the Vision More Tangible.....Examples of Specific Programs Lakewood “Health HQ” Could Coordinate

CONTINUUM OF HEALTH STATUS

Low or No Risk → Moderate Risk → High Risk



STAGE OF LIFE

- Neonates
- Infants
- Children
- Adolescents
- Early Adults
- Adults
- Older Adults
- Frail Elderly

State of the Art, Brand New or Updated Health Care Facility

Additional Programs and Services

- Wellness center/fitness center
- School-based counseling programs
- Behavioral health services, such as peer counseling programs
- Personal health navigators
- Health advocates/health coaches, case managers
- Physician subsidy programs
- Parks, walking trails, dog parks
- Health care pricing transparency tools
- Promotion of mobile/urgent care services
- Health care pricing transparency tools
- Subsidies for in-home monitoring devices
- Sophisticated data analytics and research to drive investments in evidence-based programs (e.g., hot-spotting)

Making the Vision More Tangible.....Example

For the community communications sessions, we could develop vignettes to show different segments of the Lakewood community how they might experience the proposed future health services and programs in Lakewood:

Scenario 1: Young family, working parents, two children (7 and 10); one child with asthma



Investments in:

- Family fitness/wellness center (either fund existing facilities and partners, or consider building additional facilities to increase capacity in Lakewood)
- Ensure primary care physicians and pediatricians have incentives to live and practice in Lakewood
- Support for health-related programs in the Lakewood schools
- Advanced imaging and diagnostic testing for asthma management
- Online tools for asthma tracking

Next Steps, Other Questions from Trustees



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Insight and Action for Value

Lakewood Hospital Association Trustees Caucus
Discussion Document

February 19, 2014



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Agenda

- Review project timeline and provide brief updates
- Review preliminary financial projections for continuation of the current Lease
 - Status quo
 - Scenario for potential impact of new Avon hospital
- Discuss next steps for formal Request for Proposed Letters of Intent from external parties
 - Summarize key elements of the request for proposals
- Next planned meeting: Thursday, April 3rd, 4-6pm at the Woman's Club Pavilion at Lakewood Park

Summary of Work Streams and Preliminary Timelines

	Weeks																
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Key Worksteps/Milestones/Meetings	1/6	1/13	1/20	1/27	2/3	2/10	2/17	2/24	3/3	3/10	3/17	3/24	3/31	4/7	4/14	4/21	4/28
Work Stream 0: Project Organization	★																
Work Stream 1: Preliminary due diligence & selection of preferred partner	★			★	★												
Work Stream 2: Letter of Intent and Negotiations							★		★	★	★	★	★		★	★	
Work Stream 3: Envisioning the Future Lakewood Health Care System					★			★		★							
Work Stream 4: Transition Planning								★			★	★	★	★	★	★	

Key Meetings:

Step 2 Team ★

LHA Caucus ★

Progress Updates

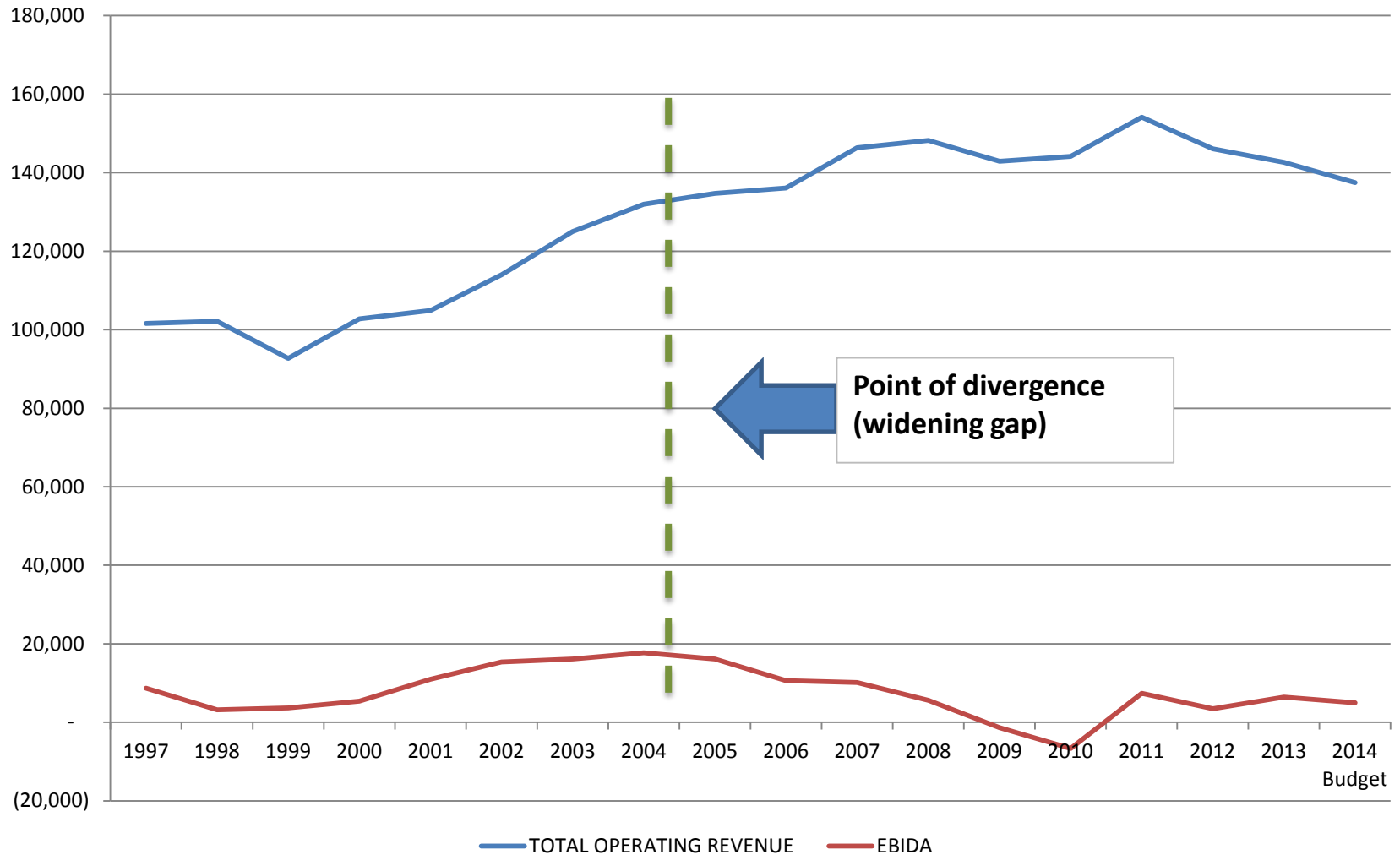
Original Work Plan – Approximate Dates

Jan. 6 - Feb. 10	Jan. 27 – May 2	Jan. 6 – April 4	Feb. 17 – May 2
<p>Preliminary Due Diligence</p> <ul style="list-style-type: none"> • Establish guiding principles for negotiation • Identify additional potential investors and send Memorandum • <i>Meet with existing partnership candidates and discuss next steps</i> • Financial analyses to prepare for negotiations • Select parties to include in the Letter of Intent solicitation 	<p>Letter of Intent and Negotiations</p> <ul style="list-style-type: none"> • Send formal solicitation for proposed LOIs • 4 weeks for responses • Negotiate with one or more bidders • Regular updates to S2T and Caucus • Ad hoc financial analyses • Summarize deal points for each LOI • Work with S2T and the Caucus to prepare a recommendation to the LHA BOT for approval to recommend to Lakewood City Council 	<p>Envisioning Future Lakewood Health Care System</p> <ul style="list-style-type: none"> • Assess facility options during transition and options for alternative uses of existing physical plant • Seek input from all Trustees about community needs, options for future Lakewood health care system, programs, services • Document overall vision and ensure alignment with potential investors • Clear articulation for the community of the benefits and specific services they will be able to access in the future 	<p>Transition Planning</p> <ul style="list-style-type: none"> • Develop a comprehensive communications plan and any necessary supporting materials • Develop the overall health care services transition • Conduct financial analyses to support the services transition plan • Work with S2T and Caucus to receive input and iterate during the development process

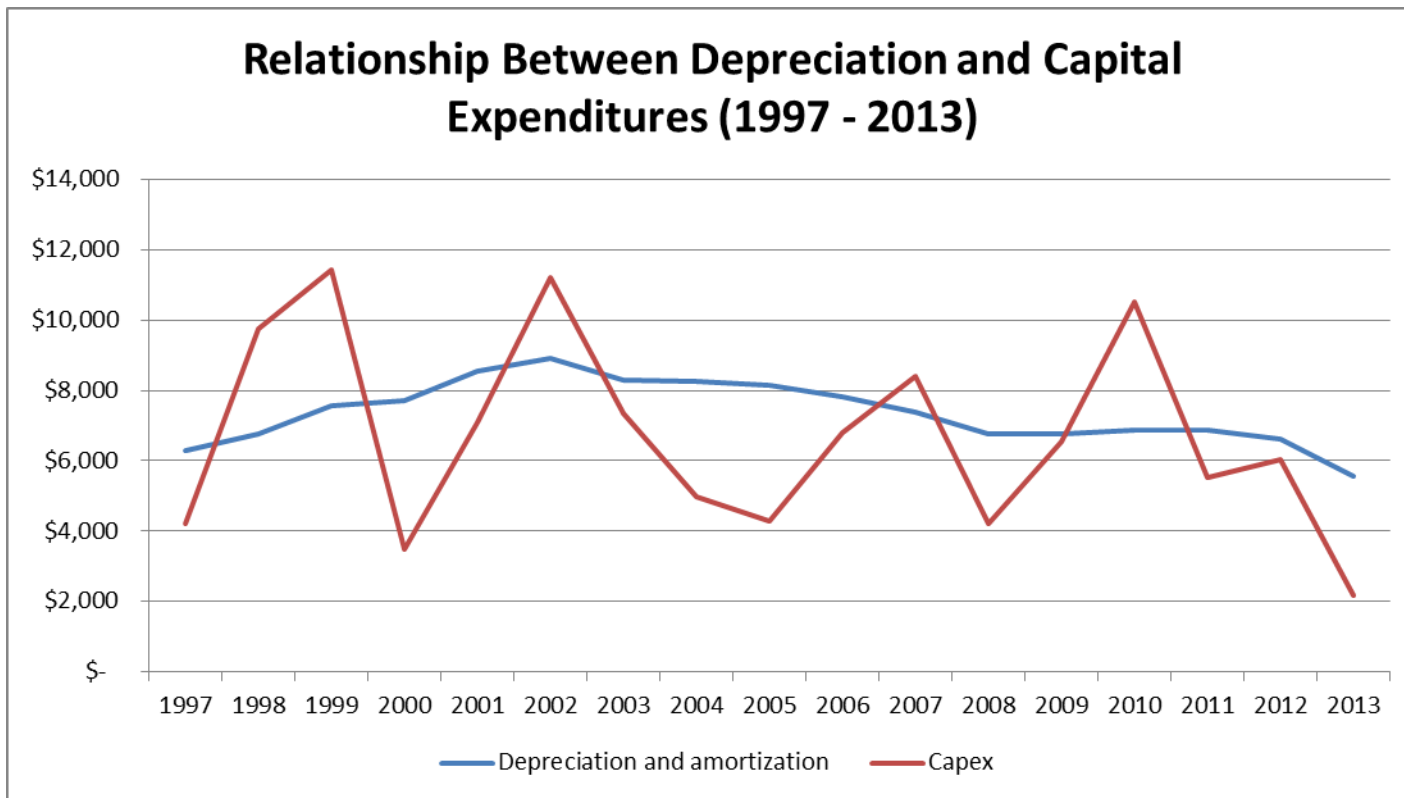
Financial Projections: Objective and Approach

- Objective: Develop preliminary estimates of financial impact of remaining in the current lease arrangement
- The Approach:
 - Base Case
 - Develop a base case to reflect current trends
 - Revenue – based on 2014 budget with moderate declines each year
 - Expenses – based off of costs per adjusted patient day
 - Avon impact
 - Revenue loss from Avon is based on estimates of changes in physician referral patterns
 - Patient level financial accounting allows **specific identification** of revenues and costs that would be impacted
 - Revenue loss and cost impact was calculated separately for inpatient and outpatient

Lakewood Hospital Net Revenue and EBIDA (1997 - 2014 budget)



Capital Spending Has Maintained the Average Age of Plant



	<u>\$ millions</u>
16 year cumulative depreciation	114.0
16 year cumulative capex	125.1
Surplus (deficit) vs depreciation	11.1

Net cash provided by (used in) operating activities



	1997 thru 2008	2009	2010	2011	2012	2013	Total
Sales of investments (\$000s)	\$ -	\$ 5,000	\$ 16,000	\$ 9,000	\$ 6,500	\$ 2,539	\$ 39,039

Source: Statements of Cash Flows 2009-2013 (investing section)

Base Case

	2012	2013	2014	2015	2016	2017	2018	2019
TOTAL OPERATING REVENUE	\$ 146.1	\$ 142.7	\$ 137.5	\$ 135.4	\$ 133.3	\$ 131.1	\$ 129.1	\$ 127.0
OPERATING EXPENSES								
Salaries, Wages And Benefits	71.5	65.8	64.7	63.6	62.6	61.5	60.5	59.5
Supplies/Other	15.1	14.3	13.0	12.8	12.6	12.4	12.2	12.0
Admin Svcs	23.0	24.4	23.6	23.2	22.8	22.4	22.0	21.7
Bad Debt	11.9	12.8	13.4	13.2	13.0	12.8	12.6	12.3
All Other	21.1	18.8	17.8	17.5	17.2	16.9	16.6	16.3
TOTAL	142.6	136.2	132.5	130.3	128.1	126.0	123.9	121.8
EBIDA	3.5	6.4	5.0	5.1	5.1	5.2	5.2	5.3
EBIDA margin	2.4%	4.5%	3.6%	3.8%	3.8%	3.9%	4.0%	4.1%

Base Case:

- No dramatic shifts
- Current trends prevail
- Costs management – expenses are reduced proportionate to volume drops

Potential Avon Impact

Base Case

	2012	2013	2014	2015	2016	2017	2018	2019
TOTAL OPERATING REVENUE	\$ 146.1	\$ 142.7	\$ 137.5	\$ 135.4	\$ 133.3	\$ 131.1	\$ 129.1	\$ 127.0
OPERATING EXPENSES								
Salaries, Wages And Benefits	71.5	65.8	64.7	63.6	62.6	61.5	60.5	59.5
Supplies/Other	15.1	14.3	13.0	12.8	12.6	12.4	12.2	12.0
Admin Svcs	23.0	24.4	23.6	23.2	22.8	22.4	22.0	21.7
Bad Debt	11.9	12.8	13.4	13.2	13.0	12.8	12.6	12.3
All Other	21.1	18.8	17.8	17.5	17.2	16.9	16.6	16.3
TOTAL	142.6	136.2	132.5	130.3	128.1	126.0	123.9	121.8
EBIDA	3.5	6.4	5.0	5.1	5.1	5.2	5.2	5.3
EBIDA margin	2.4%	4.5%	3.6%	3.8%	3.8%	3.9%	4.0%	4.1%

Avon Impact

	2016	2017	2018	2019
	Projected	Projected	Projected	Projected
Avon scenario impact				
Revenue reduction	26,604,745	53,209,490	53,209,490	53,209,490
Associated reduction in Total Variable Cost	10,558,101	21,116,201	21,116,201	21,116,201
Impact	(16,046,644)	(32,093,288)	(32,093,288)	(32,093,288)
Pro-Forma EBIDA	5,090,670	(10,917,480)	(26,923,726)	(26,839,028)

Request for Proposals: Next Steps

Outline of Lakewood Data Book

1. Executive Summary

- a. Hospital overview
- b. Corporate organization
- c. Summary financial data
- d. Affiliation rationale

2. Considerations for an Affiliation

3. Market area and Competition

- a. Local market demographics
- b. Competition
- c. Community Health Needs Assessment

4. Hospital Description

- a. Hospital
- b. Facility
- c. Services
- d. Medical staff
- e. Payor mix
- f. Corporate functions
- g. Lakewood Hospital Association
- h. Legal structure

5. Historical Financial Statements

Outline of Request for Proposals: Minimum Required Elements

- Operational Plan and Strategic Vision
- Assurance of Orderly Transition and Continuity and Quality of Care for Hospital Patients
- Employment of Hospital Employees
- Preservation and Expansion of Medical Staff
- Capabilities of Respondent's Organization
 - Org chart, summary of experience, audited financials, commitment to quality of care, commitment to employee satisfaction, charity care programs, evidence of sufficient financial resources
- Governance; Local Representation on Successor Healthcare Organization Governing Body
- Purchase Price
- Capital Commitment
- Description of Contingencies and Other Requirements in Definitive Agreement
- Regulatory Approvals

Subsidium Healthcare®

Insight and Action for Value

Strategic Options Evaluation Process

Recommendations to:
Lakewood Hospital Association Board of Trustees

January 14, 2015



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Meeting Objectives

- Review summary of the Strategic Options Evaluation Process
- Summarize key rationale for our recommendations
- Present Subsidium's recommendations to the Board of Trustees
- Answer any remaining questions from the Trustees
- Support the vote process at the appropriate point

Summary of the Strategic Options Evaluation Process: Four Major Stages of Work



Summary of Key Rationale Considered

Context

- Must we act?
- Is the status quo untenable?
- What's the market environment?
- What are the alternatives?

Late 2012 –
Current

- Hospital admissions across the market declined 10% from 2007-2012
- LKH's deteriorating financial performance
- Potentially \$90+ million for hospital building to be viable for the next 20 years
- Increasing percentage of Lakewood residents seeking hospital care outside of Lakewood (56% go elsewhere)
- Standalone hospital untenable; and current lessee unwilling to renew under current terms

CONCLUSION: The LHA Board decided in late 2012 that they must proactively prepare for the end of the current Lease term in 2026

Key Rationale Considered

Strategy

- **What** should we do?
- What is the right strategic model of healthcare for Lakewood in the future?

July 2013 –
December 2013

- Two primary criteria: support for future community health needs; and financial viability in the near term and sustainability for the future
- Trends shifting to outpatient vs. inpatient services
- Huge capital investment required per person served for inpatient services – opportunity to serve health care needs of more of the community
- Community health needs more consistent with comprehensive ambulatory care; significant opportunity to innovate in Lakewood

CONCLUSION: Pursue a strategy over time to evolve current inpatient services to comprehensive outpatient services and invest in community health and wellness

Key Rationale Considered

Partner

- Who should we work with to implement our chosen strategy?
- Who's the best long-term partner?

January 2014 –
June 2014

- Approached all local partner options first – UH, CCF, MetroHealth, CHP and Premier Physicians
- Marketed the hospital to potential for-profit investors
 - Approached 7 for-profit hospital companies and all declined
- Received formal proposals from Cleveland Clinic and MetroHealth/Premier Physicians
 - Very different strategies and implications
- Evaluated potential risks and benefits to the Lakewood community, including cost of status quo

CONCLUSION: Chose to pursue a relationship with our current partner; under revised terms to support long-term sustainability for both parties

Key Rationale Considered

Terms

- How are we going to structure and finance our future relationships and services?

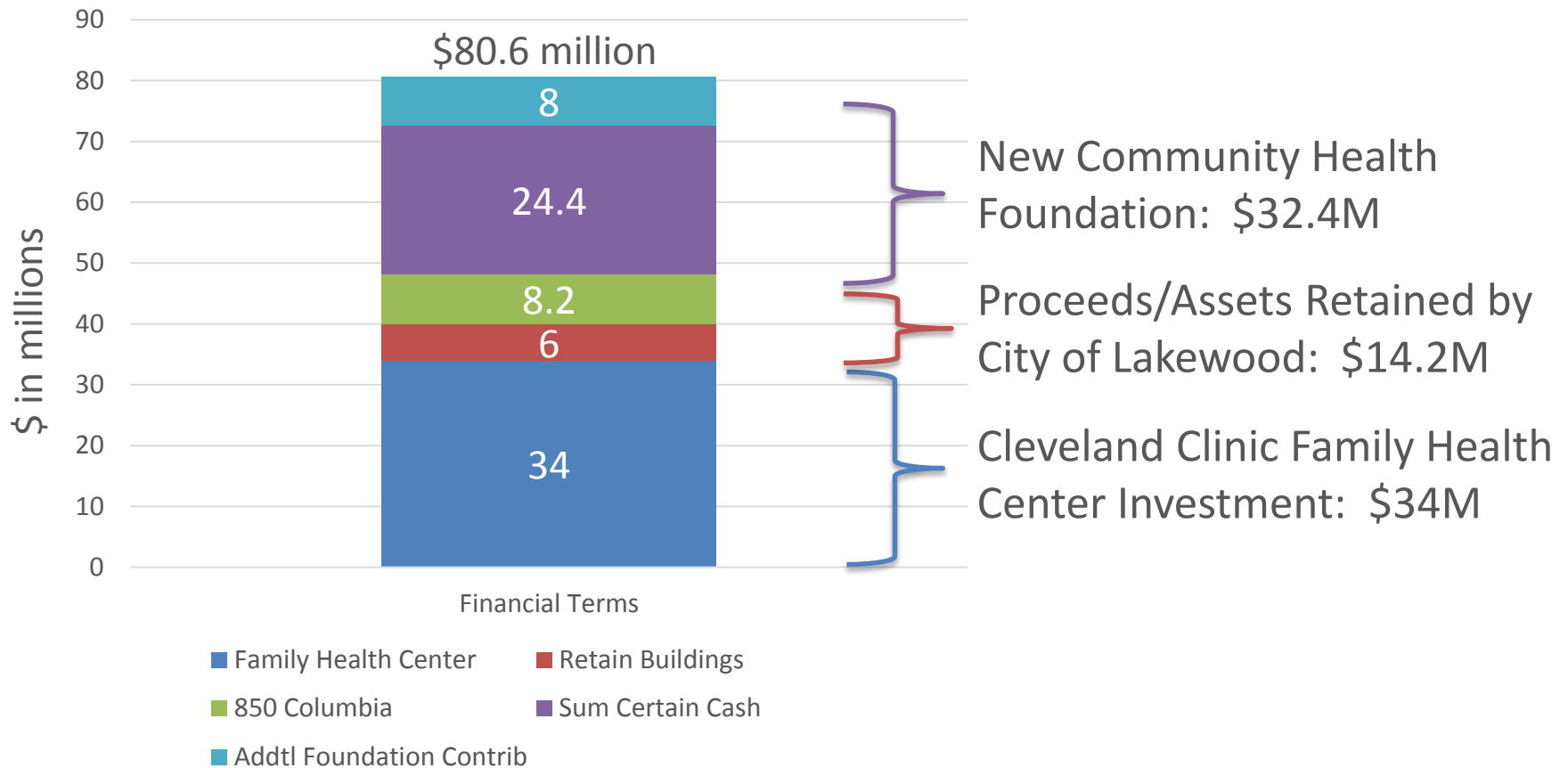
July 2014 –
December
2014

- Evaluated the potential costs of the status quo (likely \$150-200M in losses between now and 2026)
- Terms MUST create financial capacity for Lakewood to invest in the health of the community through its own means (developed rough estimates)
- Terms must support the City's viability despite significant revenue reductions
- Terms provide for the City to maintain influence over future uses of this important property

CONCLUSION: Negotiated terms to establish a strong tax-exempt entity to invest in community health initiatives; and help the City maintain its long-term financial health

Summary of Key Financial Terms

Summary of Investments



It is the recommendation of Subsidiium Healthcare that the LHA Board of Trustees approve the following proposed resolutions:

Resolution #1

RESOLVED, that the BOT of LHA, accepts the recommendation of Subsidiium Healthcare and authorizes the Chairman of the Board of Trustees to sign the attached Letter of Intent as an action of LHA.

Subsidium Healthcare®

Insight and Action for Value

Update on Select Committee's Strategic Options Assessment
Presentation to Lakewood Hospital Association Board of Trustees
November 13, 2013



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Agenda and Objectives

- Select Committee's charter and scope of this effort
- Overview of the strategic options assessment process
- Market overview and key findings from the analyses
- Select Committee's recommendation to the Board
- Discussion
- Next steps and timing

Select Committee Charter

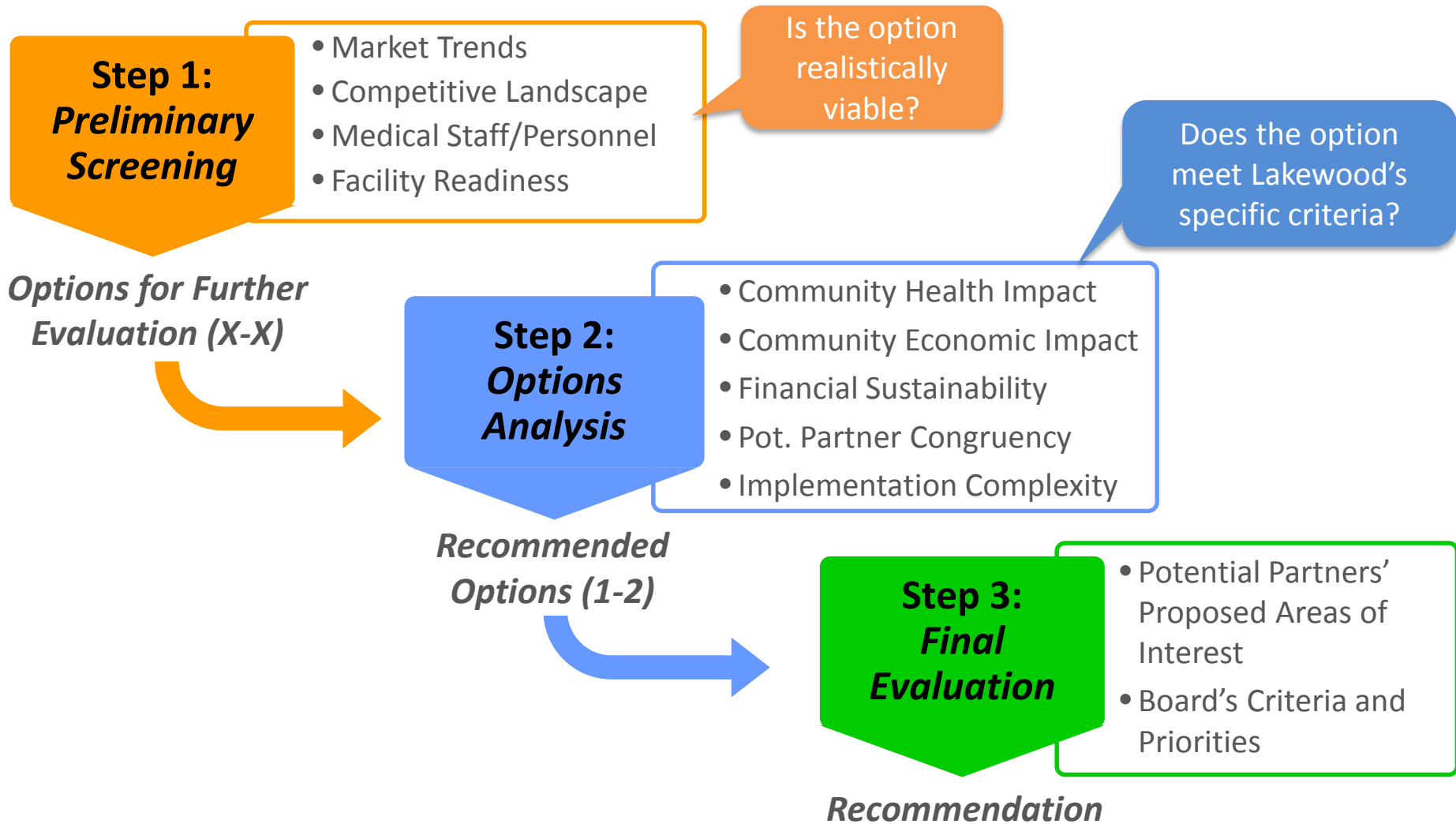
The LHA Board chartered the Select Committee to:

- Evaluate and recommend a set of strategies to fulfill our mission to provide for the health care needs of our community
- Proactively prepare for the end of the current lease agreement on December 23, 2026

Strategic Context

- Lakewood has consistently demonstrated a strong commitment to invest in its future. Our schools, our housing stock, and our commercial corridors are all receiving significant reinvestment for their second century of service.
- As trustees, we have an opportunity and obligation to invest in and build a healthcare delivery system that serves our community needs in the future.
 - We have mapped out a direction of compelling investment that will develop this system by 2026 and creates the capacity for Lakewood to become the healthiest community in America.

3-Step Process to Narrow the Options



Overview of Original Strategic Options

There are a variety of options which fall into one of four general categories

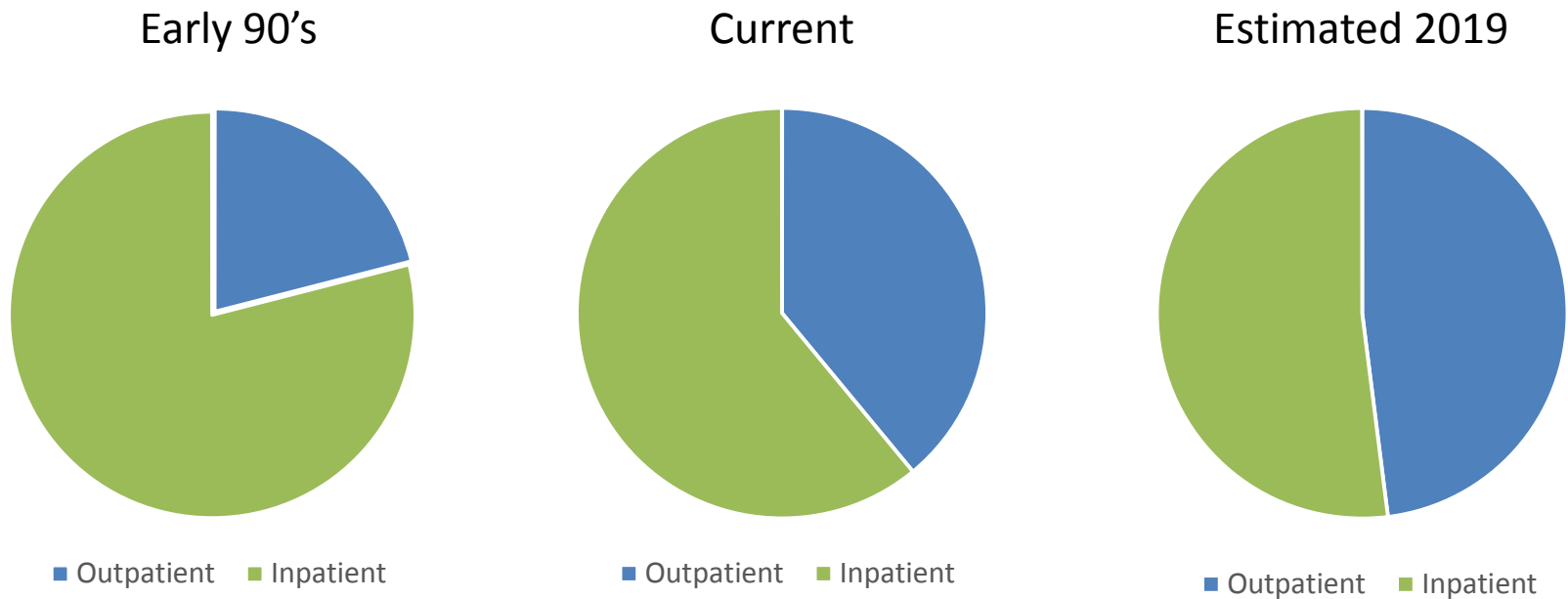
	Description	Specific Options
Modified Status Quo	These options are all relatively similar to the current model for Lakewood Hospital (a general acute-care hospital with 3-4 centers of excellence)	<ol style="list-style-type: none">1. Right size hospital2. Lower-Acuity, Chronic Care Focused Hospital3. Hospital with Center(s) of Excellence
Family Health Focus	These options represent a change to the primary service model for Lakewood, and take advantage of market trends toward increased care in outpatient settings	<ol style="list-style-type: none">4. Family Health Campus (No IP)5. Hybrid: Family Health Campus (With IP)
Single Specialty Hospital	All of these options are to create a single-specialty, inpatient-focused hospital; most would imply a larger geographic service area to attract sufficient patient volumes	<ol style="list-style-type: none">6. Specialty Hospital: <i>Ortho</i>7. Specialty Hospital: <i>Acute Rehab</i>8. Specialty Hospital: <i>Psych</i>9. Specialty Hospital: <i>LTAC and/or SNFs</i>
Transition Out of Healthcare	In the spirit of an exhaustive set of options, it is an option to consider exiting the business of direct provision of health care and fulfillment of the City's health care mission in other ways	<ol style="list-style-type: none">10. Phased Plan to Transition Out of Care Delivery Business

Market Data and Analysis: *Five Key Findings Were Critical to the Decision Process*

- Market and health care technology trends are driving a significant shift in total health care spending; toward outpatient services as a greater percentage of overall spending vs. inpatient services
- Relative size of the capital investment required per person served – opportunity to more cost-effectively address the health care needs of a larger portion of the Lakewood community
- Importance of physicians to the Lakewood community and economic base
- Understanding the overall community health needs of Lakewood's residents and those in surrounding communities
- Directional understanding of potential strategic partners and their general areas of interest in a partnership with Lakewood

Market and Technology Trends are Shifting the Focus of Healthcare Services from Inpatient to Outpatient Settings

Percent of total hospital revenues (inpatient vs. outpatient services)



Source: Taylor, Richard. Jones Lang LaSalle whitepaper entitled "The Spoke Before the Hub: Turning the Healthcare Delivery Model Upside Down." Page 2.

Options	Critical Success Factors				Overall Rating	Recommendation	Committee Decision
	Market Trends	Competitive Landscape	Medical Staff/ Personnel	Facility Readiness			
1. Right Size Hospital	U	U	U	U	U	No Further Evaluation	No Further Evaluation
2. Lower-Acuity, Chronic Care Focused Hospital	N	N	N	N	N	For Discussion	No Further Evaluation
3. Hospital with Center(s) of Excellence	U	U	U	U	U	No Further Evaluation	No Further Evaluation
4. Family Health Campus (No IP)	F	F	F	F	F	Additional Evaluation	Additional Evaluation
5. Hybrid Family Health Campus (with IP)	N	F	F	N	F/N	Additional Evaluation	Additional Evaluation
6. Specialty Hospital: <i>Ortho</i>	U	U	N	N	U	No Further Evaluation	No Further Evaluation
7. Specialty Hospital: <i>Acute Rehab</i>	N	U	F	N	N	For Discussion	Hybrid with Option 5 (#5B)
8. Specialty Hospital: <i>Psych</i>	F	F	U	N	N	For Discussion	No Further Evaluation
9. Specialty Hospital: <i>LTAC and/or SNF</i>	F	U	N	N	N	For Discussion	No Further Evaluation
10. Transition Out of Health Care	U	F	U	F	N	For Discussion	No Further Evaluation

Legend: **U** Unfavorable; **N** Neutral; **F** Favorable

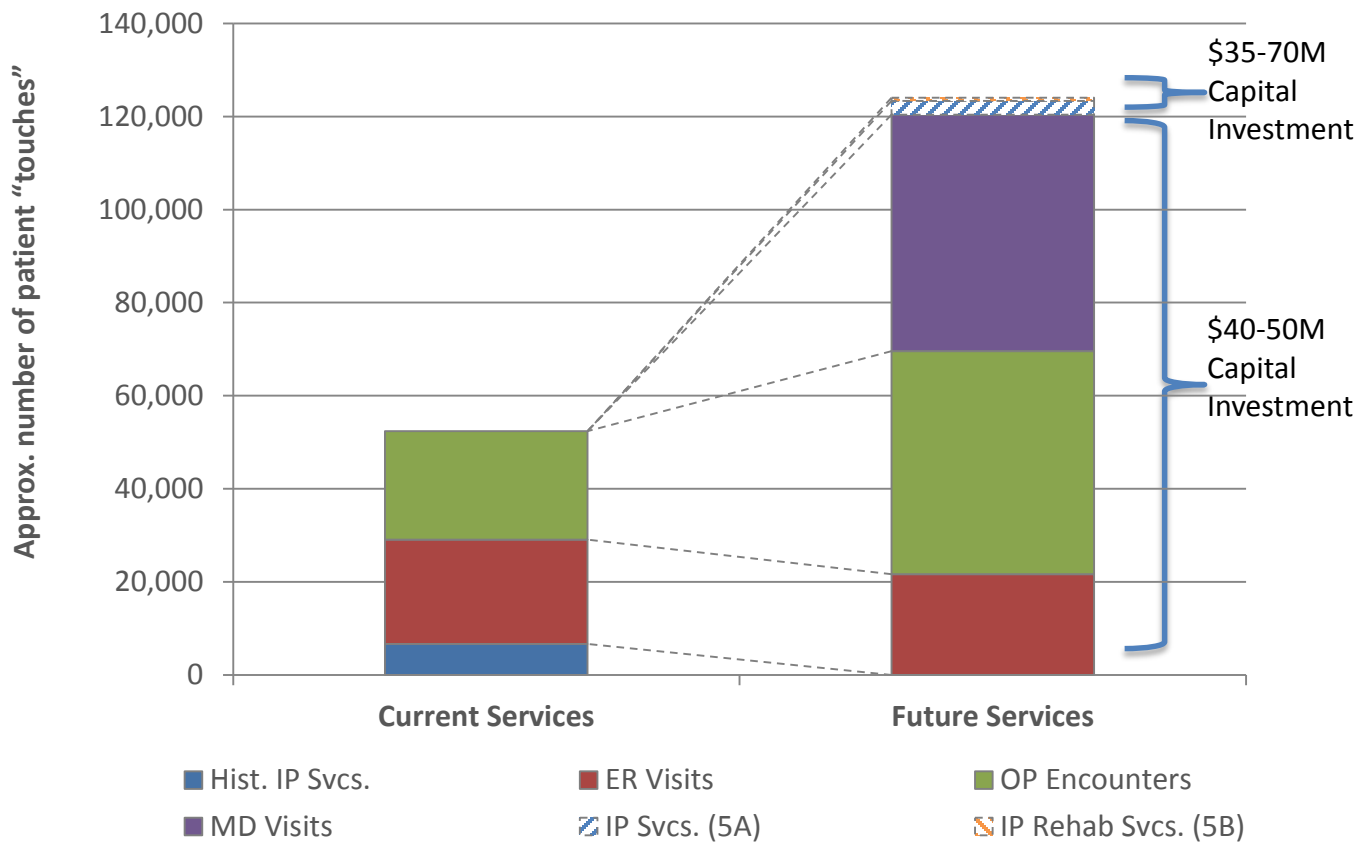


Market Need, Community Served and Capital Investments

Opportunity to Leapfrog the Market to Create a New Lakewood Health Care Experience

There is a significant opportunity to increase the number of people served by a Lakewood health care facility and to increase the frequency of interactions

Directional Impact of Change in Services



Step 2: *Options Analysis* Summary

We evaluated the remaining options relative to each other (ranked in order). Note that this chart does not apply any relative weighting or prioritization of particular criteria.

Options	Community Health Impact	Community Economic Impact	Financial Sustainability	Potential Partner Congruency	Execution Risk/Implementation Complexity
Option 4 – Family Health Campus (No IP)	2	3	1	1	1
Option 5A Hybrid – Family Health Campus (With General IP Beds)	2	1	3	3	2
Option 5B Hybrid – Family Health Campus (With IP Rehab Beds)	2	2	2/3	2	3

Overview of the Options Selection Process

Our 3-step evaluation process enabled the Select Committee to focus our analysis, narrow our options, and ultimately select a recommended option

Step 1: Preliminary Screening

"Is the option realistically viable?"

- ~~1. Right size hospital~~
- ~~2. Lower acuity, chronic care-focused hospital~~
- ~~3. Hospital with Center(s) of Excellence~~
4. Family Health Campus (No IP)
5. Hybrid: Family Health Campus (With IP)
- ~~6. Specialty Hospital: Ortho~~
7. Specialty Hospital: Acute Rehab
- ~~8. Specialty Hospital: Psych~~
- ~~9. Specialty Hospital: LTAC and/or SNF~~
- ~~10. Phased Transition Out of Care Delivery in Lakewood~~

Step 2: Options Analysis

Apply Lakewood-specific criteria

4. Family Health Campus (No IP)
- ~~5A. Hybrid: Family Health Campus With General Inpat. Beds~~
- ~~5B. Hybrid: Family Health Campus With Acute Rehab Beds~~

Step 3: Final Evaluation and Recommendation

Evolved Option 4: Comprehensive Care Campus in Lakewood

Recommendation of the Select Committee

- Our recommendation is that between now and 2026, we negotiate with potential partner(s) to jointly develop a Comprehensive Care Campus in Lakewood to include community health services, office-based physician services, comprehensive outpatient services (e.g., advanced imaging and diagnostics), ambulatory surgery services and a 24/7 emergency department with an appropriate number of 23-hour observation beds to stabilize Lakewood patients for potential transfer to a more comprehensive inpatient facility, if needed.

Next Steps

- During the week of December 2nd, we will schedule two informal sessions for Trustees to ask follow-up questions and provide input about what type of information would help them in understanding the Select Committee's recommendation
- On December 12th, we will convene a Special Meeting of the Board of Trustees to discuss the recommendations and request that the Board charter the Select Committee to continue with next steps

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Insight and Action for Value

Lakewood Hospital Select Committee

Supplemental Detailed Data Deck

October 9, 2013



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Executive Summary



Overall Market Data

Primary Areas of Data Analyses

To allow us to evaluate the current market trends and their potential impact on our options evaluation, we focused our analyses on several key areas:

- Community health needs assessment for Lakewood
- Comparison of inpatient bed supply vs. demand
- Decreases in inpatient utilization across the overall market and across nearly all service lines
- Total volumes for the market in specific inpatient services lines (to support the evaluation of single-specialty hospital options)
- Lakewood's specific volume losses: what services lines drove the losses and where did those cases go?
- Availability of physicians in the local Lakewood market
- Trends and growth in outpatient services

Overall Market Data: *Executive Summary/Key Themes*

- Community Health Needs
 - The Lakewood community exhibits above average prevalence rates of obesity, smoking and chemical dependency, as well as higher than average rates for several chronic conditions, including COPD, adult asthma, congestive heart failure and diabetes
 - The primary needs identified by the Community Health Needs Assessment report include:
 - Improved Access to Primary, Preventive Care, and Mental Health Services
 - Coordination of Affordable Health Care and Outreach
 - Public Transportation and other Basic Community Services
- Overbedding
 - Supply of inpatient beds in the Cleveland market significantly exceed the demand (by more than 2X); the estimated excess is over 3,000 beds
- Declining Inpatient Demand
 - Between 2007 and 2012, the overall inpatient admissions volumes declined 10.1% in Lakewood's primary service area, 6.8% in the primary/secondary service area, and by 5.6% across the entire 7-county Cleveland MSA

Overall Market Data: *Executive Summary/Key Themes*

- Lakewood Hospital's Volume Trends
 - In addition to an overall decline in volumes in the market, Lakewood's own volumes declined a total of 32% between 2007-2012; with the largest volume decreases in Cardiology, Psychiatry, Pulmonology and Gastroenterology (4 service lines accounted for two-thirds of the volume losses)
- Market Share Trends
 - The primary beneficiaries of the shifts in IP market share between 2007-2012 were Fairview Hospital, St. John Westlake and Cleveland Clinic main campus
- Physician Supply
 - There is still a strong supply of physicians in Lakewood. The Cleveland Clinic-employed physicians make up a significant portion of the supply, but even with out those physicians, there is significant physician presence in Lakewood
- Outpatient Trends
 - Overall, outpatient services spending (per capita) is currently growing at nearly twice the rate of overall health care spending across the U.S.

Review of Overall Market Data



Key Findings from Community Health Needs Assessment: Secondary Research

- **Socio-economic Barriers to Accessing Quality Health Care**
 - Overall, the Lakewood Hospital community represents a contrast between low (Rocky River CNI = 1.8) and very high (Clark-Fulton CNI = 4.8) zip code areas in terms of socio-economic factors which impact community health needs
 - Overall, the Lakewood Hospital zip code areas have a CNI* score of 4.0, indicating a greater number of socio-economic barriers in the community
- **Indicators of Poor Health Status**
 - Lakewood Hospital community shows higher rates of obesity and citizens who smoke compared to Cuyahoga County and Ohio
 - PQI** illustrates there are a greater number of hospital admissions for COPD, Adult Asthma, Congestive Heart Failure and Diabetes (Long Term Complications)
 - The incidence of chemical dependency in the Lakewood Hospital community is substantially greater compared to Ohio and Cuyahoga County

*Community Need Index (CNI). CNI measures five socio economic barriers to community health: income, culture/language, education, insurance and housing. A score of 5 equals the greatest need. 44102 and 44111 have CNI scores of 4.8 and 3.8 respectively.

**Prevention Quality Indicator (PQI). The PQI index identifies potentially avoidable hospitalizations. Effective outpatient treatment of some diseases will reduce need for inpatient admissions. PQI scores are at or above Ohio PQIs for all factors. Lakewood PQIs for Chronic Obstructive Pulmonary Disease, adult asthma, Congestive Heart Failure, and long term diabetes complications are substantially higher than the statewide benchmark for Ohio.

Summary of Community Health Needs Assessment*

- Public Transportation and other Basic Community Services
 - Underlying Factors: Weak economy, shrinking resources, increasing poverty and an influx of unemployed residents
- Improving Access to Primary, Preventive Care, and Mental Health Services
 - Underlying Factors: Prevalence of chemical dependency, shrinking resources, unemployment, high cost of health care/insurance, lack of transportation and lack of awareness
- Coordination of Affordable Health Care and Outreach
 - Underlying Factors: High cost of health care, ineffective dissemination of information and poor patient navigation

Inpatient Bed Supply and Need

Market	Beds/1000 Pop
Cuyahoga County	5.2
Cleveland MSA	4.3
Ohio	2.9
U.S.	2.6
California	1.9
Highest State: South Dakota	5.0
Lowest State: Washington	1.7

Implications:

If we apply the current U.S. average beds/1,000 to the Lakewood market and Cuyahoga County, the contrast is stark:

Area	Population	Future Ratio	Need	Supply	Surplus
Lakewood PSA	154K	2.6	400	475*	75 beds
Cuyahoga County	1.29M	2.6	3,351	6,807	3,455 beds

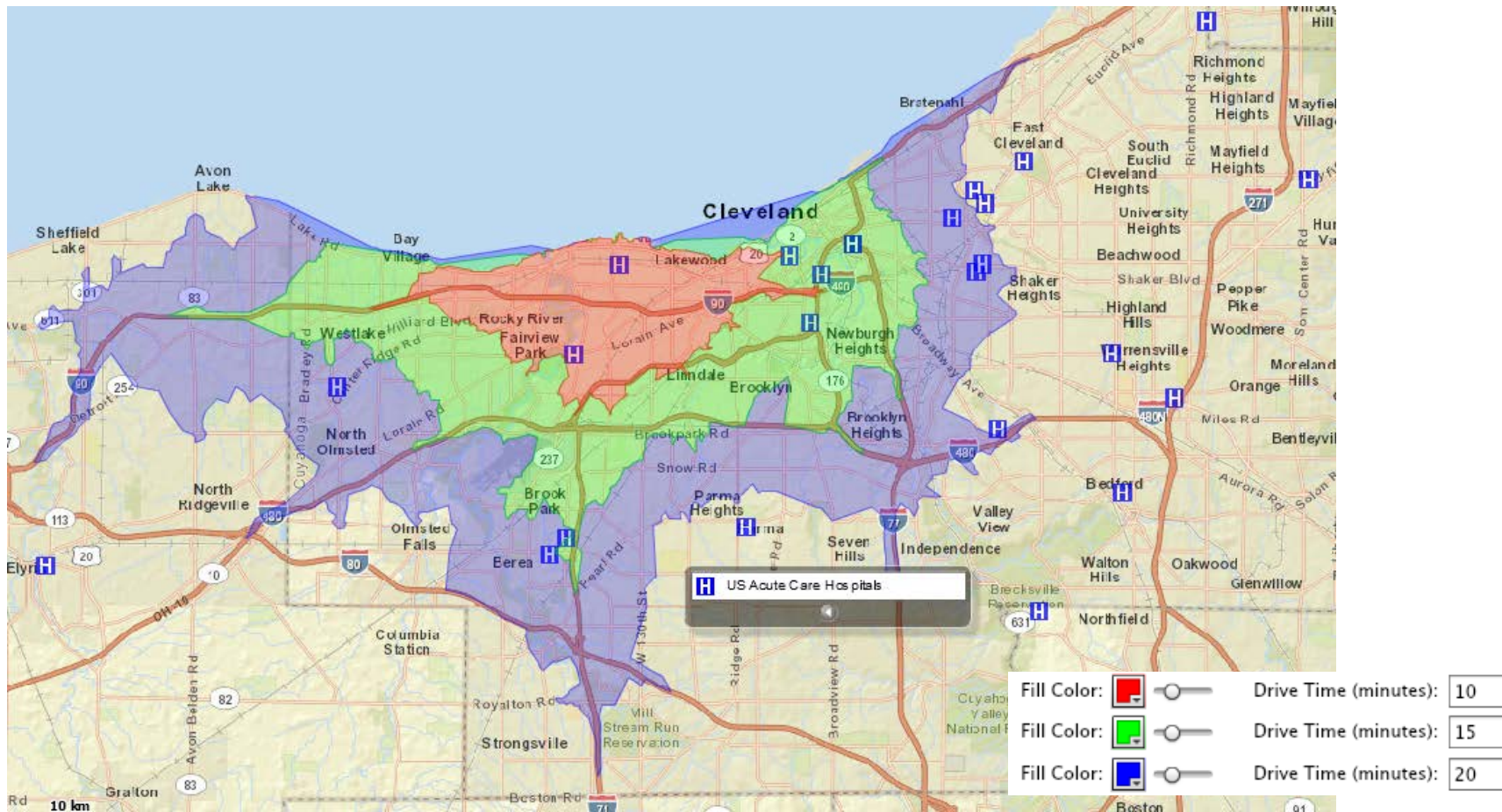
*Assumes Lakewood at 153 (acute beds) and Fairview at 322

Sources cited in the table compiled by Kaiser Family Foundation (kff.org):

1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, and 2011 AHA Annual Survey Copyright 2013 by Health Forum LLC, an affiliate of the American Hospital Association, special data request, 2013. Available at <http://www.ahaonlinestore.com>
 Population data from Annual Population Estimates by State, U.S. Census Bureau; available at <http://www.census.gov/popest/>

Map of Beds and Drive Times

- There are over 2,300 inpatient beds within a 20-minute drive of Lakewood Hospital, and over 1,000 beds within a 15-minute drive

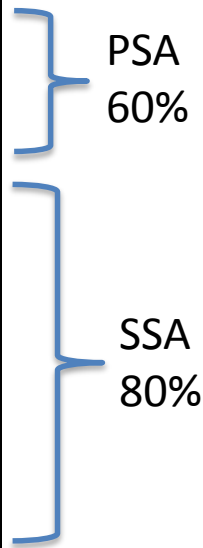


Overview and Definition of Service Areas

For many of the graphs and data tables that follow, we analyzed data for a variety of service area and market definitions related to Lakewood Hospital. Below is an overview and definitions of the various market areas:

- Methodology: to determine a hospital’s service area, you first sort all the admissions by the patient’s home zip code, from zip codes with the highest number of admissions to those with the lowest
- Typically, the service area definitions are set at 60% of admissions for the primary service area (PSA) and 75-85% of admissions for the secondary service area (SSA). For Lakewood, we used 60% and 80% (see list below)
- For some of the analyses, we also evaluated admission data for the entire 7-county MSA in and around Cleveland (to evaluate single-specialty hospital options which would need to pull from a larger catchment area)

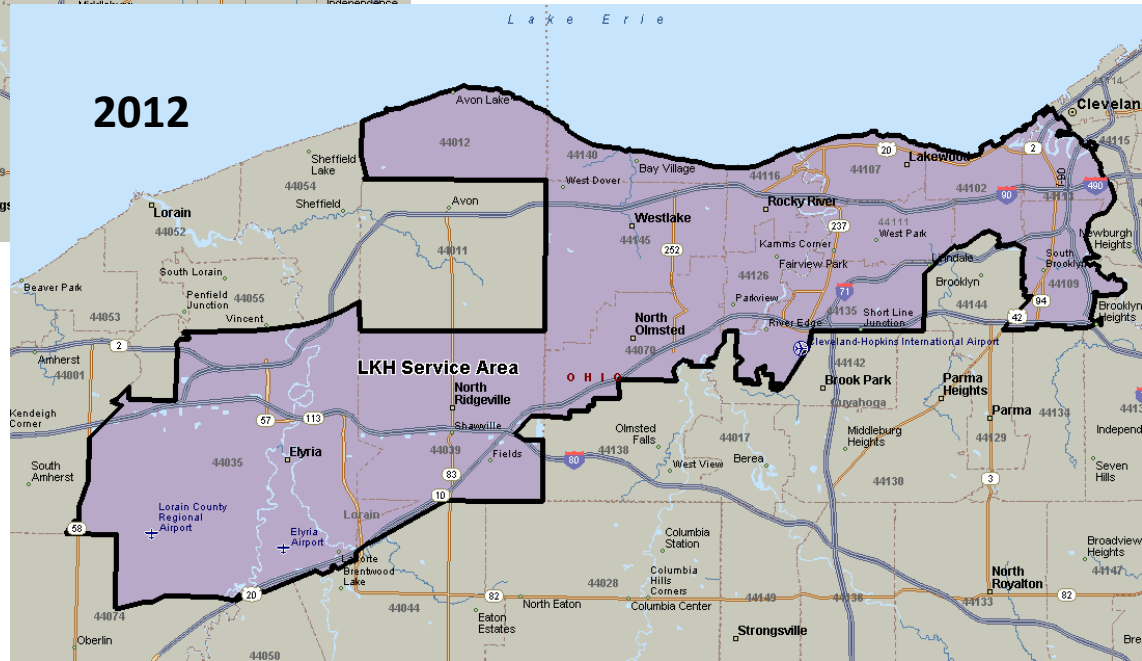
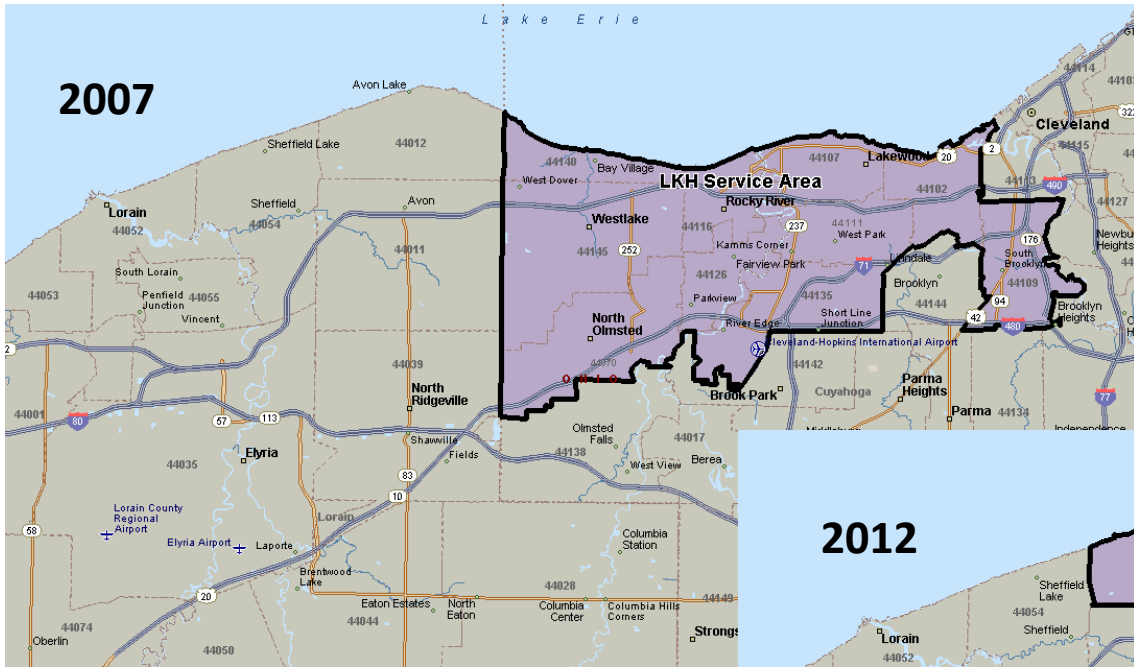
Zip	City	2012 Admits	% Total	Cumu %
44107	Lakewood	3237	35%	35%
44102	Cleveland	1112	12%	47%
44111	Cleveland	672	7%	54%
44116	Rocky River	519	6%	59%
44145	Westlake	302	3%	63%
44135	Cleveland	296	3%	66%
44070	North Olmsted	199	2%	68%
44012	Avon Lake	181	2%	70%
44109	Cleveland	175	2%	72%
44035	Elyria	174	2%	74%
44039	North Ridgeville	158	2%	75%
44140	Bay Village	151	2%	77%
44126	Fairview Park	147	2%	79%
44113	Cleveland	117	1%	80%



Remaining 20% of patients came from 230 other zip codes

Changes in Service Area Between 2007-2012

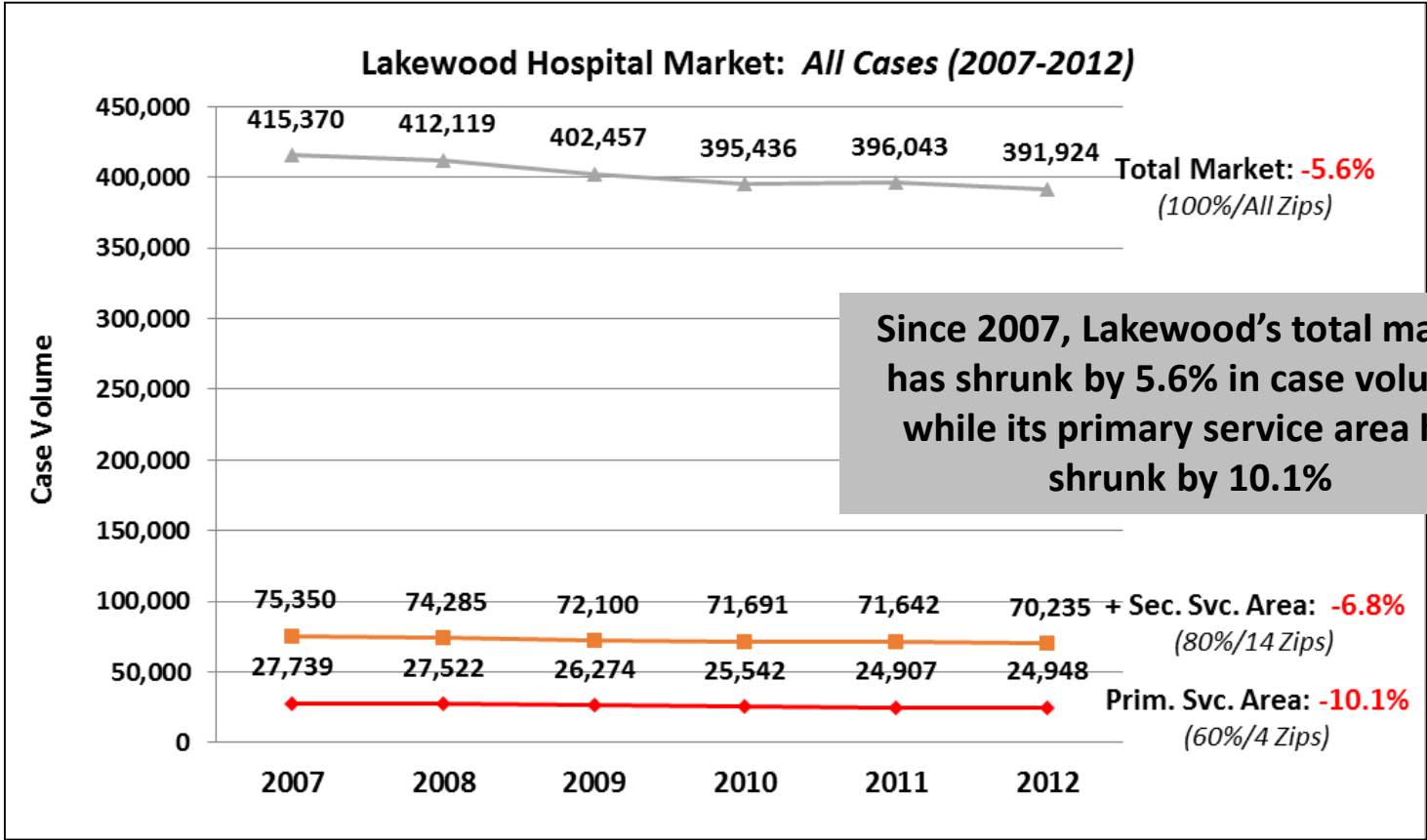
- In 2007, 80% of LKH's admissions came from a much "tighter" service area, than in 2012



**Lakewood Hospital
Primary-Secondary Service Area**
(Defined as the set of patient origin zip codes that account for 80% of the hospital's admissions in that year)

Overall Market Trends: 2007-2012

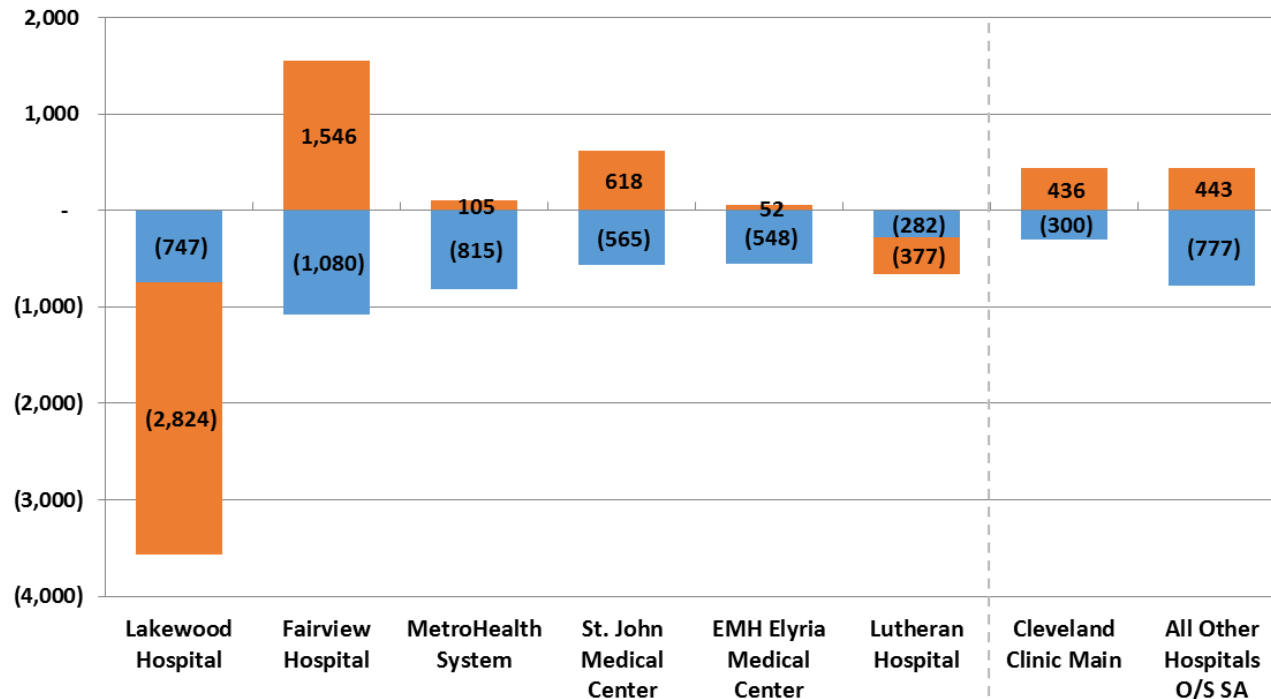
Change in Case Volume – All Cases



Lakewood Service Area Market Trends: 2007-2012

Change in Case Volume by Hospital - ALL Service Lines

Change in Case Volume from Service Area by Hospital:
ALL Service Lines (2007-2012)



Total Change:	-3,571	+ 466	- 710	+ 53	- 496	- 659	+ 136	- 334
Change vs. Mkt. Trend:	WORSE	BETTER	BETTER	BETTER	BETTER	WORSE	BETTER	BETTER

■ Mkt. Share
■ Utilization

Lakewood Hospital lost over 3,500 cases between 2007 and 2012 from its service area - far more than any other area hospital. Despite the downward trend in case volume for the market in total, Fairview, Cleveland Clinic, and St. John MC still had an increase in case volume over the same time period.

Lakewood Service Area Market Trends: 2007-2012

Change in Case Volume by Hospital - ALL Service Lines

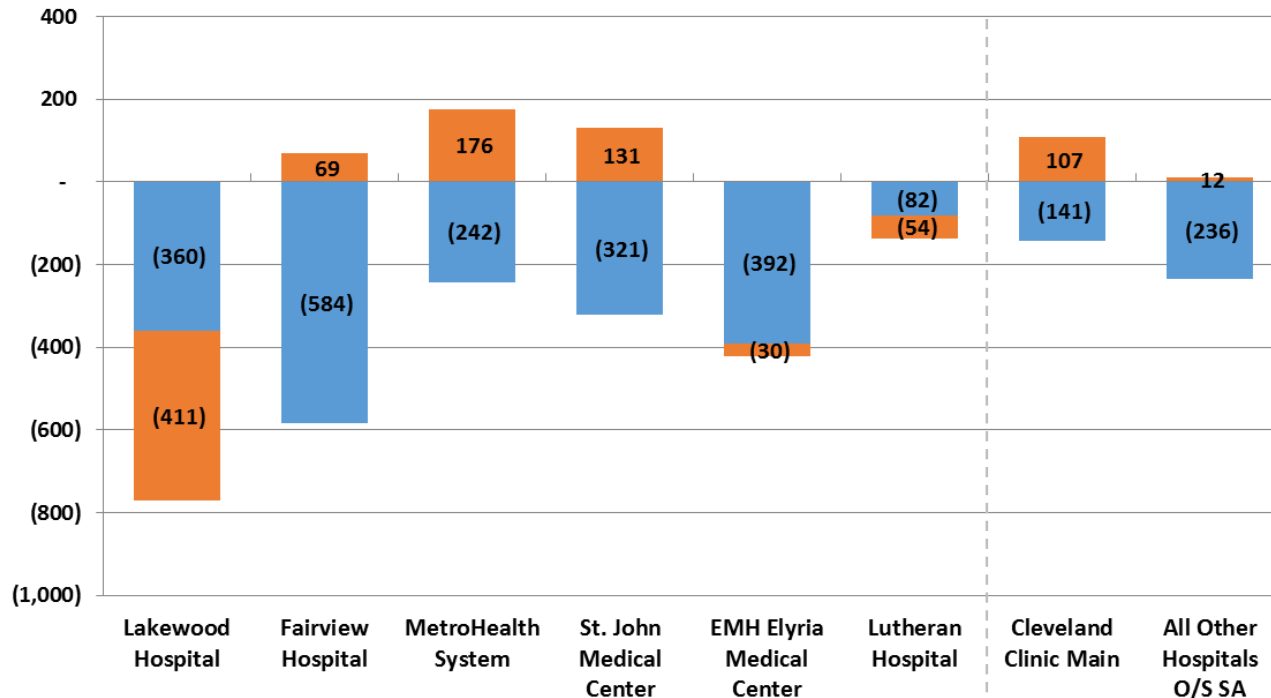
ALL Service Line Cases from Lakewood Hospital's Primary and Secondary Service Area
The Effect of Utilization and Market Share Changes on Case Volume

	ACTUAL # OF CASES				Case Volume Drivers			± Trend
	2007	2012	# Diff.	% Diff.	Utilization	Mkt. Share	Total	
Lakewood Hospital	11,011	7,440	(3,571)	-32.4%	(747)	(2,824)	(3,571)	WORSE
Other Hospitals in SA:								
Fairview Hospital	15,916	16,382	466	2.9%	(1,080)	1,546	466	BETTER
MetroHealth System	12,010	11,300	(710)	-5.9%	(815)	105	(710)	BETTER
St. John Medical Center	8,326	8,379	53	0.6%	(565)	618	53	BETTER
EMH Elyria Medical Center	8,072	7,576	(496)	-6.1%	(548)	52	(496)	BETTER
Lutheran Hospital	4,157	3,498	(659)	-15.9%	(282)	(377)	(659)	WORSE
SA Cases Retained SubTotal	59,492	54,575	(4,917)	-8.3%	(4,039)	(878)	(4,917)	WORSE
Out-Migration:								
Cleveland Clinic Main	4,416	4,552	136	3.1%	(300)	436	136	BETTER
All Other Hospitals O/S SA	11,442	11,108	(334)	-2.9%	(777)	443	(334)	BETTER
Out-Migration SubTotal	15,858	15,660	(198)	-1.2%	(1,076)	878	(198)	BETTER
Grand Total Cases from SA:	75,350	70,235	(5,115)	-6.8%	(5,115)	-	(5,115)	BASIS

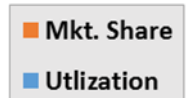
Lakewood Service Area Market Trends: 2007-2012

Change in Case Volume by Hospital - Cardiovascular Svc. Line

Change in Case Volume from Service Area by Hospital:
Cardiovascular Service Line (2007-2012)



Total Change:	- 771	- 515	- 66	- 190	- 422	- 136	- 34	- 224
Change vs. Mkt. Trend:	WORSE	BETTER	BETTER	BETTER	WORSE	WORSE	BETTER	BETTER

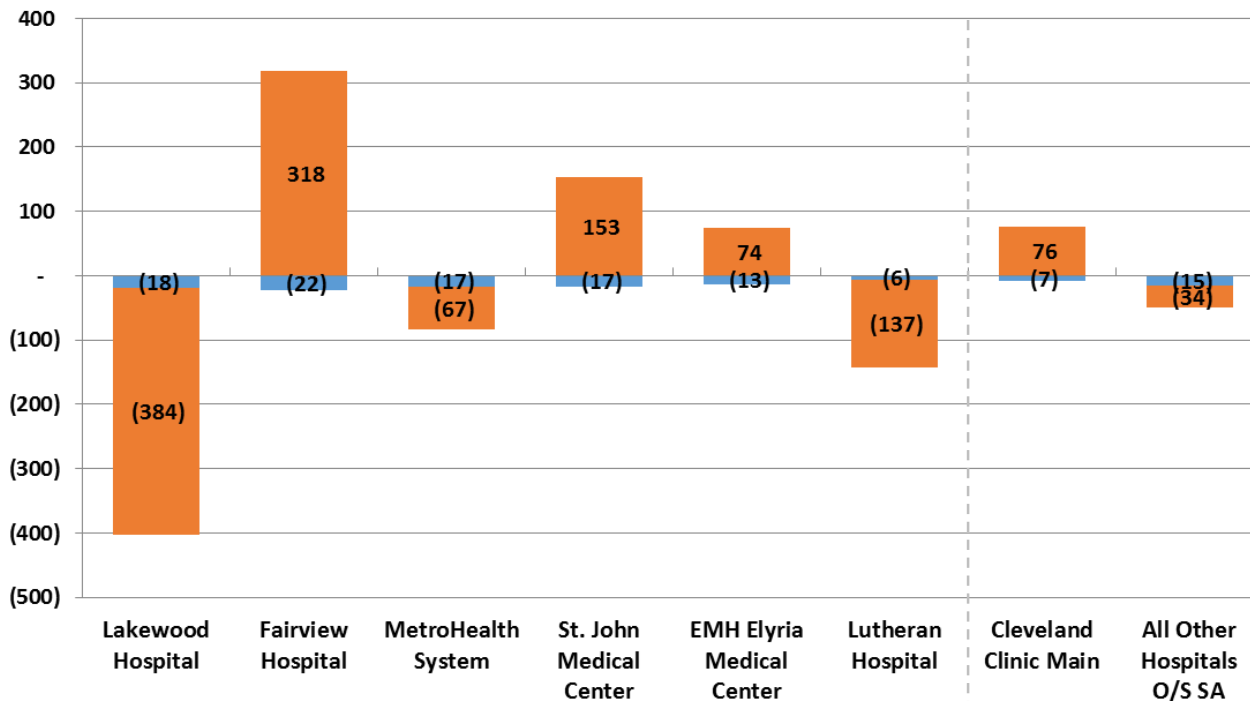


Lakeview's exit from the Cardiac Surgery service line helped other area hospitals weather the downward utilization of all cardiovascular services (both surgery and medicine) from 2007 to 2012.

Lakewood Service Area Market Trends: 2007-2012

Change in Case Volume by Hospital - Gastroenterology Svc. Line

Change in Case Volume from Service Area by Hospital:
Gastroenterology Service Line (2007-2012)



Total Change:	- 402	+ 296	- 84	+ 136	+ 61	- 143	+ 69	- 49
Change vs. Mkt. Trend:	WORSE	BETTER	WORSE	BETTER	BETTER	WORSE	BETTER	WORSE

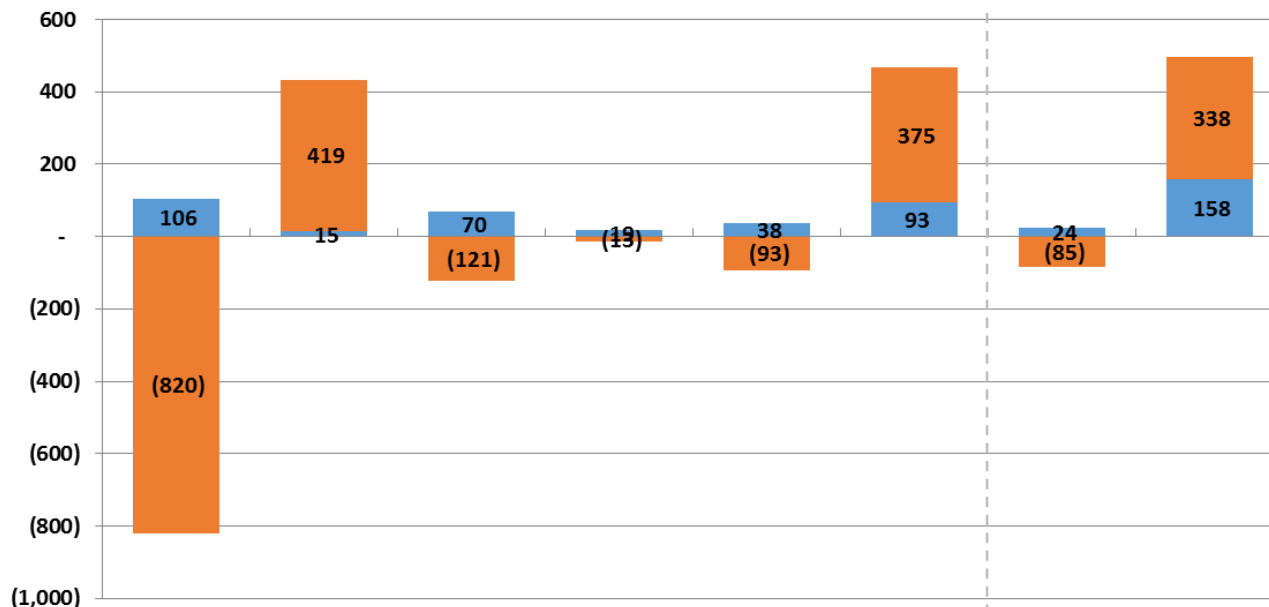
■ Mkt. Share
■ Utilization

While Lakewood experienced a significant loss in the number of gastroenterology cases during this time period, Fairview, St. John MC, Elyria MC, and Cleveland Clinic all had gains.

Lakewood Service Area Market Trends: 2007-2012

Change in Case Volume by Hospital - Psychiatry Svc. Line

Change in Case Volume from Service Area by Hospital:
Psychiatry Service Line (2007-2012)



Total Change:	-714	+ 434	- 51	+ 6	- 55	+ 468	- 61	+ 496
Change vs. Mkt. Trend:	WORSE	BETTER	WORSE	WORSE	WORSE	BETTER	WORSE	BETTER

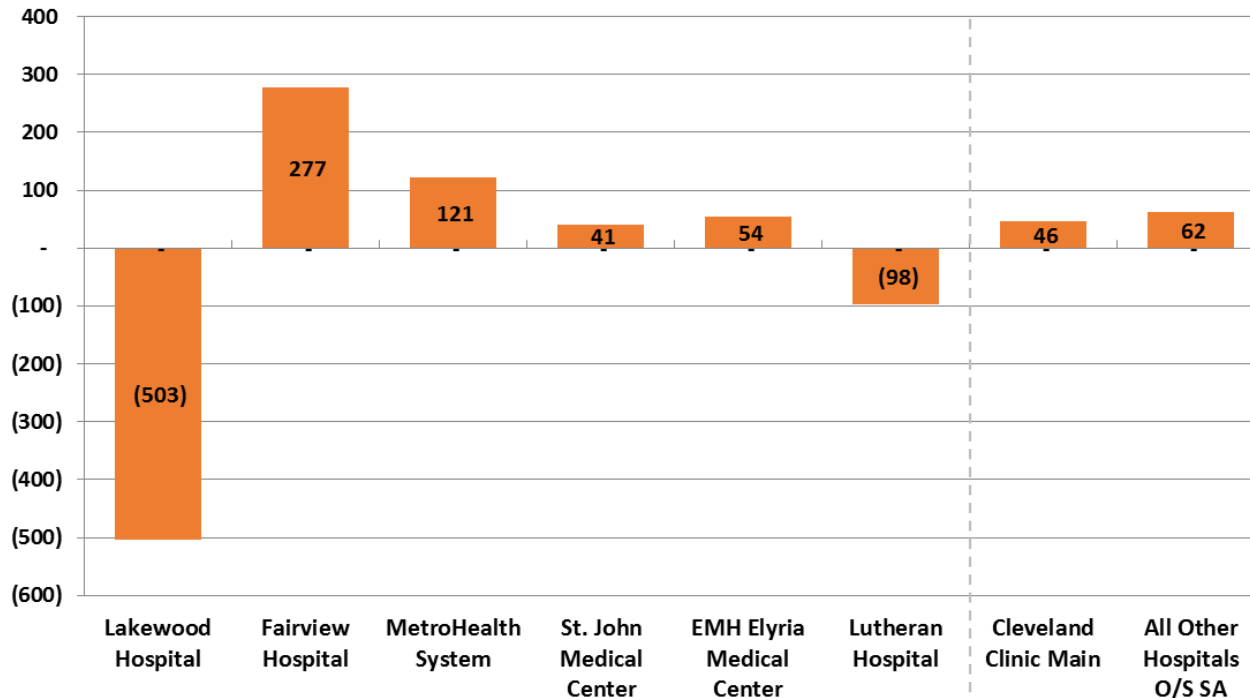
■ Mkt. Share
■ Utilization

Fairview, Lutheran Hospital, and other hospitals outside of Lakewood's service area saw a significant increase in the number of psychiatry cases from the area.

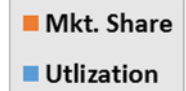
Lakewood Service Area Market Trends: 2007-2012

Change in Case Volume by Hospital - Pulmonology Svc.Line

Change in Case Volume from Service Area by Hospital:
Pulmonology Service Line (2007-2012)

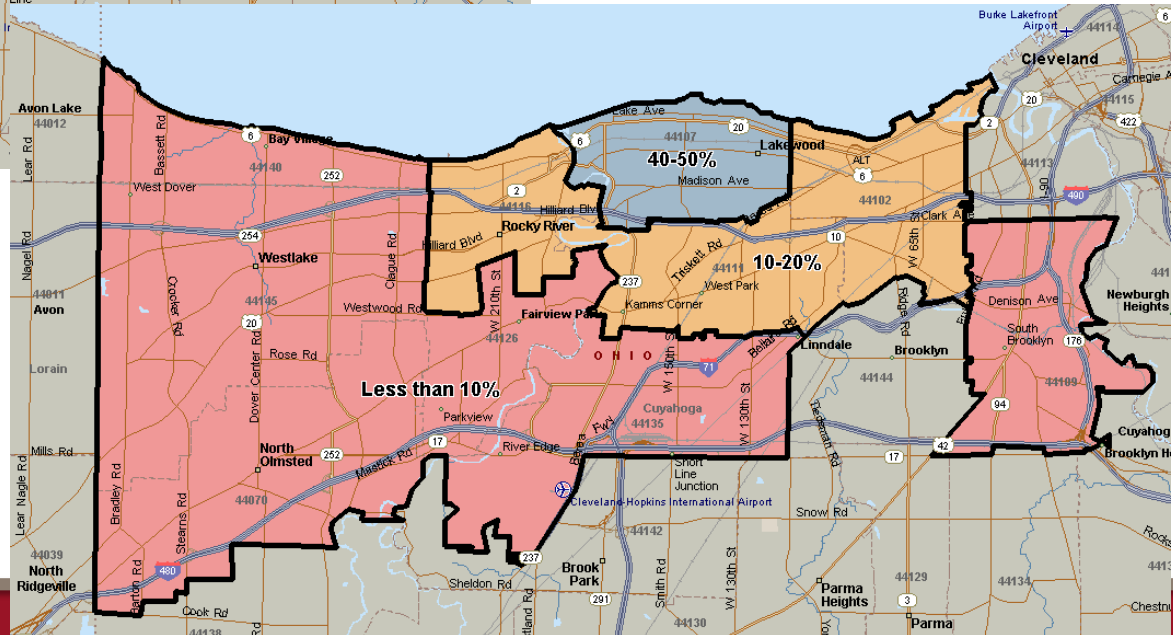
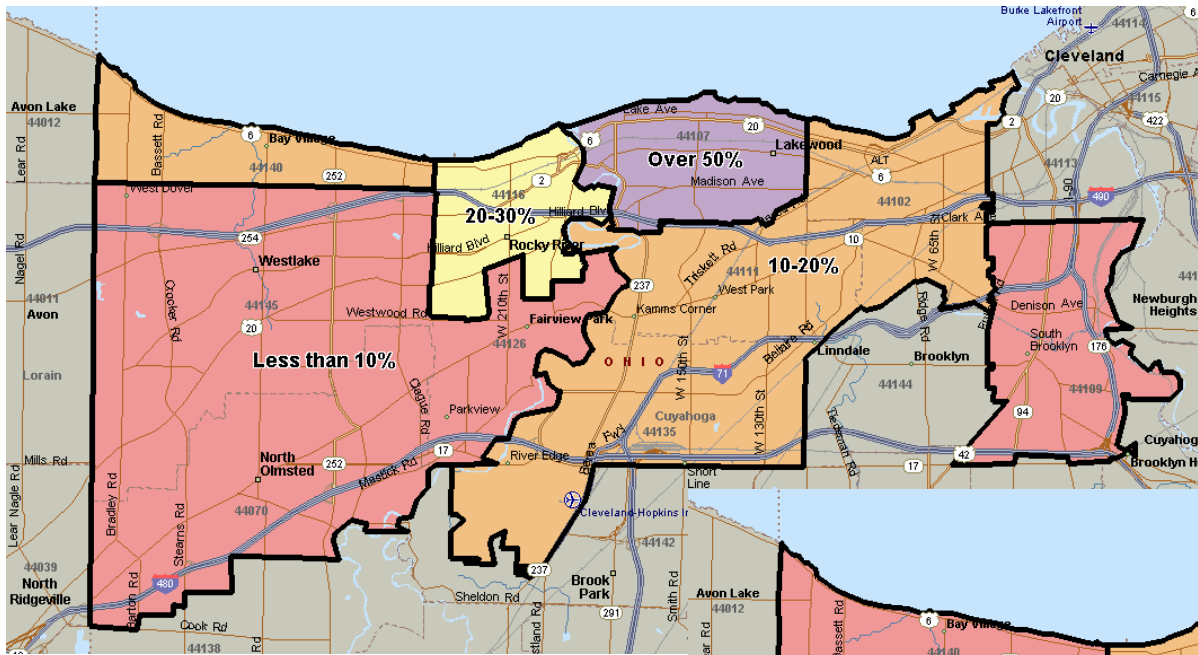


Total Change:	- 503	+ 277	+ 121	+ 41	+ 54	- 98	+ 46	+ 62
Change vs. Mkt. Trend:	WORSE	BETTER	BETTER	BETTER	BETTER	WORSE	BETTER	BETTER



Given the same number of pulmonology cases coming from Lakewood's service area during this period, all case volume changes were due to shifts in market share – with Fairview being the clear market winner.

Changes in Market Share: Lakewood Market Share by Zip Code (2007 and 2012)

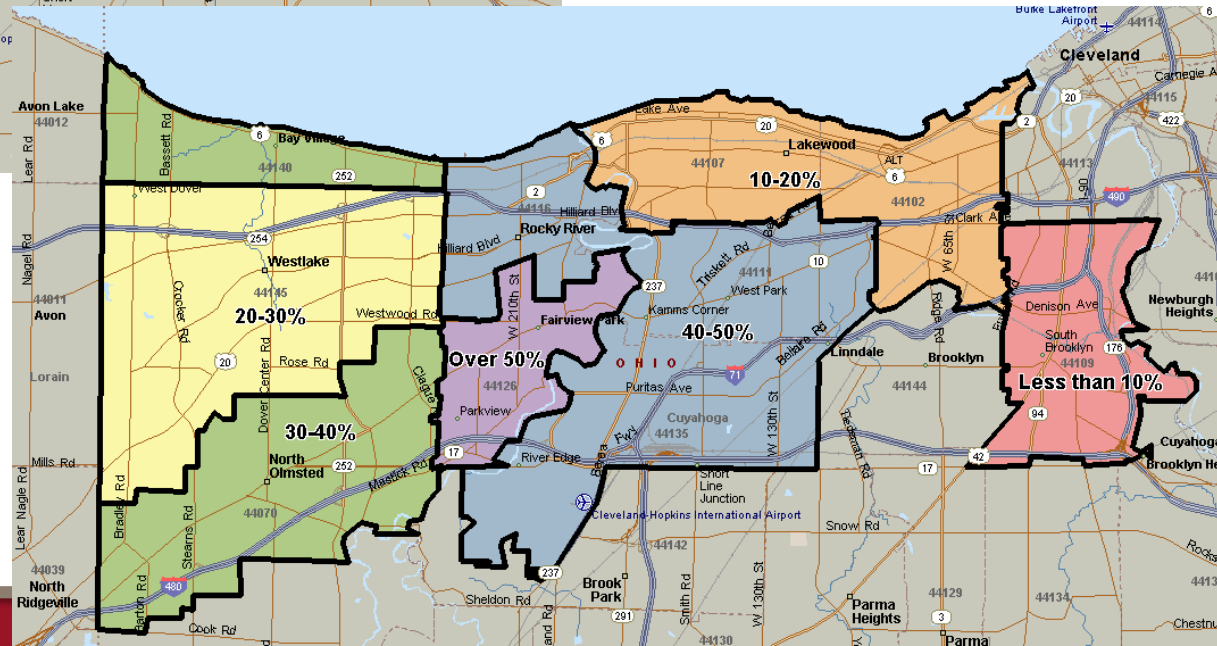
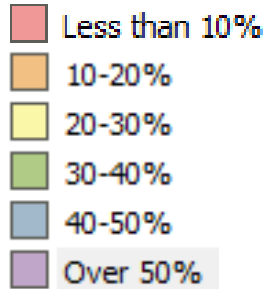
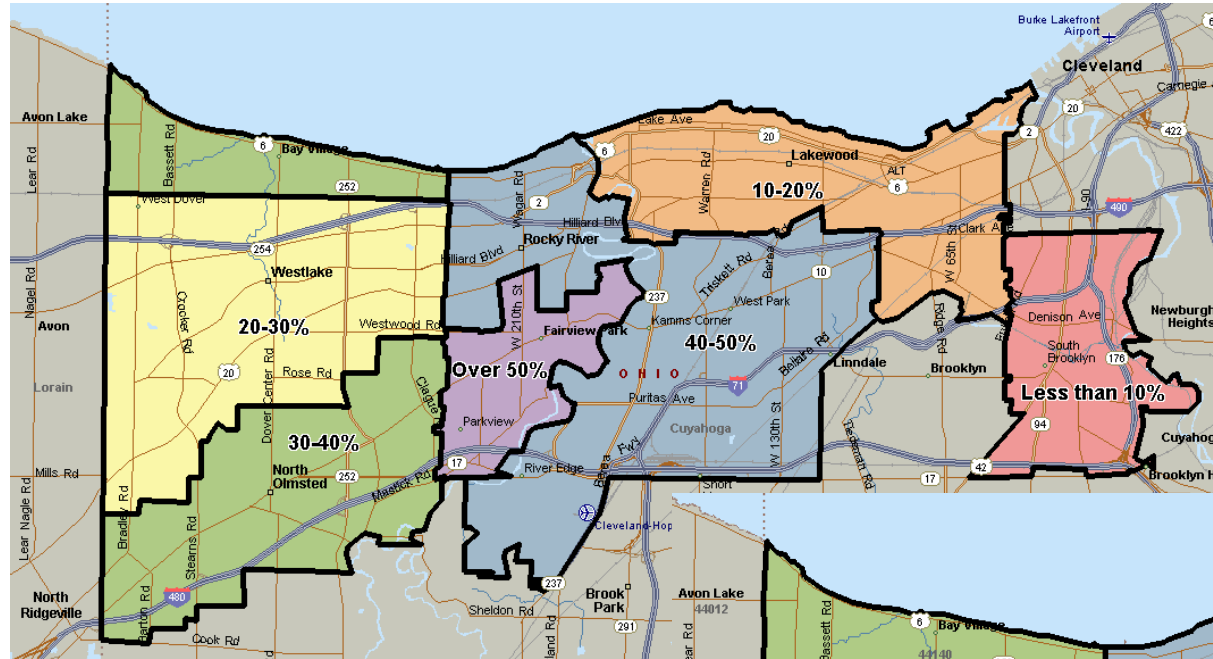


- Less than 10%
- 10-20%
- 20-30%
- 30-40%
- 40-50%
- Over 50%



Source: Ohio Hospital Association

Changes in Market Share: Fairview Market Share by Zip Code (2007 and 2012)

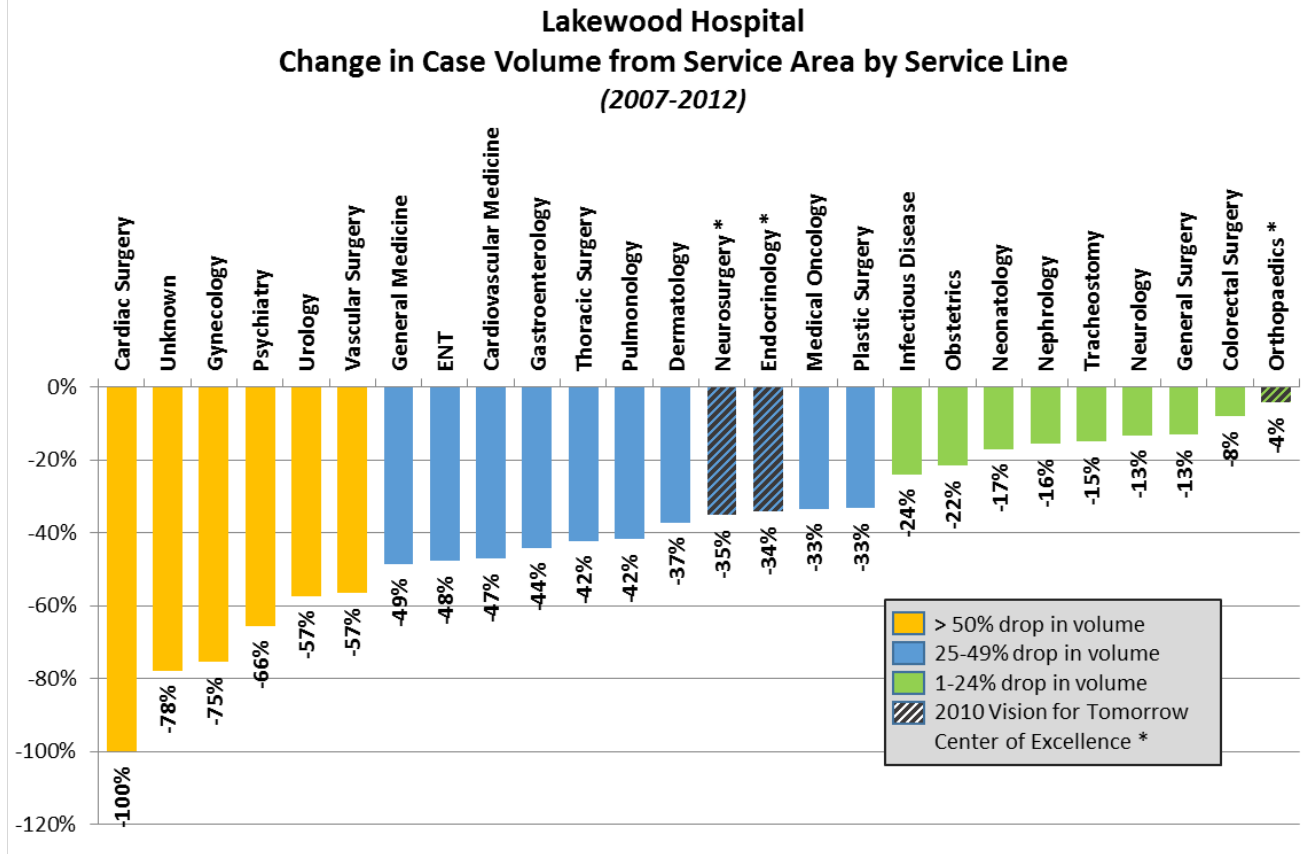
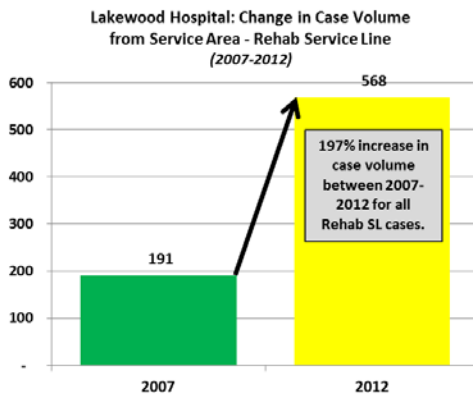
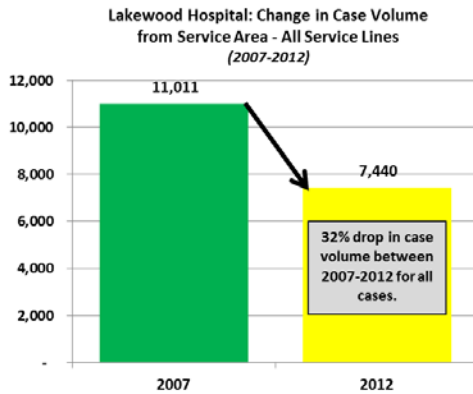


Source: Ohio Hospital Association

Lakewood Hospital Association Executive Committee Meeting 3/18/2015 636 of 746 Lakewood Hospital Association Executive Com...

Lakewood Hospital Volume Trends: 2007-2012

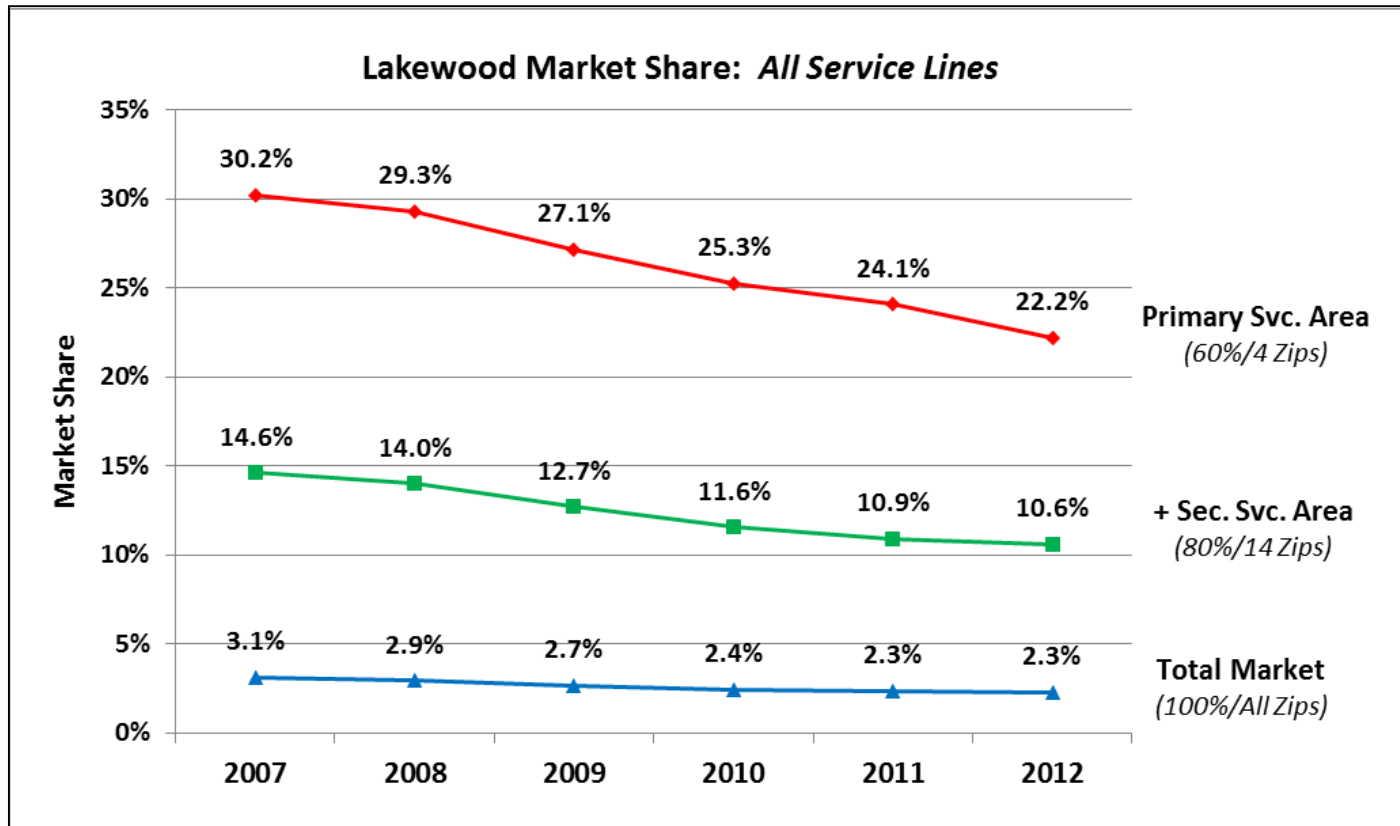
Change in Case Volume from Service Area



With the exception of Rehab, all of Lakewood Hospital's service lines dropped in case volume between 2007 and 2012 for those patients within its service area – with total case volume down by 33%.

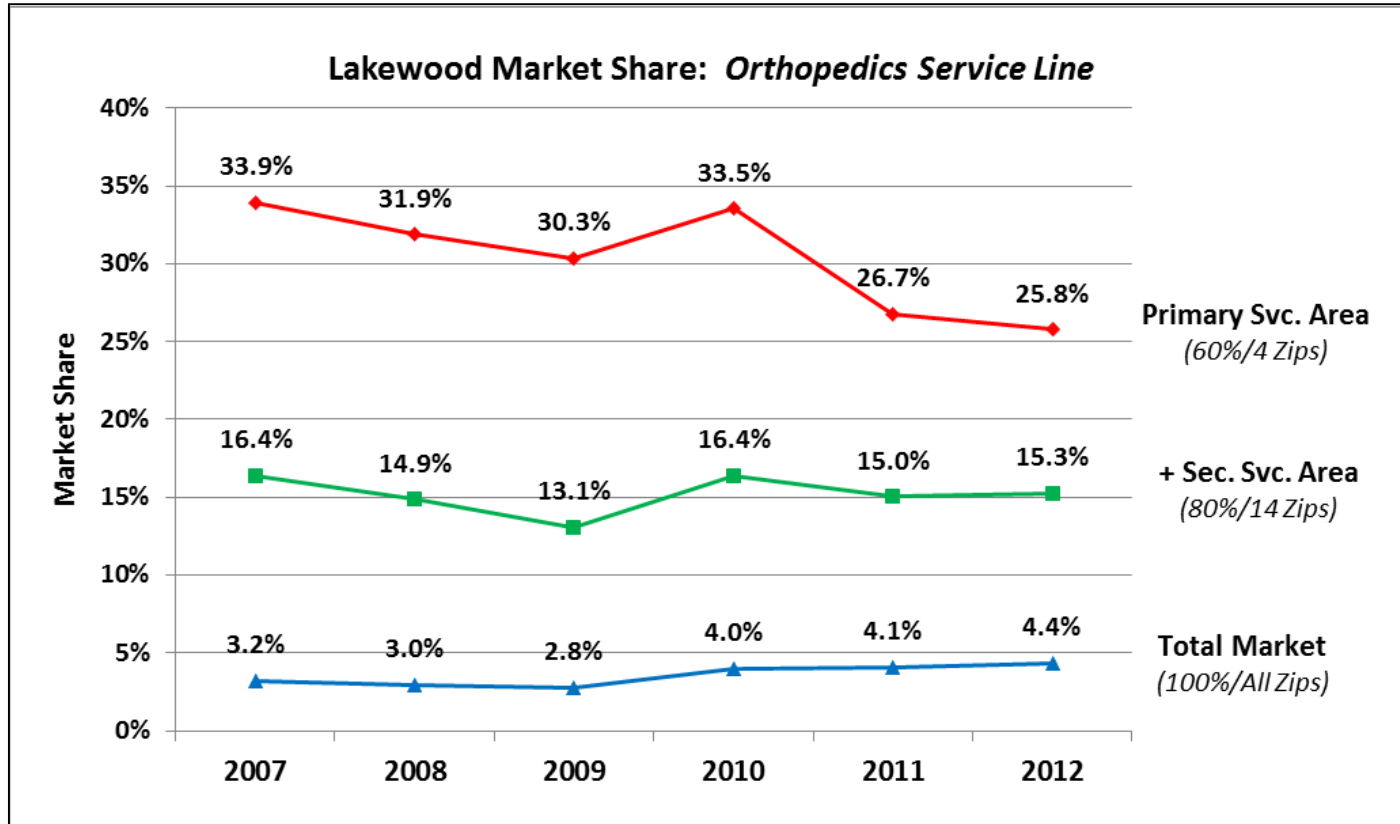
Lakewood Hospital Market Share Trends: 2007-2012

All Service Lines



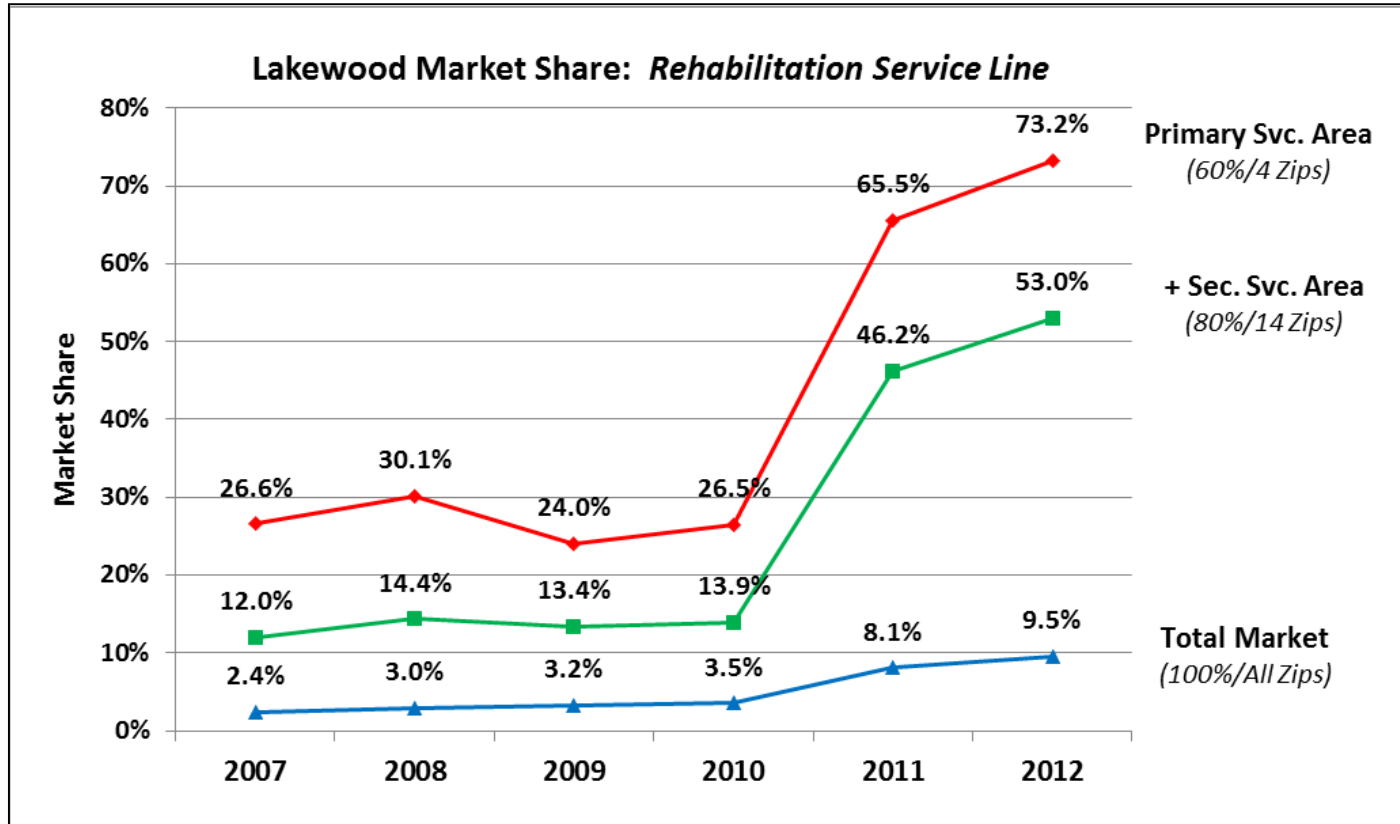
Lakewood Market Share Trends: 2007-2012

Orthopedics Service Line



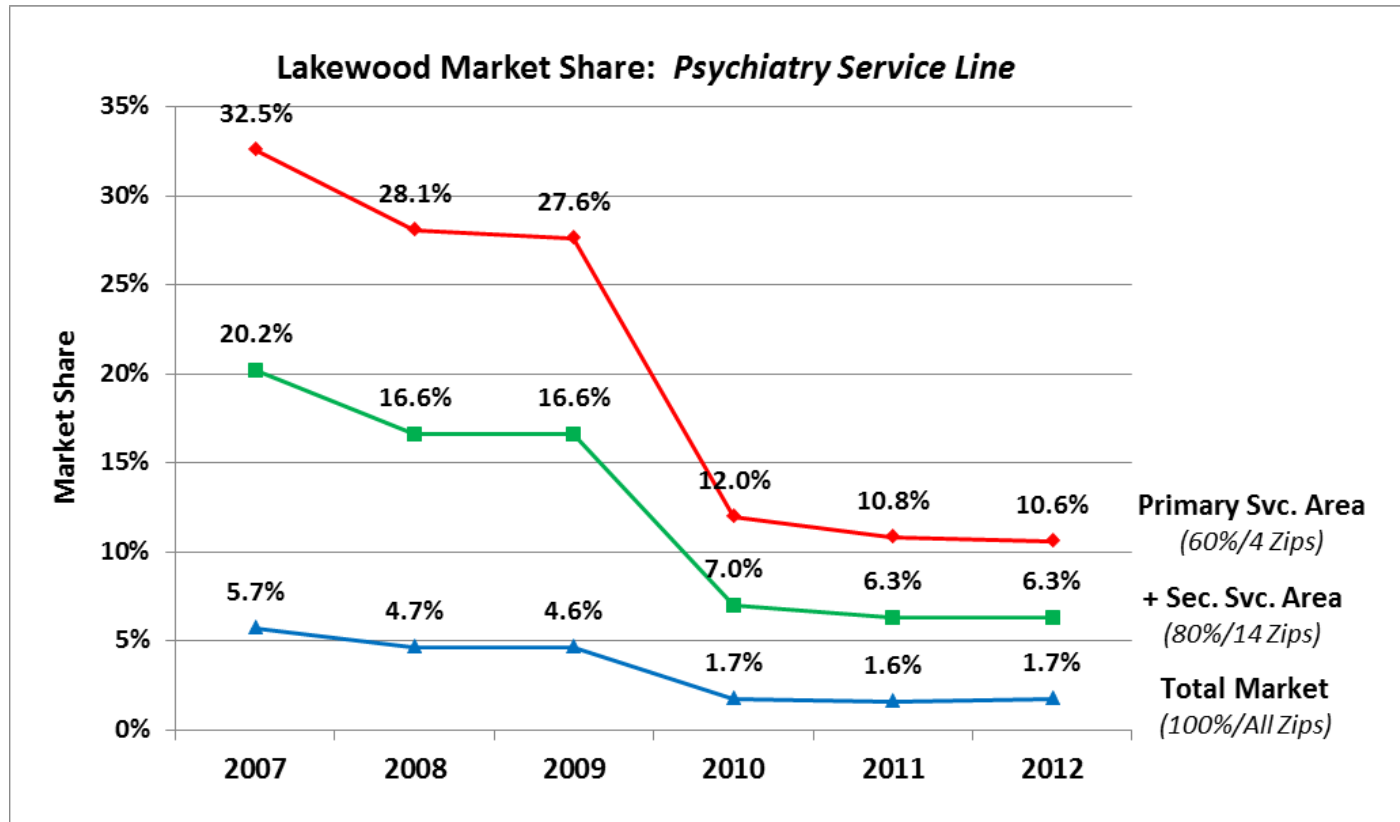
Lakewood Market Share Trends: 2007-2012

Rehabilitation Service Line



Lakewood Market Share Trends: 2007-2012

Psychiatry Service Line



Physician Supply in the Lakewood Market

- Lakewood has approximately 785 providers on the Medical Staff*
 - Includes all physicians and mid-level providers
 - 344 physicians admitted inpatients in 2012
- Specialty supply for primary care appears to be favorable in the Lakewood market overall relative to market need

Specialty	On Medical Staff	2012 Admitters	2012 IP Cases
Primary Care**	123	145	2,897
Orthopedics	24	22	533
Rehab***	71	N/A	N/A
Psychiatry	13	N/A	N/A

*Source: Lakewood Hospital Medical Staff Directory, July 8, 2013 and Medical Staff Volume Report (EPSI system), YTD Sept. 2012, excludes Patient Categories: SNU, Rehab, Psych, NICU, Nursery, Newborns

**Includes: Family Medicine, Internal Medicine and Pediatrics.

***Includes: Orthopedics, Neurosurgery, Neurology, Physical Medicine.

Inpatient Volumes by Admitting Physician Group

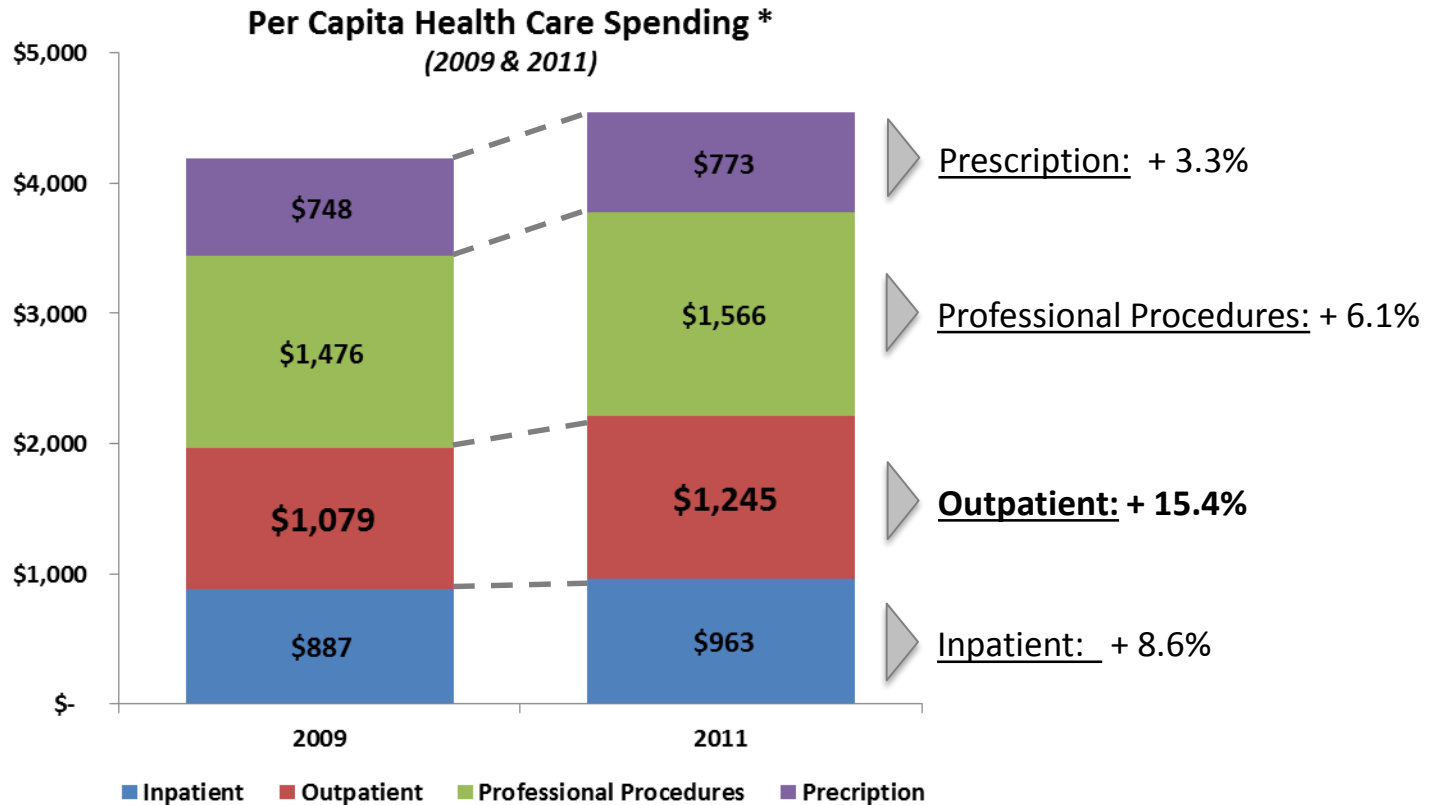
REDACTED DATA TABLE SHOWING ACTUAL NUMBER OF ADMISSIONS BY ADMITTING GROUP FOR ALL MAJOR PHYSICIAN GROUPS PRACTICING AT LAKEWOOD HOSPITAL – PROPRIETARY DATA

Lakewood has significant concentration risk with 80% of its admissions coming from the two major physician groups

Source: EPSI

Health Care Market Trends

Annual Health Care Spending



Annual per capita health care spending increased by 8.5% between 2009 and 2011 - with spending on outpatient services significantly outpacing the other cost categories.

Appendix: Additional Data



Lakewood Service Area Market Trends: 2007-2012

Change in Case Volume by Hospital - Cardiovascular Svc. Line

Cardiovascular (Surgery & Medicin) Service Line Cases from Lakewood Hospital's Primary and Secondary Service Area
The Effect of Utilization and Market Share Changes on Case Volume

	ACTUAL # OF CASES				Case Volume Drivers			± Trend
	2007	2012	# Diff.	% Diff.	Utilization	Mkt. Share	Total	
Lakewood Hospital	1,622	851	(771)	-47.5%	(360)	(411)	(771)	WORSE
<u>Other Hospitals in SA:</u>								
Fairview Hospital	2,634	2,119	(515)	-19.6%	(584)	69	(515)	BETTER
MetroHealth System	1,094	1,028	(66)	-6.0%	(242)	176	(66)	BETTER
St. John Medical Center	1,449	1,259	(190)	-13.1%	(321)	131	(190)	BETTER
EMH Elyria Medical Center	1,767	1,345	(422)	-23.9%	(392)	(30)	(422)	WORSE
Lutheran Hospital	369	233	(136)	-36.9%	(82)	(54)	(136)	WORSE
SA Cases Retained SubTotal	8,935	6,835	(2,100)	-23.5%	(1,981)	(119)	(2,100)	WORSE
<u>Out-Migration:</u>								
Cleveland Clinic Main	638	604	(34)	-5.3%	(141)	107	(34)	BETTER
All Other Hospitals O/S SA	1,065	841	(224)	-21.0%	(236)	12	(224)	BETTER
Out-Migration SubTotal	1,703	1,445	(258)	-15.1%	(377)	119	(258)	BETTER
Grand Total Cases from SA:	10,638	8,280	(2,358)	-22.2%	(2,358)	-	(2,358)	BASIS

Lakewood Service Area Market Trends: 2007-2012

Change in Case Volume by Hospital - Gastroenterology Svc. Line

Gastroenterology Service Line Cases from Lakewood Hospital's Primary and Secondary Service Area
The Effect of Utilization and Market Share Changes on Case Volume

	ACTUAL # OF CASES				Case Volume Drivers			± Trend
	2007	2012	# Diff.	% Diff.	Utilization	Mkt. Share	Total	
Lakewood Hospital	909	507	(402)	-44.2%	(18)	(384)	(402)	WORSE
<u>Other Hospitals in SA:</u>								
Fairview Hospital	1,098	1,394	296	27.0%	(22)	318	296	BETTER
MetroHealth System	873	789	(84)	-9.6%	(17)	(67)	(84)	WORSE
St. John Medical Center	862	998	136	15.8%	(17)	153	136	BETTER
EMH Elyria Medical Center	659	720	61	9.3%	(13)	74	61	BETTER
Lutheran Hospital	321	178	(143)	-44.5%	(6)	(137)	(143)	WORSE
SA Cases Retained SubTotal	4,722	4,586	(136)	-2.9%	(94)	(42)	(136)	WORSE
<u>Out-Migration:</u>								
Cleveland Clinic Main	365	434	69	18.9%	(7)	76	69	BETTER
All Other Hospitals O/S SA	755	706	(49)	-6.5%	(15)	(34)	(49)	WORSE
Out-Migration SubTotal	1,120	1,140	20	1.8%	(22)	42	20	BETTER
Grand Total Cases from SA:	5,842	5,726	(116)	-2.0%	(116)	-	(116)	BASIS

Lakewood Service Area Market Trends: 2007-2012

Change in Case Volume by Hospital - Psychiatry Svc. Line

Psychiatry Service Line Cases from Lakewood Hospital's Primary and Secondary Service Area
The Effect of Utilization and Market Share Changes on Case Volume

	ACTUAL # OF CASES				Case Volume Drivers			
	2007	2012	# Diff.	% Diff.	Utilization	Mkt. Share	Total	± Trend
Lakewood Hospital	1,090	376	(714)	-65.5%	106	(820)	(714)	WORSE
Other Hospitals in SA:								
Fairview Hospital	152	586	434	285.5%	15	419	434	BETTER
MetroHealth System	725	674	(51)	-7.0%	70	(121)	(51)	WORSE
St. John Medical Center	201	207	6	3.0%	19	(13)	6	WORSE
EMH Elyria Medical Center	396	341	(55)	-13.9%	38	(93)	(55)	WORSE
Lutheran Hospital	964	1,432	468	48.5%	93	375	468	BETTER
SA Cases Retained SubTotal	3,528	3,616	88	2.5%	342	(254)	88	WORSE
Out-Migration:								
Cleveland Clinic Main	245	184	(61)	-24.9%	24	(85)	(61)	WORSE
All Other Hospitals O/S SA	1,628	2,124	496	30.5%	158	338	496	BETTER
Out-Migration SubTotal	1,873	2,308	435	23.2%	181	254	435	BETTER
Grand Total Cases from SA:	5,401	5,924	523	9.7%	523	-	523	BASIS

Lakewood Service Area Market Trends: 2007-2012

Change in Case Volume by Hospital - Pulmonology Svc.Line

Pulmonology Service Line Cases from Lakewood Hospital's Primary and Secondary Service Area
The Effect of Utilization and Market Share Changes on Case Volume

	ACTUAL # OF CASES				Case Volume Drivers			
	2007	2012	# Diff.	% Diff.	Utilization	Mkt. Share	Total	± Trend
Lakewood Hospital	1,204	701	(503)	-41.8%	-	(503)	(503)	WORSE
Other Hospitals in SA:								
Fairview Hospital	1,297	1,574	277	21.4%	-	277	277	BETTER
MetroHealth System	1,050	1,171	121	11.5%	-	121	121	BETTER
St. John Medical Center	953	994	41	4.3%	-	41	41	BETTER
EMH Elyria Medical Center	972	1,026	54	5.6%	-	54	54	BETTER
Lutheran Hospital	448	350	(98)	-21.9%	-	(98)	(98)	WORSE
SA Cases Retained SubTotal	5,924	5,816	(108)	-1.8%	-	(108)	(108)	WORSE
Out-Migration:								
Cleveland Clinic Main	177	223	46	26.0%	-	46	46	BETTER
All Other Hospitals O/S SA	780	842	62	7.9%	-	62	62	BETTER
Out-Migration SubTotal	957	1,065	108	11.3%	-	108	108	BETTER
Grand Total Cases from SA:	6,881	6,881	-	0.0%	-	-	-	BASIS

Summary of Potential Hospital Renovation Costs and Detailed Floor Maps to Support Renovation Cost Estimates

- Original document provided floor maps for each floor of the hospital and for each section of the floor (by functional area/department), provided estimated renovation cost per square foot
- Redacted due to proprietary estimates which could adversely impact the value of the hospital for any future negotiations

Subsidium Healthcare®

Insight and Action for Value

Lakewood Hospital Select Committee

Options Analysis

October 9, 2013



CONFIDENTIAL DRAFT – FOR DISCUSSION ONLY

Agenda

- Updates
- Executive summary – discuss the high-level conclusions first

Detailed Discussions:

- Define and clarify each option for consideration – including a few additional options
- Review approach to evaluating the options
- Apply the first filter to the options and discuss recommendations to narrow the list
- Refer to overall market-level data, if necessary

Next Steps: Discuss preliminary (incomplete) analyses on the second filter to help prepare for our next meeting on October 29, 2013

Updates

- Conducted extensive data analyses and applied screening criteria to Lakewood's strategic options
- Completed introductory meetings with MetroHealth, University Hospitals and Premier Physicians
- Contacted Catholic Healthcare Partners, but they declined meeting
- Requested a Statement of Strategic Interest from other potential partners, and requested that Cleveland Clinic refresh their proposed concept for the Family Health Center
 - UH declined further discussions
 - MetroHealth is preparing a statement but requested a tour before responding
 - Received the response from Premier on Friday, October 4th
 - Received revised FHC concept from Cleveland Clinic

Important to remember that we must first determine the recommended **strategy** for Lakewood; then identify the optimal partner to work with in executing the strategy

Overview of Cleveland Clinic's Family Health Center Concept

- Proposed as a collaborative development effort including Cleveland Clinic, City of Lakewood, Lakewood Hospital Association, and Lakewood Hospital Foundation
- Objectives: 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
- Cleveland Clinic would fund, build and operate a new Comprehensive Family Health Center – approximately 80,000 square feet, approximately 175 employees, 24-hour ED, advanced medical home model for primary care, specialty services, outpatient procedures and diagnostic imaging
- Cleveland Clinic would also move the Family Medicine Residency program from Fairview to Lakewood
- Proposes the formation of a new Foundation to fund the development of a new Community Health and Wellness Center – also on the site of the current hospital

Executive Summary



Overall Market Data

Primary Areas of Data Analyses

To allow us to evaluate the current market trends and their potential impact on our options evaluation, we focused our analyses on several key areas:

- Community health needs assessment for Lakewood
- Comparison of inpatient bed supply vs. demand
- Decreases in inpatient utilization across the overall market and across nearly all service lines
- Total volumes for the market in specific inpatient services lines (to support the evaluation of single-specialty hospital options)
- Lakewood's specific volume losses: what services lines drove the losses and where did those cases go?
- Availability of physicians in the local Lakewood market
- Trends and growth in outpatient services

Overall Market Data: *Executive Summary/Key Themes*

- Community Health Needs
 - The Lakewood community exhibits above average prevalence rates of obesity, smoking and chemical dependency, as well as higher than average rates for several chronic conditions, including COPD, adult asthma, congestive heart failure and diabetes
 - The primary needs identified by the Community Health Needs Assessment report include:
 - Improved Access to Primary, Preventive Care, and Mental Health Services
 - Coordination of Affordable Health Care and Outreach
 - Public Transportation and other Basic Community Services
- Overbedding
 - Supply of inpatient beds in the Cleveland market significantly exceed the demand (by more than 2X); the estimated excess is over 3,000 beds
- Declining Inpatient Demand
 - Between 2007 and 2012, the overall inpatient admissions volumes declined 10.1% in Lakewood's primary service area, 6.8% in the primary/secondary service area, and by 5.6% across the entire 7-county Cleveland MSA

Overall Market Data: *Executive Summary/Key Themes*

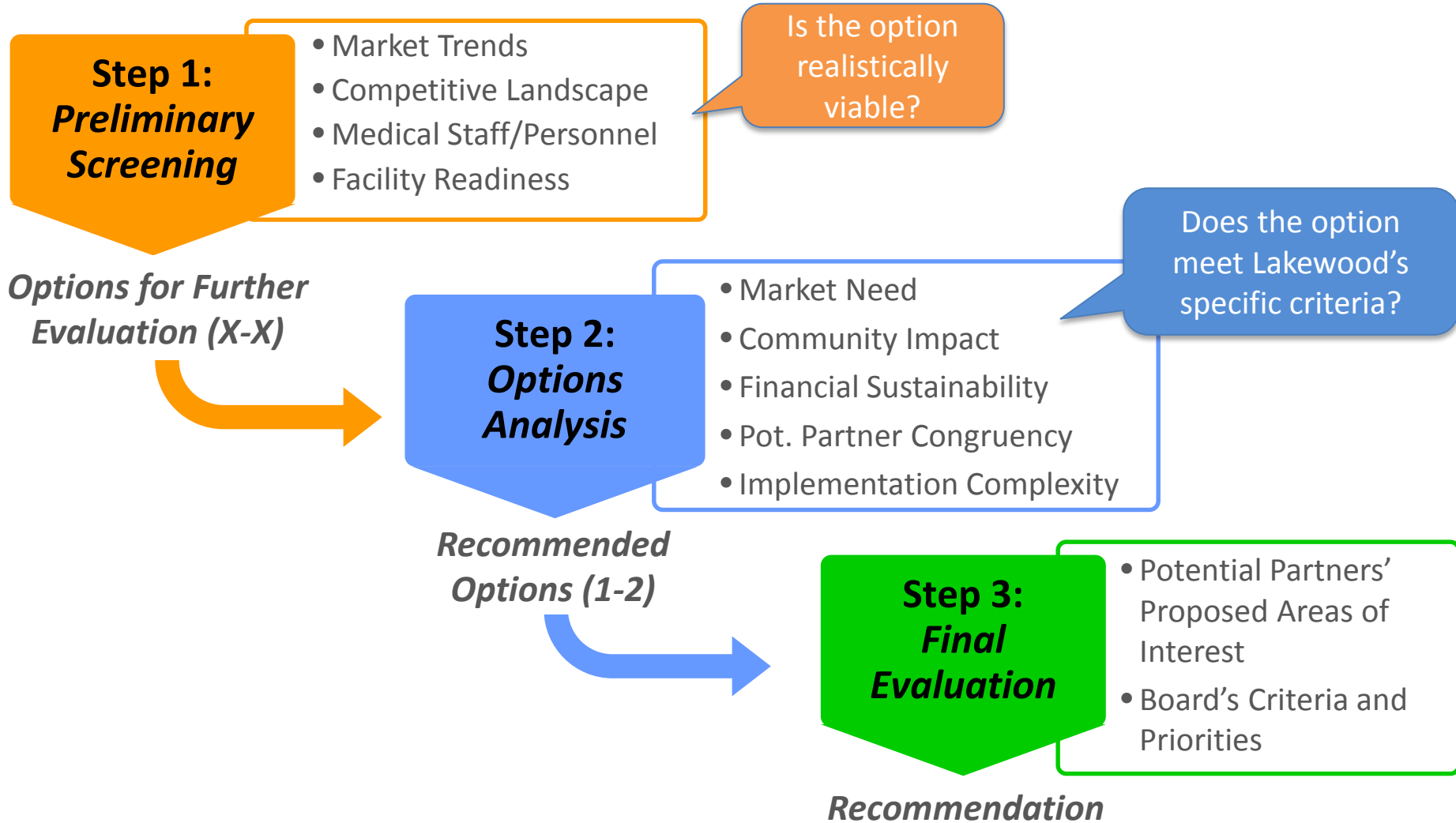
- Lakewood Hospital's Volume Trends
 - In addition to an overall decline in volumes in the market, Lakewood's own volumes declined a total of 32% between 2007-2012; with the largest volume decreases in Cardiology, Psychiatry, Pulmonology and Gastroenterology (4 service lines accounted for two-thirds of the volume losses)
- Market Share Trends
 - The primary beneficiaries of the shifts in IP market share between 2007-2012 were Fairview Hospital, St. John Westlake and Cleveland Clinic main campus
- Physician Supply
 - There is still a strong supply of physicians in Lakewood. The Cleveland Clinic-employed physicians make up a significant portion of the supply, but even with out those physicians, there is significant physician presence in Lakewood
- Outpatient Trends
 - Overall, outpatient services spending (per capita) is currently growing at nearly twice the rate of overall health care spending across the U.S.

Overview of Strategic Options

There are a variety of options which fall into one of four general categories

	Description	Specific Options
Modified Status Quo	These options are all relatively similar to the current model for Lakewood Hospital (a general acute-care hospital with 3-4 centers of excellence)	<ol style="list-style-type: none">1. Right size hospital2. Lower-Acuity, Chronic Care Focused Hospital3. Hospital with Center(s) of Excellence
Family Health Focus	These options represent a change to the primary service model for Lakewood, and take advantage of market trends toward increased care in outpatient settings	<ol style="list-style-type: none">4. Family Health Campus (No IP)5. Hybrid: Family Health Campus (With IP)
Single Specialty Hospital	All of these options are to create a single-specialty, inpatient-focused hospital; most would imply a larger geographic service area to attract sufficient patient volumes	<ol style="list-style-type: none">6. Specialty Hospital: <i>Ortho</i>7. Specialty Hospital: <i>Acute Rehab</i>8. Specialty Hospital: <i>Psych</i>9. Specialty Hospital: <i>LTAC and/or SNFs</i>
Transition Out of Healthcare	In the spirit of an exhaustive set of options, it is an option to consider exiting the business of direct provision of health care and fulfillment of the City's health care mission in other ways	<ol style="list-style-type: none">10. Phased Plan to Transition Out of Care Delivery Business

3-Step Evaluation Process



Step 1: *Preliminary Screening*

Critical Success Factors Defined

Step 1: *Preliminary Screening*

- Macro Market Trends
- Competitive Landscape
- Medical Staff/Personnel
- Facility Readiness

During Step 1 of our evaluation process, we screened each option using the available data vis-à-vis whether the option could meet basic critical success factors to be considered a realistically viable option.

Options for Further Evaluation

For this “viability check”, we considered four primary **critical success factors**:

1. Macro Market Trends: Is the market for the services proposed growing and compatible with the needs of our target customers?
2. Competitive Landscape: Is it reasonable to believe that Lakewood could compete to retain/gain market share for the proposed service offerings?
3. Medical Staff/Personnel: Do we have access to the right types and numbers of physician and clinical staff necessary to provide the services proposed?
4. Facility Readiness: Do we have access to a facility (or can we afford to modify or build one) that will be configured appropriately to provide the proposed services?

Step 1: Preliminary Screening

Summary of Results

Options	Critical Success Factors				Overall Rating	Recommendation
	Market Trends	Competitive Landscape	Medical Staff/ Personnel	Facility Readiness		
1. Right Size Hospital	U	U	U	U	U	No Further Evaluation
2. Lower-Acuity, Chronic Care Focused Hospital	N	N	N	N	N	For Discussion
3. Hospital with Center(s) of Excellence	U	U	U	U	U	No Further Evaluation
4. Family Health Park (No IP)	F	F	F	F	F	Additional Evaluation
5. Hybrid Family Health Park (with IP)	N	F	F	N	F/N	Additional Evaluation
6. Specialty Hospital: <i>Ortho</i>	U	U	N	N	U	No Further Evaluation
7. Specialty Hospital: <i>Acute Rehab</i>	N	U	F	N	N	For Discussion
8. Specialty Hospital: <i>Psych</i>	F	F	U	N	N	For Discussion
9. Specialty Hospital: <i>LTAC and/or SNF</i>	F	U	N	N	N	For Discussion
10. Transition Out of Health Care	U	F	U	F	N	No Further Evaluation

Detailed Discussions:
Define and Clarify Each
Option To Be Evaluated

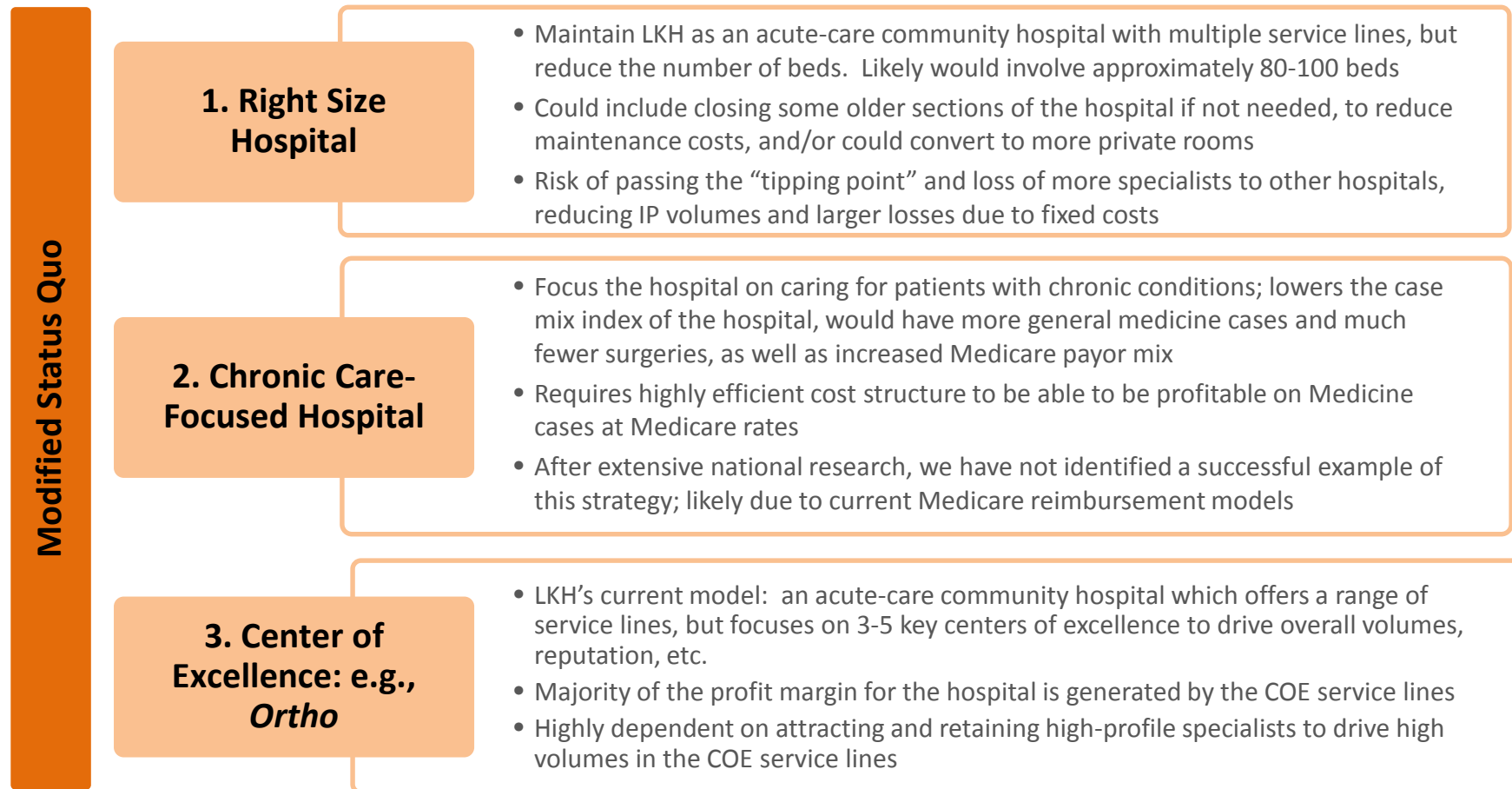


Overview of Strategic Options

There are a variety of options which fall into one of four general categories

	Description	Specific Options
Modified Status Quo	These options are all relatively similar to the current model for Lakewood Hospital (a general acute-care hospital with 3-4 centers of excellence)	<ol style="list-style-type: none">1. Right size hospital2. Lower-Acuity, Chronic Care Focused Hospital3. Hospital with Center(s) of Excellence
Family Health Focus	These options represent a change to the primary service model for Lakewood, and take advantage of market trends toward increased care in outpatient settings	<ol style="list-style-type: none">4. Family Health Campus (No IP)5. Hybrid: Family Health Campus (With IP)
Single Specialty Hospital	All of these options are to create a single-specialty, inpatient-focused hospital; most would imply a larger geographic service area to attract sufficient patient volumes	<ol style="list-style-type: none">6. Specialty Hospital: <i>Ortho</i>7. Specialty Hospital: <i>Acute Rehab</i>8. Specialty Hospital: <i>Psych</i>9. Specialty Hospital: <i>LTAC and/or SNFs</i>
Transition Out of Healthcare	In the spirit of an exhaustive set of options, it is an option to consider exiting the business of direct provision of health care and fulfillment of the City's health care mission in other ways	<ol style="list-style-type: none">10. Phased Plan to Transition Out of Care Delivery Business

Lakewood Hospital's Specific Options Clarified / Defined: Modified Status Quo



Lakewood Hospital's Specific Options Clarified / Defined:

Family Health Focus

Family Health Focus

4. Family Health Campus (No IP)

- Discontinue inpatient services and reconfigure the site to provide a health center or health park facility; likely involves taking down the current hospital building(s)
- Outpatient services typically include: ED or urgent care, primary care (adult and peds), office-based specialty care, outpatient rehab/PT/OT, imaging and diagnostic services, lab, pharmacy, and sometimes more extensive services such as observation beds or ambulatory surgery
- Would imply fewer employees than currently employed at the hospital
- Also implies a smaller land footprint, allowing for the potential development of additional facilities on the existing land, or other attractive economic development element, such as a high-tech, healthcare-related business incubator or research facility

5. Hybrid: Family Health Campus (With IP)

- Same outpatient services as above, and in addition, would include a smaller inpatient hospital component on the same site (assume 80-100 beds)
- Would likely include many of the inpatient service lines that LKH offers currently, but may have to consider discontinuing some service lines
- Questionable whether the hospital could run cost-efficiently at a smaller bed count

Lakewood Hospital's Specific Options Clarified / Defined:

Single Specialty Focus

Single Specialty Hospital

6. Specialty Hospital: *Ortho*

- “Focused factory” around orthopedic care (major joint surgery, spinal surgery, etc.)
- Examples are McBride Orthopedic Hospital (Oklahoma City); Indiana Orthopaedic Hospital, etc.
- Likely to be substantially smaller in terms of total beds and employment; requires significant involvement and loyalty of orthopedic surgeons

7. Specialty Hospital: *Acute Rehab*

- Long length of stay specialty hospital focused on stroke rehab, major neuro rehab, spinal injury, etc.
- Traditional approach relies on affiliation with an academic partner
- Likely to be substantially smaller in terms of total beds and employment

8. Specialty Hospital: *Psych*

- Benefits from strong demand for more behavioral health services, but outpatient area is growing more rapidly
- Heavy reliance on governmental funding (Medicaid)
- For-profit companies are actively investing in this market

9. Specialty Hospital: *Long-term Acute Care (LTAC)*

- Focus on patients with simpler needs but LOS over 25 days. Typical patient is on a ventilator post discharge from an acute care hospital
- Long-term nature makes convenience and locational advantage less critical
- New rule in 2013 will limit profitability for LTACs reliant on a primary referral source

Lakewood Hospital's Specific Options Clarified / Defined: Transition Out of Health Care

Transition Out of Health Care

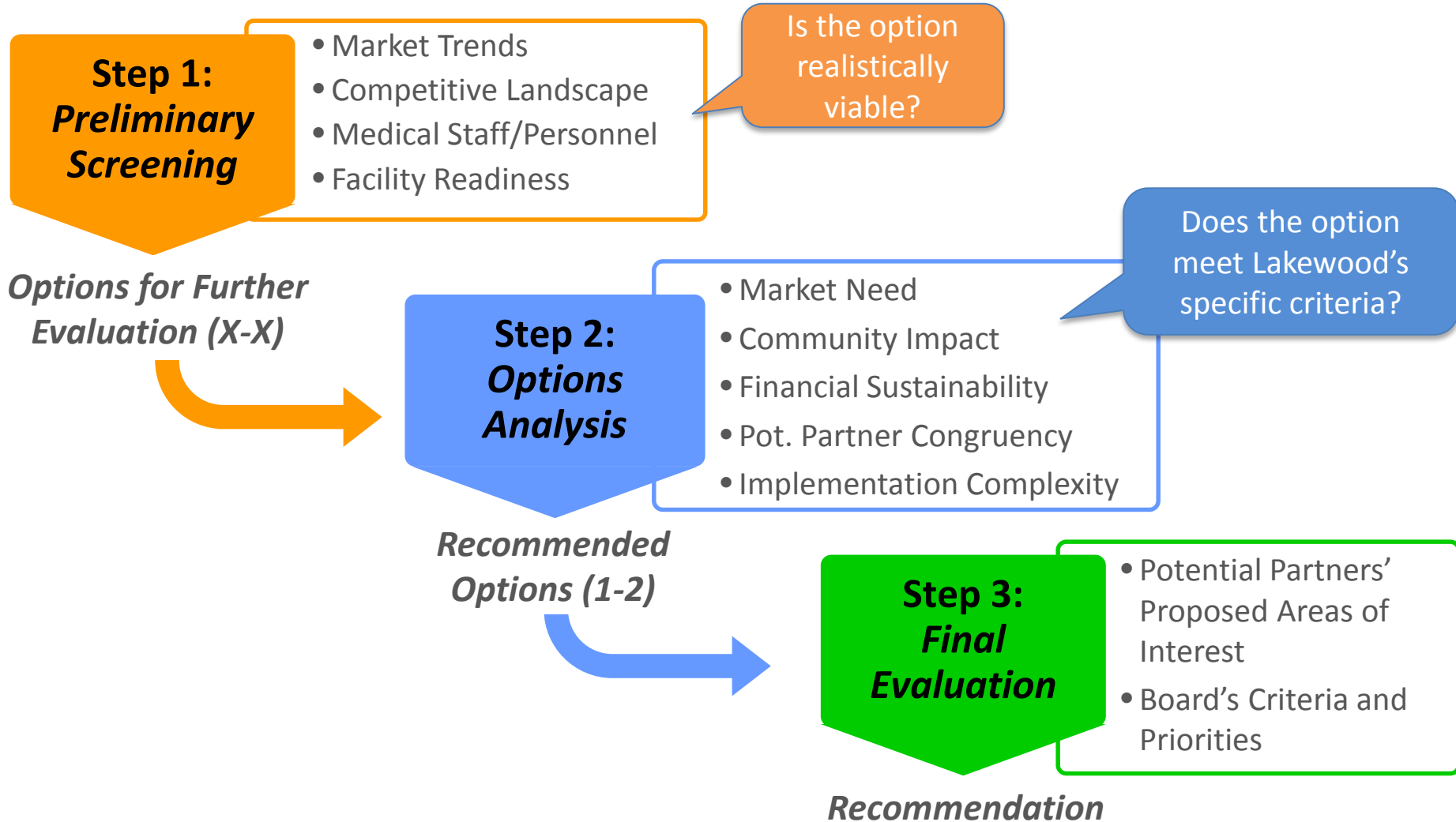
10. Phased Plan to Transition Out of Care Delivery Business

- In the spirit of providing a comprehensive list of all options, it would be an option to close the hospital, revert the assets of LHA back to the City and allow the City to invest in promoting the health of the community in some other way (e.g., establishing a foundation to invest in other local community health organizations, etc.)
- Implies a major reduction in revenue to the City, which may in turn imply a reduction in other City services
- Note: we view this option as different from a decision under any of the other options where a health care business continues in Lakewood, but becomes owned by a strategic partner, allowing the City to formally divest of or reduce its current ownership of the Lakewood Hospital assets

Detailed Discussions: Approach to Evaluating the Options



3-Step Evaluation Process



Detailed Discussions: Step 1: Applying the First Filter to Narrow the Options



Step 1: *Preliminary Screening*

Critical Success Factors Defined

Step 1: *Preliminary Screening*

- Macro Market Trends
- Competitive Landscape
- Medical Staff/Personnel
- Facility Readiness

During Step 1 of our evaluation process, we screened each option using the available data vis-à-vis whether the option could meet basic critical success factors to be considered a realistically viable option.

Options for Further Evaluation

For this “viability check”, we considered four primary **critical success factors**:

1. Macro Market Trends: Is the market for the services proposed growing and compatible with the needs of our target customers?
2. Competitive Landscape: Is it reasonable to believe that Lakewood could compete to retain/gain market share for the proposed service offerings?
3. Medical Staff/Personnel: Do we have access to the right types and numbers of physician and clinical staff necessary to provide the services proposed?
4. Facility Readiness: Do we have access to a facility (or can we afford to modify or build one) that will be configured appropriately to provide the proposed services?

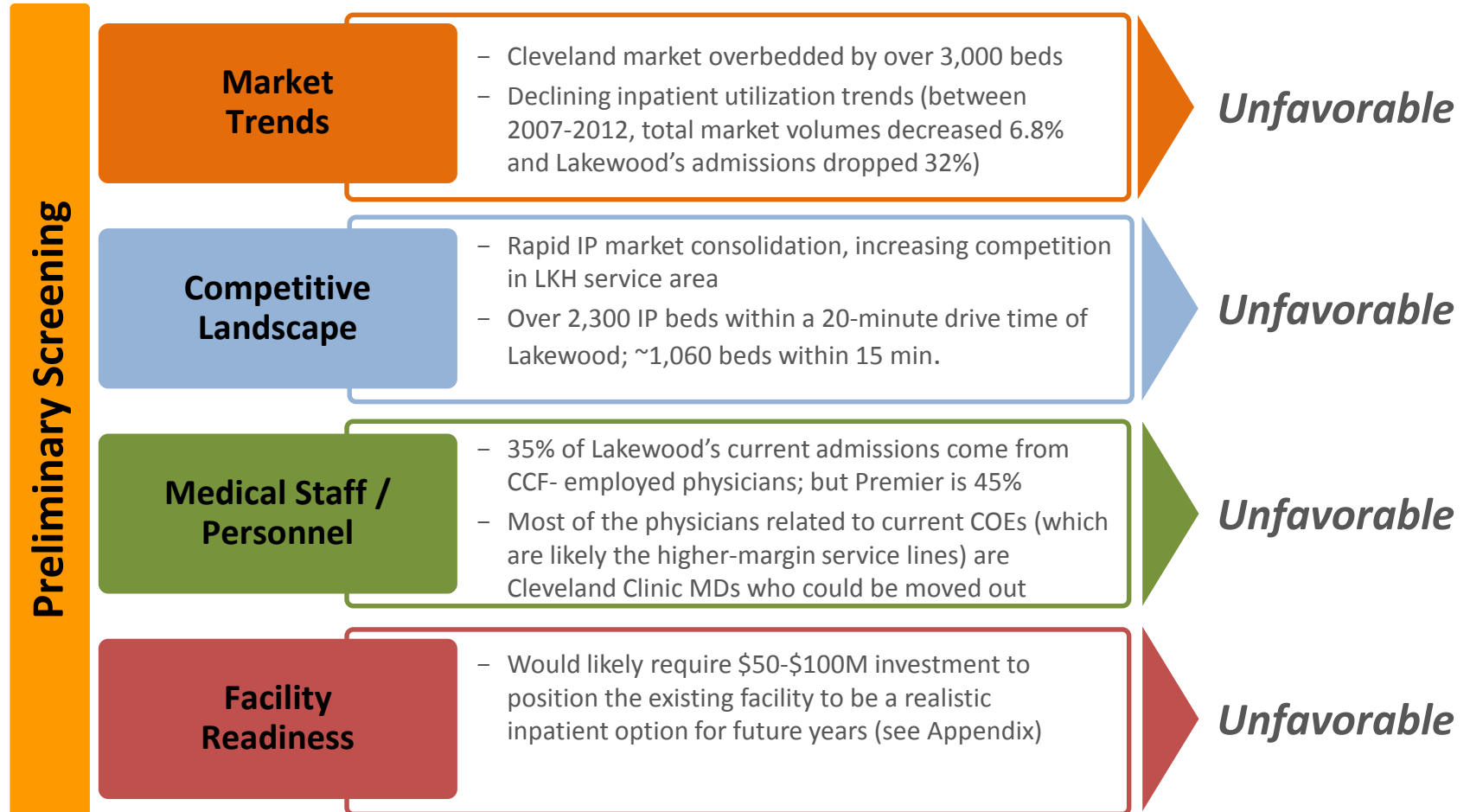
Step 1: Preliminary Screening

Summary of Results

Options	Critical Success Factors				Overall Rating	Recommendation
	Market Trends	Competitive Landscape	Medical Staff/ Personnel	Facility Readiness		
1. Right Size Hospital	U	U	U	U	U	No Further Evaluation
2. Lower-Acuity, Chronic Care Focused Hospital	N	N	N	N	N	For Discussion
3. Hospital with Center(s) of Excellence	U	U	U	U	U	No Further Evaluation
4. Family Health Park (No IP)	F	F	F	F	F	Additional Evaluation
5. Hybrid Family Health Park (with IP)	N	F	F	N	F/N	Additional Evaluation
6. Specialty Hospital: <i>Ortho</i>	U	U	N	N	U	No Further Evaluation
7. Specialty Hospital: <i>Acute Rehab</i>	N	U	F	N	N	For Discussion
8. Specialty Hospital: <i>Psych</i>	F	F	U	N	N	For Discussion
9. Specialty Hospital: <i>LTAC and/or SNF</i>	F	U	N	N	N	For Discussion
10. Transition Out of Health Care	U	F	U	F	N	No Further Evaluation

Recommendation: No Further Evaluation

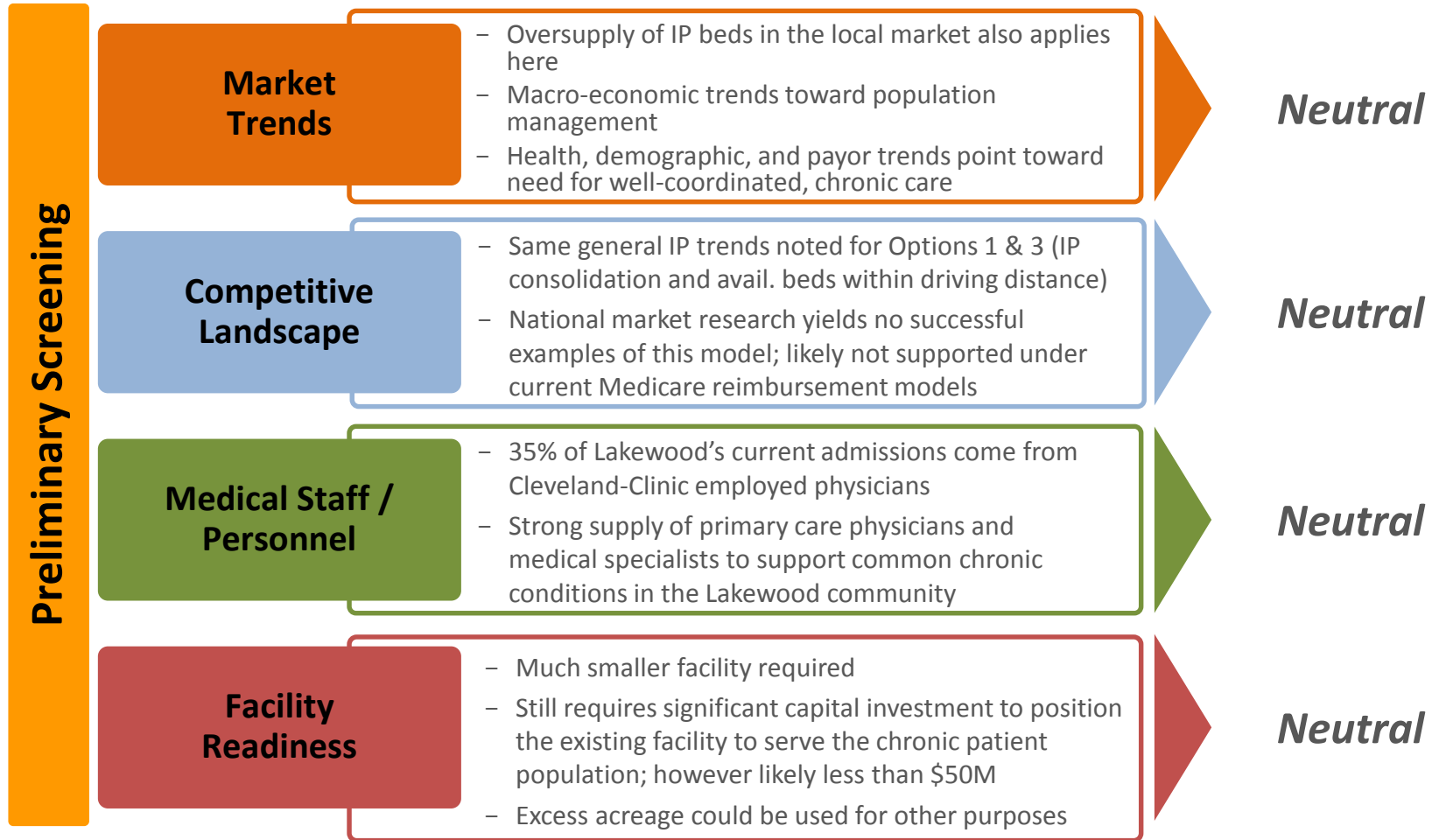
Step 1: Preliminary Screening Options 1 & 3: Right-Size Hospital and Hospital with Center(s) of Excellence



Overall Rating: Unfavorable

Step 1: Preliminary Screening

Option 2: Lower Acuity, Chronic Care-Focused Hospital



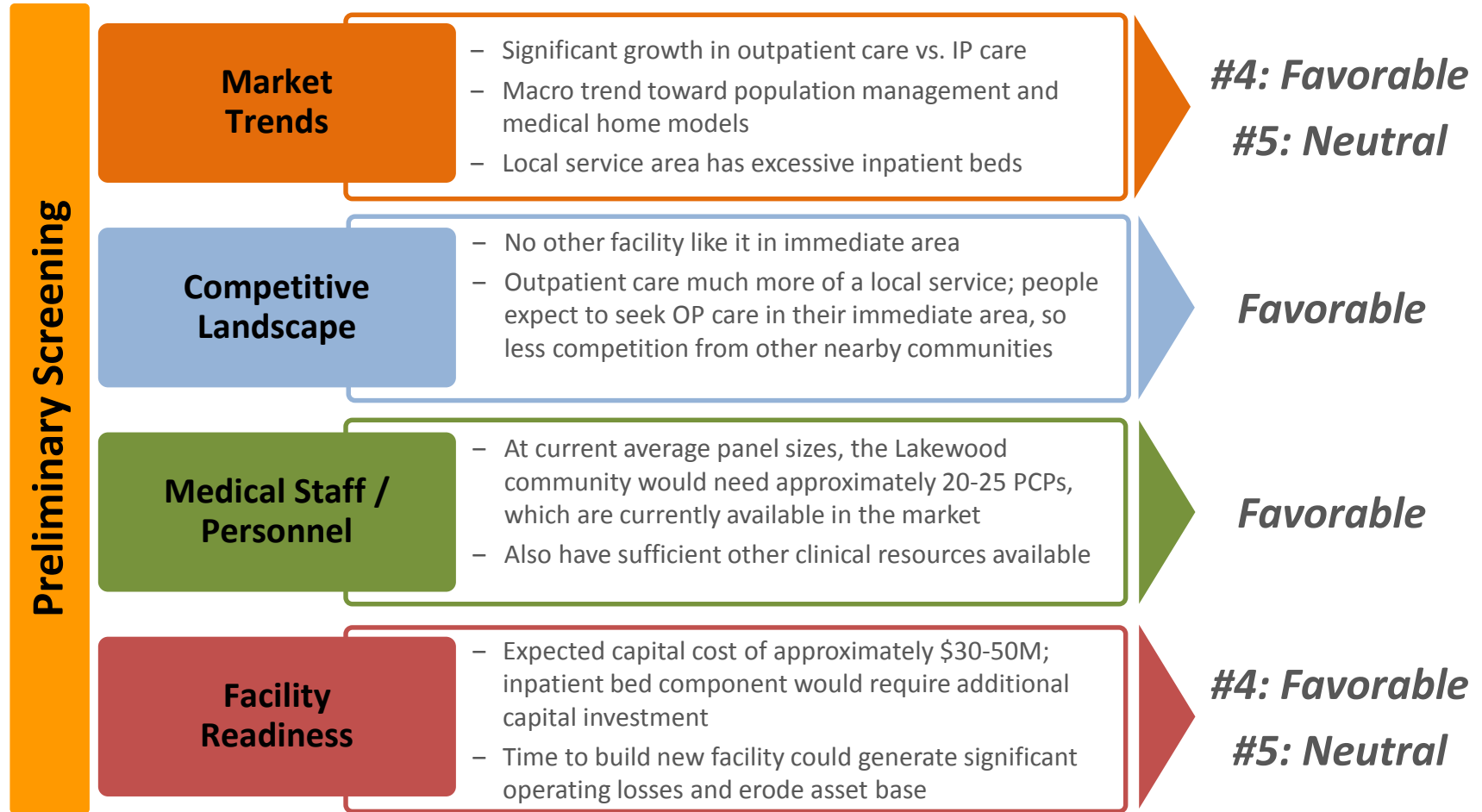
Overall Rating: Neutral

**Recommendation:
Additional Evaluation**

Step 1: Preliminary Screening

Option 4: Family Health Campus (No IP)

Option 5: Family Health Campus (With IP)



#4

Overall Rating: Favorable

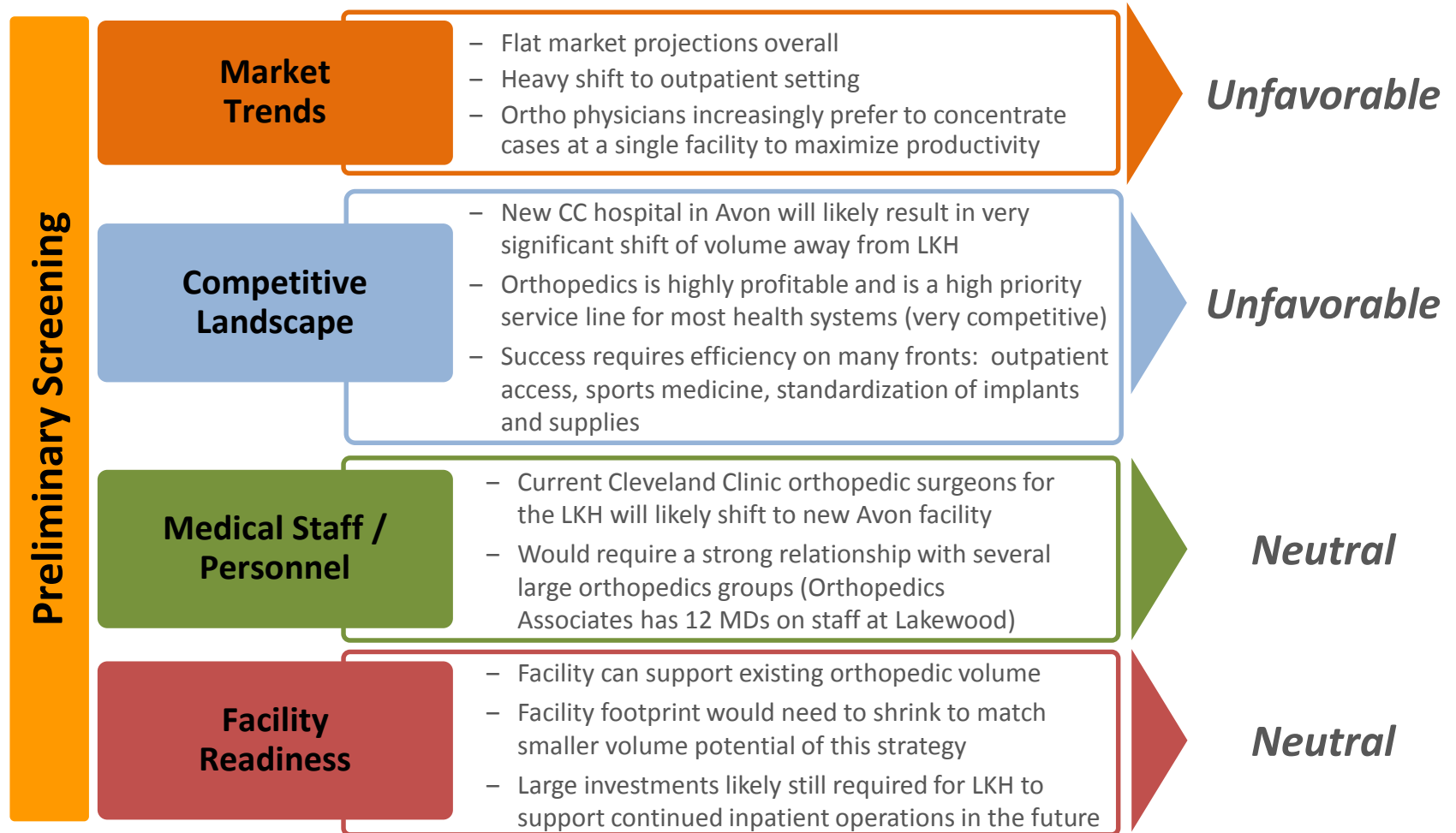
#5

Overall Rating: Favorable/Neutral

**Recommendation:
No Further Evaluation**

Step 1: Preliminary Screening

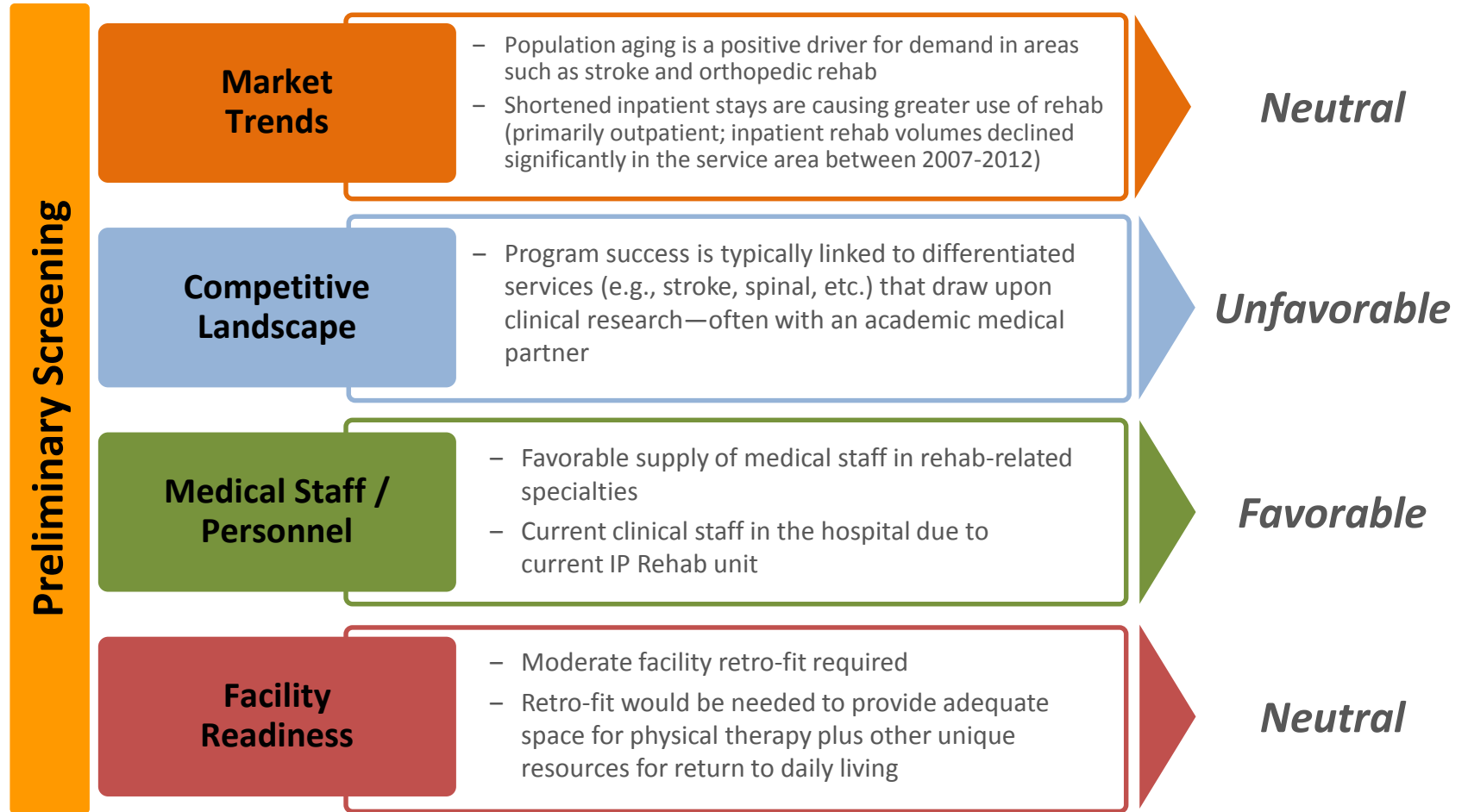
Option 6: Specialty Hospital: Orthopedics



Overall Rating: Unfavorable

Step 1: Preliminary Screening

Option 7: Specialty Hospital: Acute Rehab

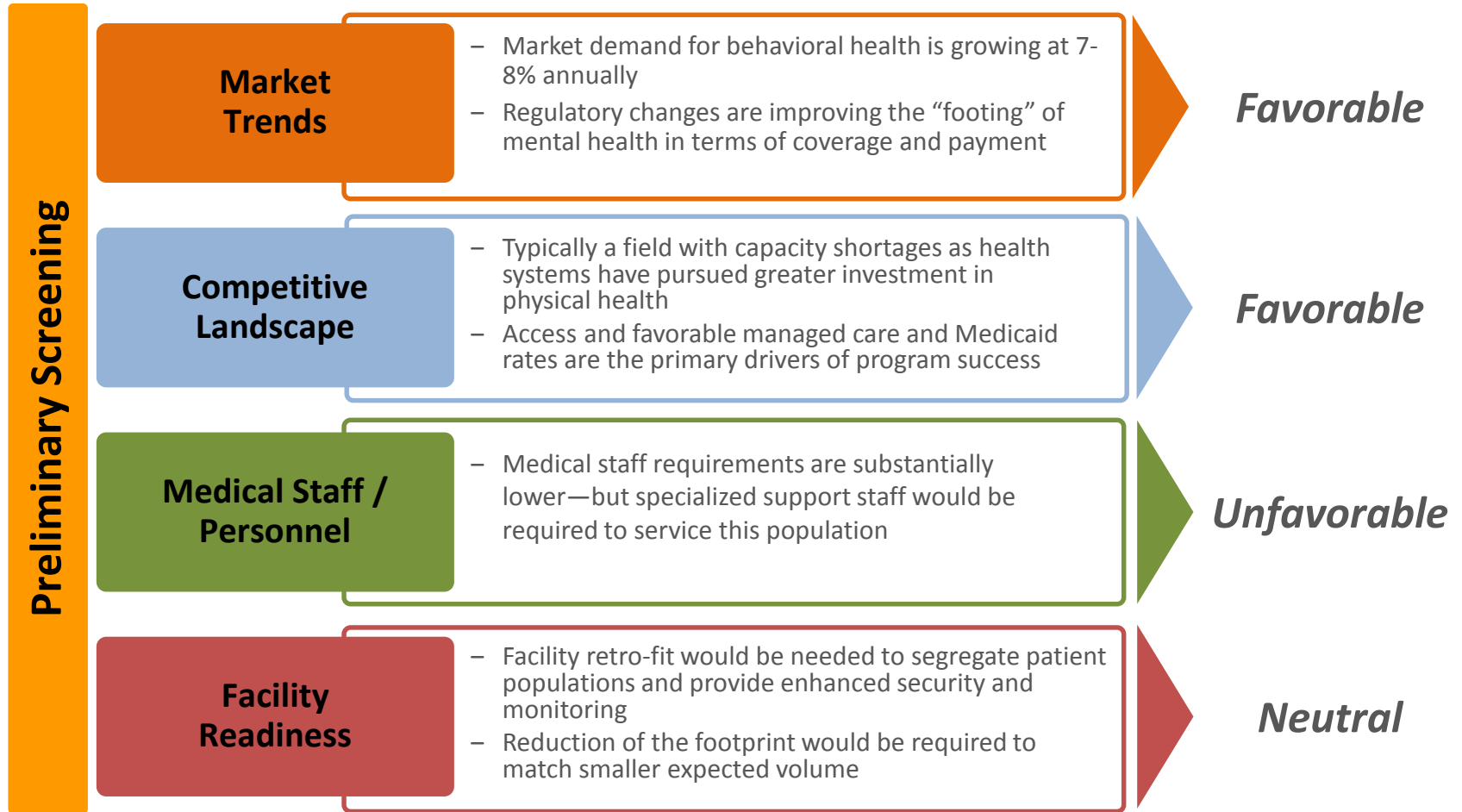


Overall Rating: Neutral

**Recommendation:
For Discussion**

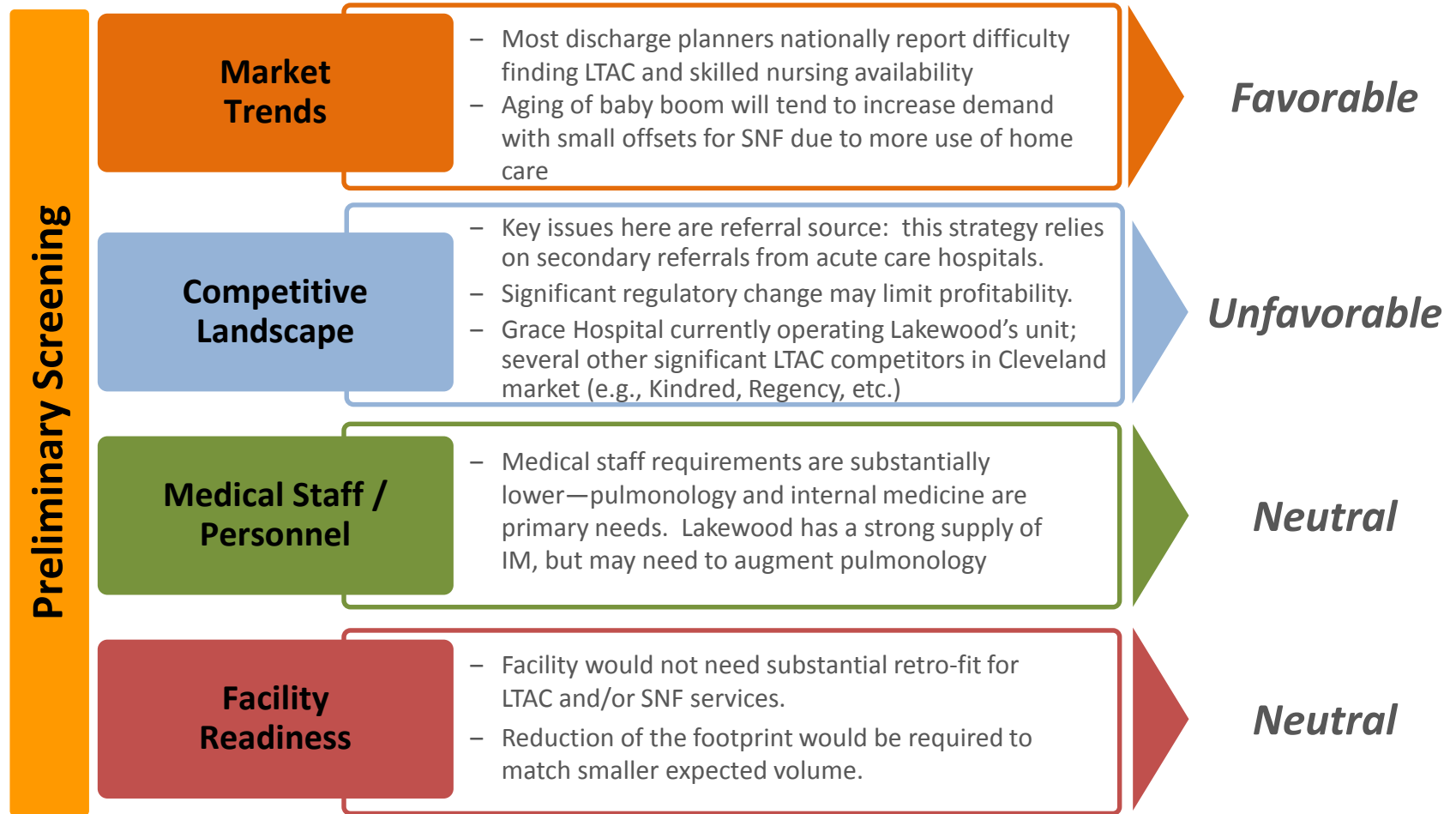
Step 1: Preliminary Screening

Option 8: Specialty Hospital: *Psychiatric Hospital*



Overall Rating: Neutral

Option 9: Specialty Hospital: *LTAC and/or SNF*

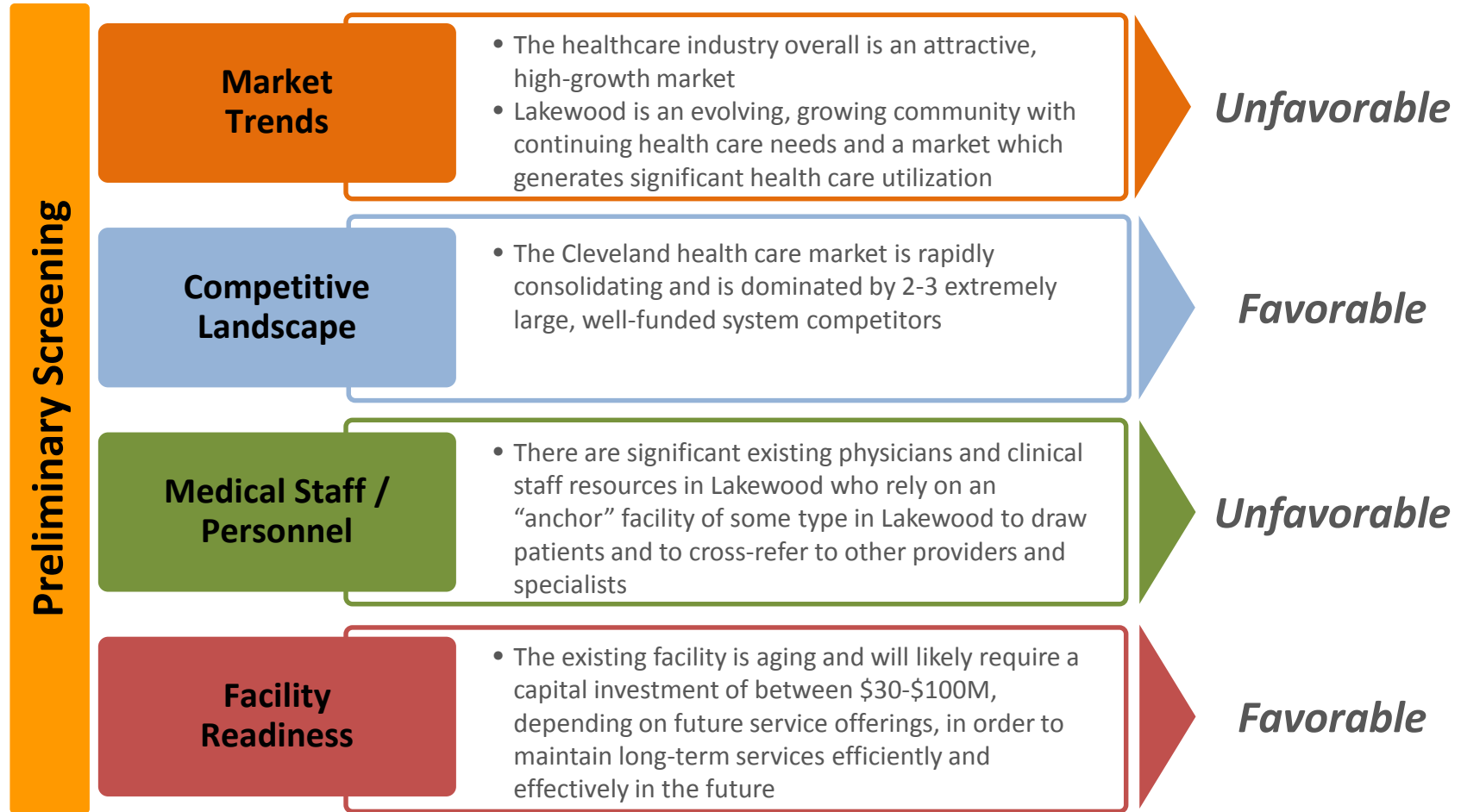


Overall Rating: Neutral

Recommendation: No Further Evaluation

Step 1: Preliminary Screening

Option 10: Transition Out of Health Care



Overall Rating: Neutral

Next Steps

Step 2: Begin to Apply the Second Filter
to Reach a Recommendation



Step 2: Options Analysis

Criteria Defined

Step 2: Options Analysis

- Market Need
- Community Impact
- Financial Sustainability
- Pot. Partner Congruency
- Implementation Complexity

Recommended Options (1-2)

During Step 2 of our evaluation process, we will analyze the options that remain after the preliminary screening and evaluate them relative to the most important criteria that are specific to Lakewood and Lakewood's key constituents and stakeholders

Specifically, we considered each of the remaining options in terms of the following five criteria:

1. Market Need:

- Population/Demographics: volume projections for inpatient services, outpatient services, number of PCPs and specialists required to meet the health needs of the Lakewood population
- Ensure convenient access (according to typical industry standards for drive times by service type) to services for Lakewood residents
- Investing in a facility which can evolve with the health care market in the future – as best we can project/expect

Step 2: Options Analysis

Criteria Defined (continued)

Specifically, we considered each of the remaining options in terms of the following five criteria:

2. Community Impact:

- Jobs
- Tax base/payroll taxes
- Economic development/secondary benefits
- Consistent with or supports the health mission for the City
- Presents an opportunity or mechanism for the community to retain some influence over the services offered within the Lakewood city limits

3. Financial Sustainability:

- Magnitude of initial capital investment required
- Ongoing capital needs and adequate financial performance to allow for re-investment needs
- Expected ROI

Step 2: *Options Analysis*

Criteria Defined (continued)

Specifically, we considered each of the remaining options in terms of the following five **criteria**:

4. Potential Partner Congruency:

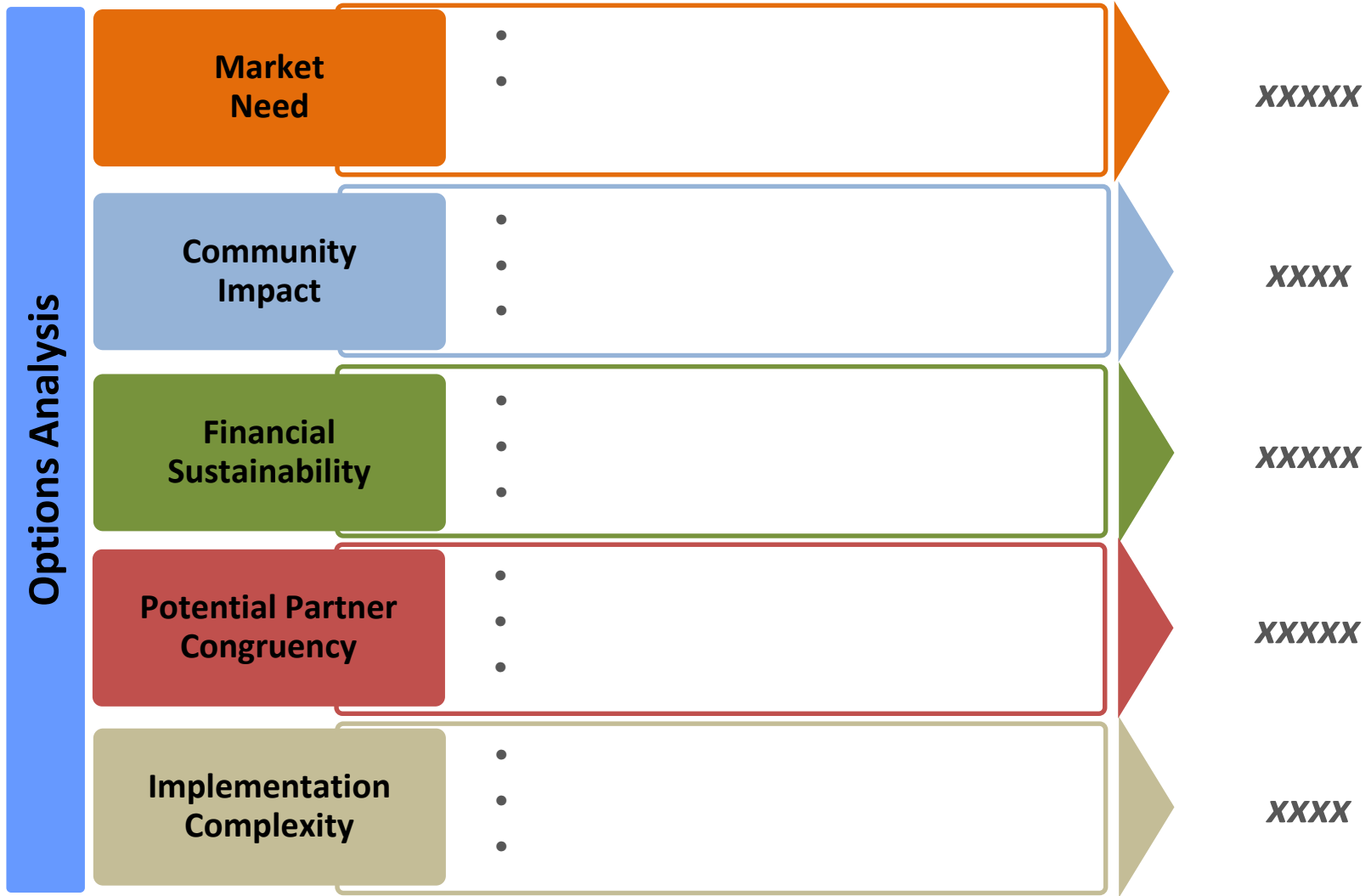
- How well aligned is each potential option with Cleveland Clinic's strategy for the Cleveland market?
- What are the potential deal terms with other potential partners?
- Could another partner provide support for an option that might support Lakewood's health mission more significantly than the Cleveland Clinic option?

5. Implementation Complexity:

- What has to be in place for the new strategy to be successful?
- How realistic are the key assumptions for the new strategy?
- How does each option compare to the others in terms of implementation risks and complexity?

Step 2: Options Analysis

Option X Detail...



Appendix: Detailed Data for Possible Reference If Needed



Inpatient Bed Supply and Need

Market	Beds/1000 Pop
Cuyahoga County	5.2
Cleveland MSA	4.3
Ohio	2.9
U.S.	2.6
California	1.9
Highest State: South Dakota	5.0
Lowest State: Washington	1.7

Implications:

If we apply the current U.S. average beds/1,000 to the Lakewood market and Cuyahoga County, the contrast is stark:

Area	Population	Future Ratio	Need	Supply	Surplus
Lakewood PSA	154K	2.6	400	475*	75 beds
Cuyahoga County	1.29M	2.6	3,351	6,807	3,455 beds

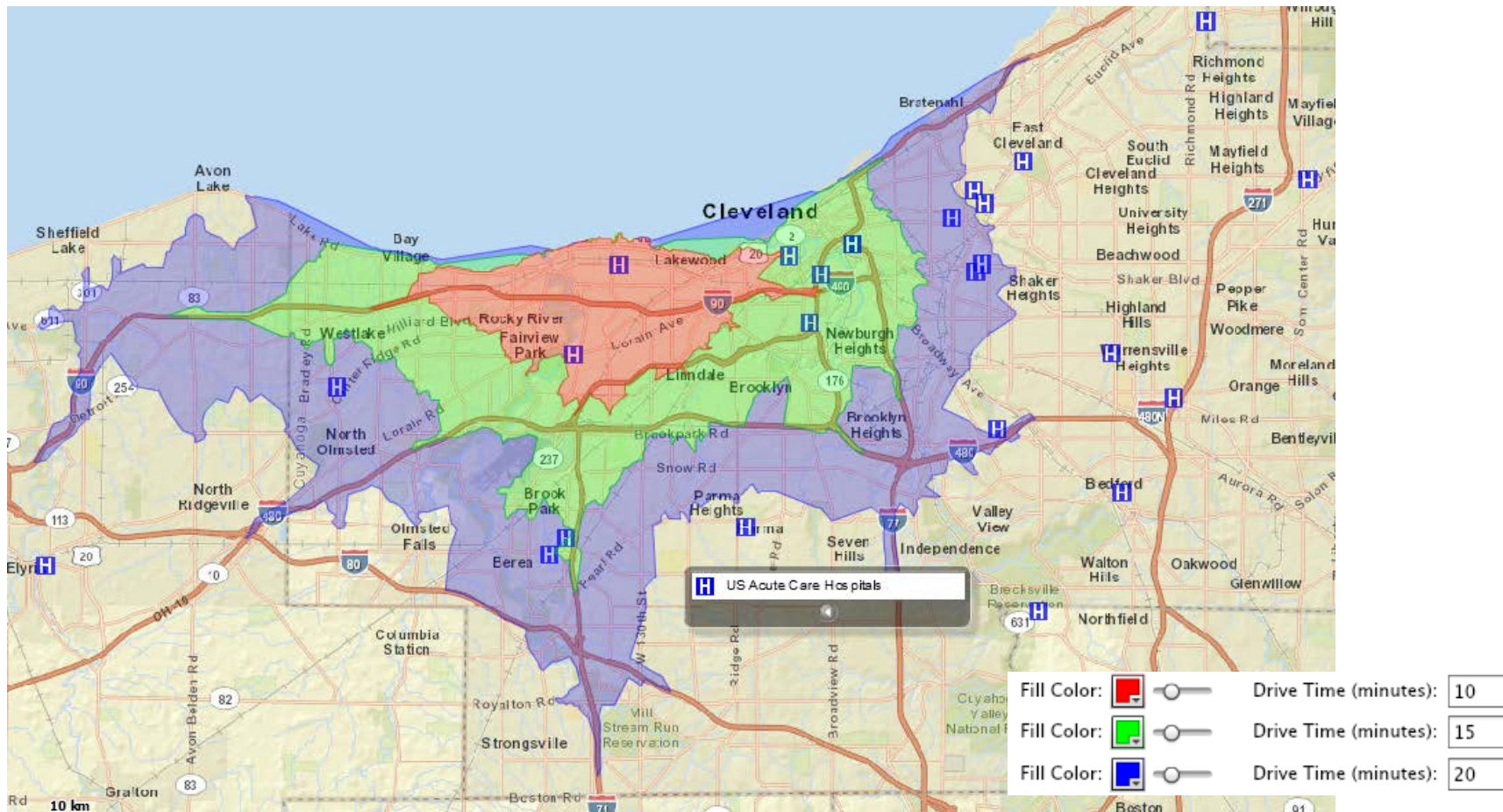
*Assumes Lakewood at 153 (acute beds) and Fairview at 322

Sources cited in the table compiled by Kaiser Family Foundation (kff.org):

1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, and 2011 AHA Annual Survey Copyright 2013 by Health Forum LLC, an affiliate of the American Hospital Association, special data request, 2013. Available at <http://www.ahaonlinestore.com>
 Population data from Annual Population Estimates by State, U.S. Census Bureau; available at <http://www.census.gov/popest/>

Map of Beds and Drive Times

- There are over 2,300 inpatient beds within a 20-minute drive of Lakewood Hospital, and over 1,000 beds within a 15-minute drive

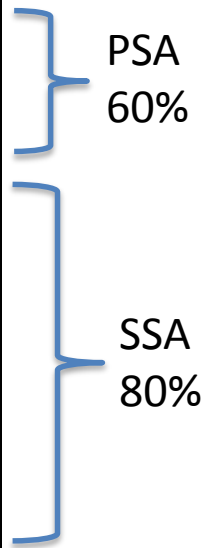


Overview and Definition of Service Areas

For many of the graphs and data tables that follow, we analyzed data for a variety of service area and market definitions related to Lakewood Hospital. Below is an overview and definitions of the various market areas:

- Methodology: to determine a hospital’s service area, you first sort all the admissions by the patient’s home zip code, from zip codes with the highest number of admissions to those with the lowest
- Typically, the service area definitions are set at 60% of admissions for the primary service area (PSA) and 75-85% of admissions for the secondary service area (SSA). For Lakewood, we used 60% and 80% (see list below)
- For some of the analyses, we also evaluated admission data for the entire 7-county MSA in and around Cleveland (to evaluate single-specialty hospital options which would need to pull from a larger catchment area)

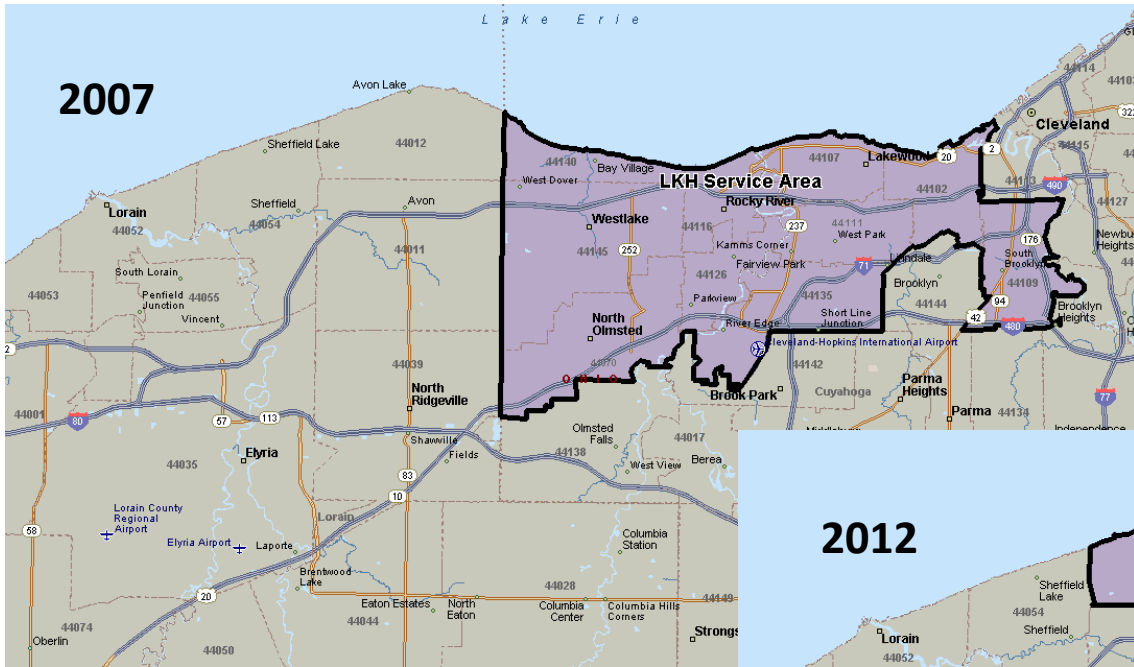
Zip	City	2012 Admits	% Total	Cumu %
44107	Lakewood	3237	35%	35%
44102	Cleveland	1112	12%	47%
44111	Cleveland	672	7%	54%
44116	Rocky River	519	6%	59%
44145	Westlake	302	3%	63%
44135	Cleveland	296	3%	66%
44070	North Olmsted	199	2%	68%
44012	Avon Lake	181	2%	70%
44109	Cleveland	175	2%	72%
44035	Elyria	174	2%	74%
44039	North Ridgeville	158	2%	75%
44140	Bay Village	151	2%	77%
44126	Fairview Park	147	2%	79%
44113	Cleveland	117	1%	80%



Remaining 20% of patients came from 230 other zip codes

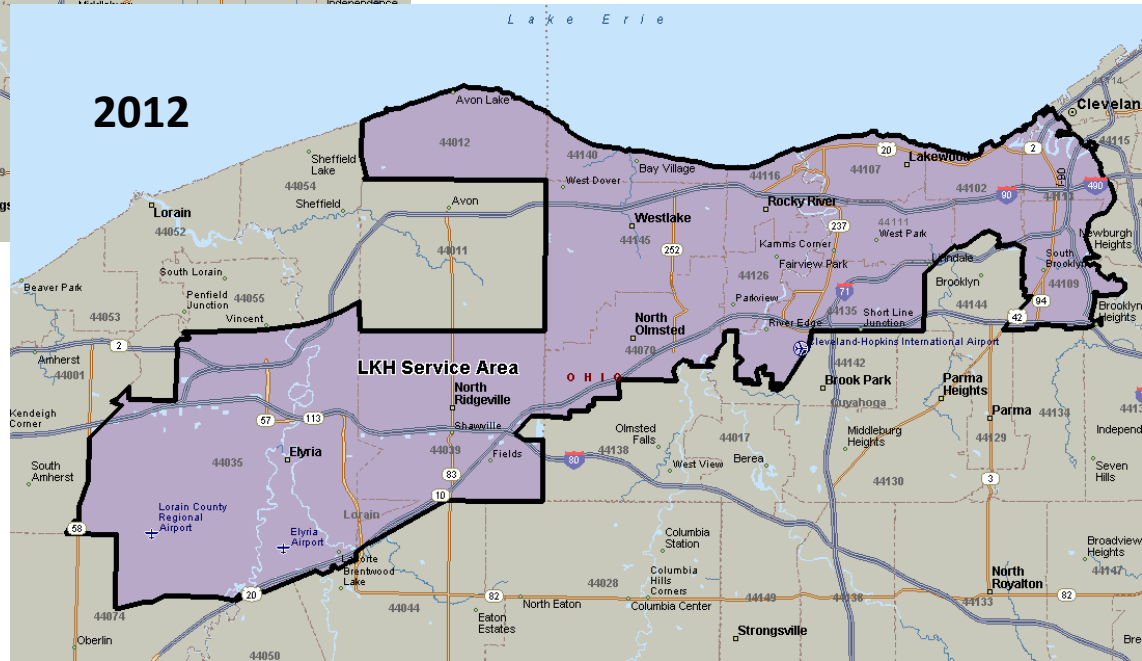
Changes in Service Area Between 2007-2012

2007



- In 2007, 80% of LKH's admissions came from a much "tighter" service area, than in 2012

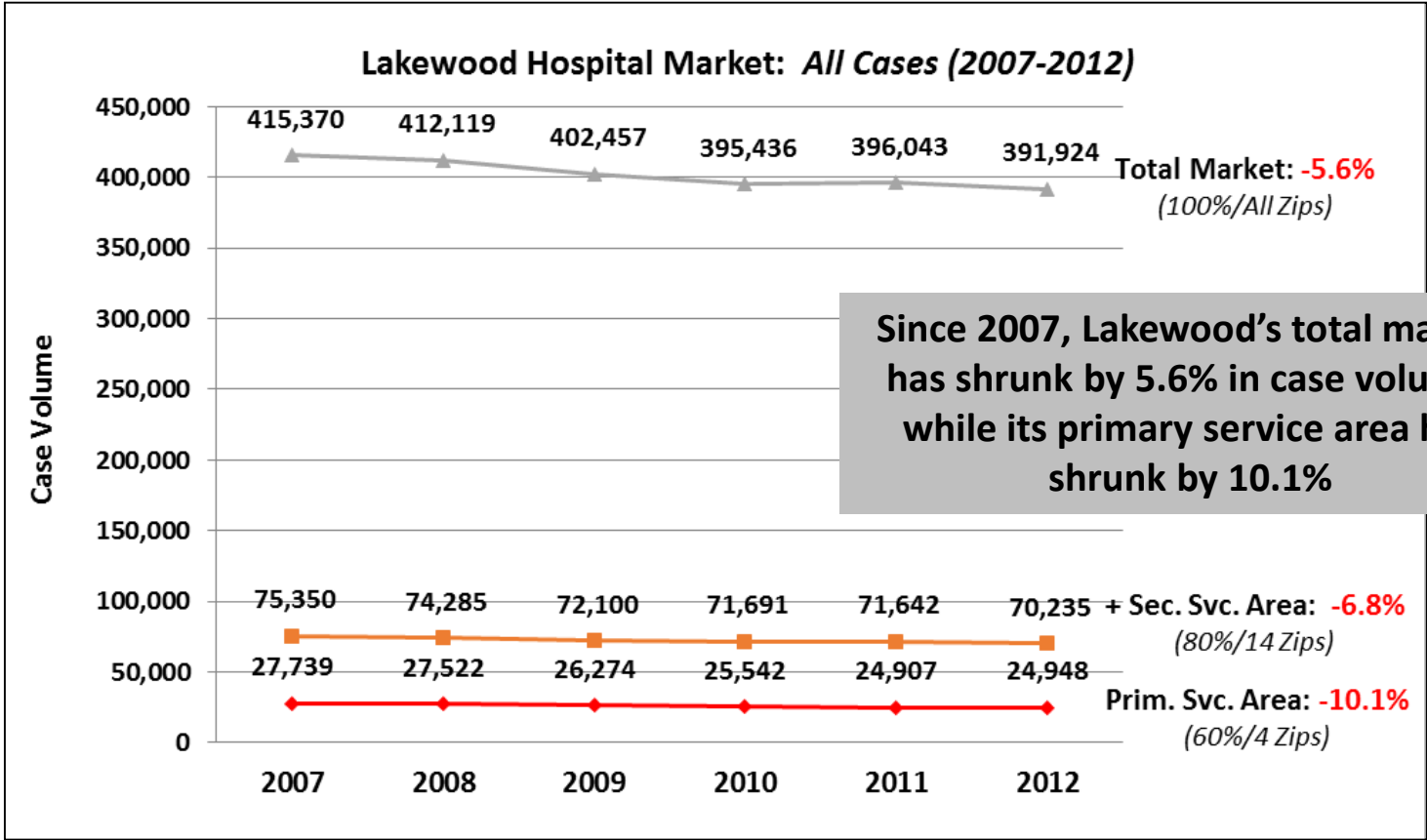
2012



**Lakewood Hospital
Primary-Secondary Service Area**
(Defined as the set of patient origin zip codes that account for 80% of the hospital's admissions in that year)

Overall Market Trends: 2007-2012

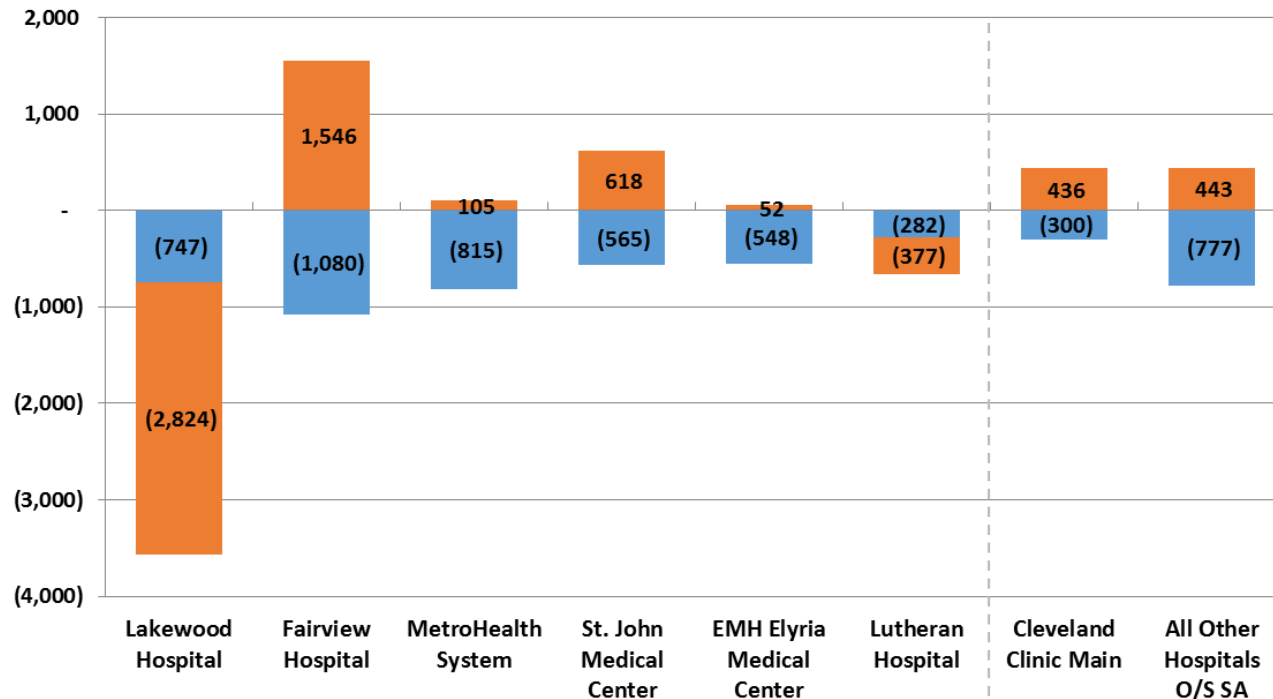
Change in Case Volume – All Cases



Lakewood Service Area Market Trends: 2007-2012

Change in Case Volume by Hospital - ALL Service Lines

Change in Case Volume from Service Area by Hospital:
ALL Service Lines (2007-2012)



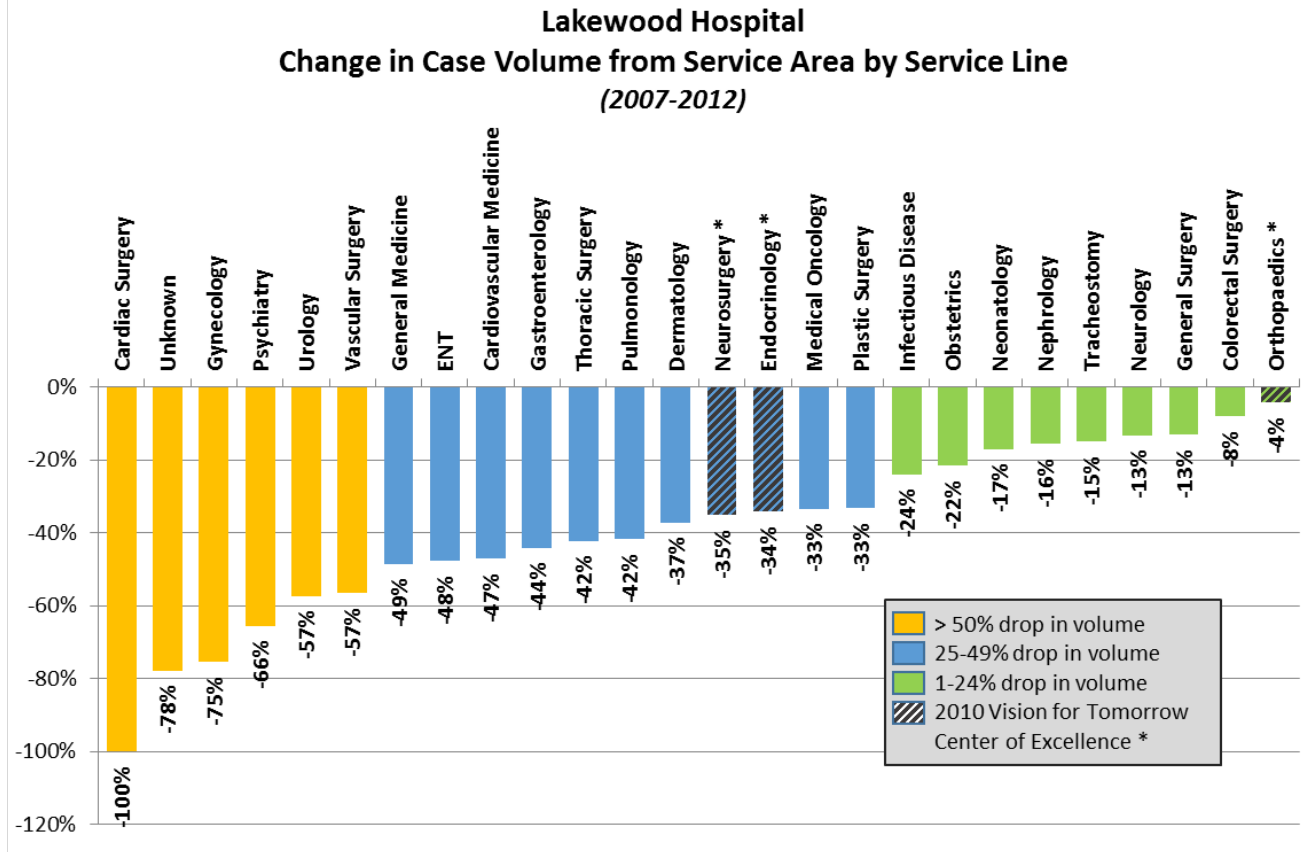
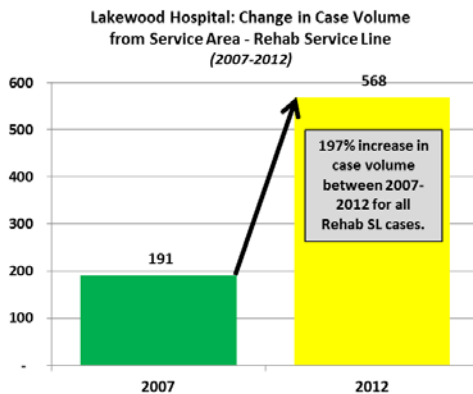
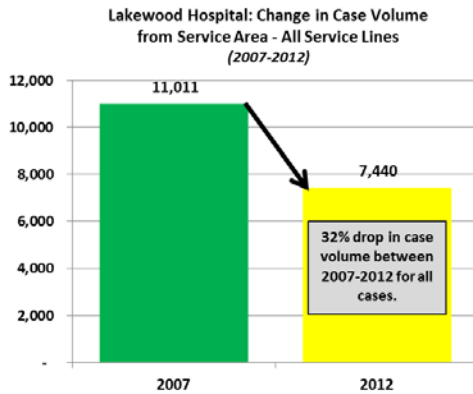
Total Change:	-3,571	+ 466	- 710	+ 53	- 496	- 659	+ 136	- 334
Change vs. Mkt. Trend:	WORSE	BETTER	BETTER	BETTER	BETTER	WORSE	BETTER	BETTER

■ Mkt. Share
■ Utilization

Lakewood Hospital lost over 3,500 cases between 2007 and 2012 from its service area - far more than any other area hospital. Despite the downward trend in case volume for the market in total, Fairview, Cleveland Clinic, and St. John MC still had an increase in case volume over the same time period.

Lakewood Hospital Volume Trends: 2007-2012

Change in Case Volume from Service Area



With the exception of Rehab, all of Lakewood Hospital's service lines dropped in case volume between 2007 and 2012 for those patients within its service area – with total case volume down by 33%.

Physician Supply in the Lakewood Market

- Lakewood has approximately 785 providers on the Medical Staff*
 - Includes all physicians and mid-level providers
 - 344 physicians admitted inpatients in 2012
- Specialty supply for primary care appears to be favorable in the Lakewood market overall relative to market need

Specialty	On Medical Staff	2012 Admitters	2012 IP Cases
Primary Care**	123	145	2,897
Orthopedics	24	22	533
Rehab***	71	N/A	N/A
Psychiatry	13	N/A	N/A

*Source: Lakewood Hospital Medical Staff Directory, July 8, 2013 and Medical Staff Volume Report (EPSI system), YTD Sept. 2012, excludes Patient Categories: SNU, Rehab, Psych, NICU, Nursery, Newborns

**Includes: Family Medicine, Internal Medicine and Pediatrics.

***Includes: Orthopedics, Neurosurgery, Neurology, Physical Medicine.

Inpatient Volumes by Admitting Physician Group

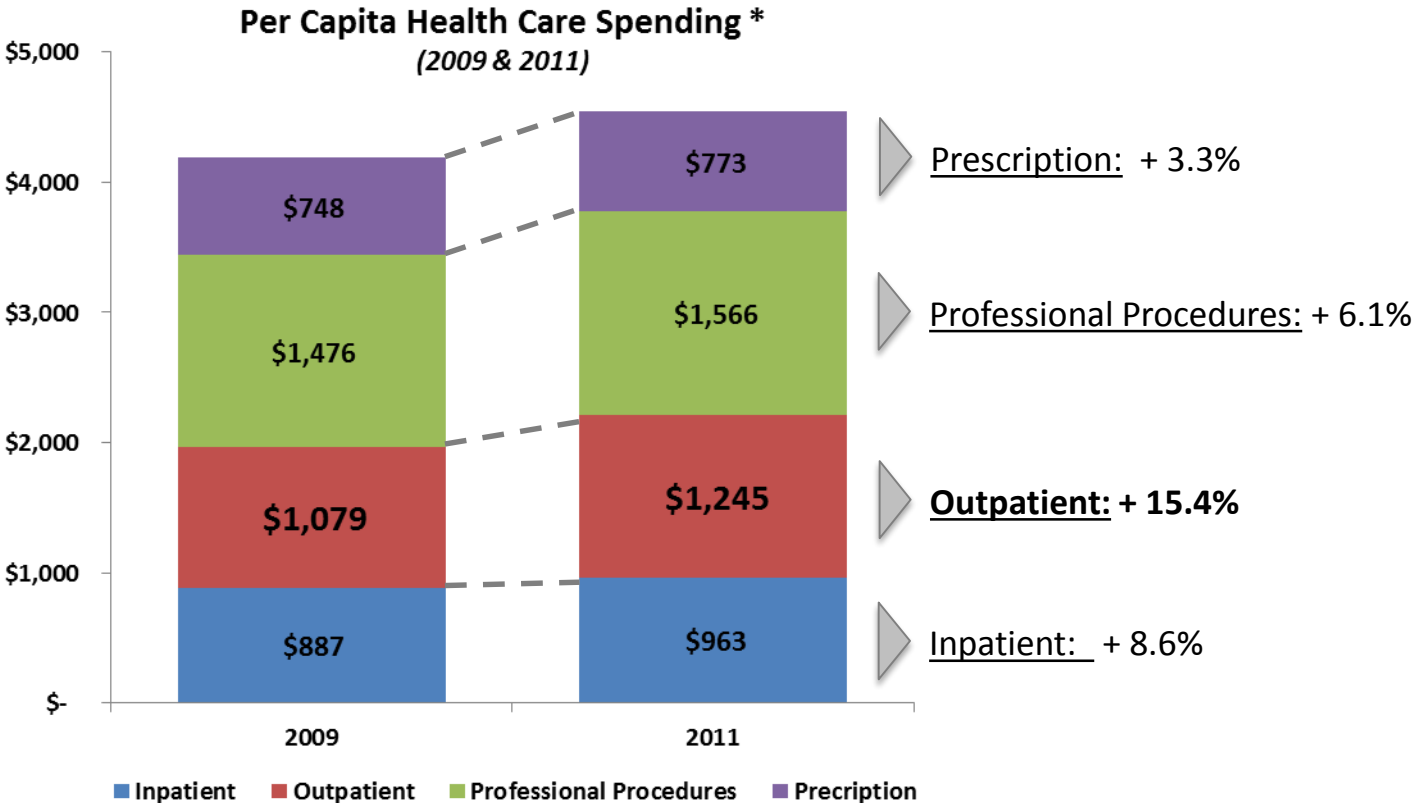
REDACTED DATA TABLE SHOWING ACTUAL NUMBER OF ADMISSIONS BY ADMITTING GROUP FOR ALL MAJOR PHYSICIAN GROUPS PRACTICING AT LAKEWOOD HOSPITAL – PROPRIETARY DATA

Lakewood has significant concentration risk with 80% of its admissions coming from the two major physician groups

Source: EPSI

Health Care Market Trends

Annual Health Care Spending



Annual per capita health care spending increased by 8.5% between 2009 and 2011 - with spending on outpatient services significantly outpacing the other cost categories.

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Insight and Action for Value

Lakewood Hospital Association Trustees Caucus
Discussion Document

October 29, 2014



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Meeting Objectives/Agenda

- Report out to Caucus on today's meeting with the Cleveland Clinic
 - Mayor Summers – key observations
- Subsidiary recommendation
- Poll the Caucus group

- Caucus meeting last Tuesday (October 21st)
- Meeting this morning with Cleveland Clinic leadership
- Key observations
 - Strategic alignment
 - Financial terms

Select Committee Refresher: *Several Findings Were Critical to the Decision Process*

- Shift toward outpatient services vs. inpatient services
- Size of the capital investment required per person served for an inpatient facility is extremely large
- Opportunity for more frequent patient “touches” with health care services in Lakewood
- Importance of physicians to economic base
- Lakewood’s community health needs primarily focused on outpatient-driven services (e.g., chronic care management)
- Directional understanding of potential partners and general areas of interest in Lakewood

Subsidium Recommendation

- Select the Cleveland Clinic's strategic proposal
 - Consistent with rapidly evolving industry trends
 - Leading-edge, innovative health care provider partner

IF.....

- We can agree on terms which are improved from their current offer. We do not recommend their current offer at this time.

Next Steps

- Tonight: poll the caucus to determine support for recommendation
- Next 1-2 weeks:
 - Additional meeting with CCF to further understand strategic initiatives re: population health management and delivery model innovation
 - Discuss recommended terms to reach agreement
- If agreement is reached on recommended terms, convene special Board meeting, and invite CCF leadership team to present their strategy and proposal to full Board
- Full Board vote on recommended letter of intent

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Insight and Action for Value

Lakewood Hospital Association Trustees Caucus
Discussion Document

October 21, 2014



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Today's Objective

- Overall Objective: Inform the Trustees of our progress since the last meeting
 - We have completed the 90-day negotiations period with the Cleveland Clinic as we agreed during our last Caucus meeting and need to provide a progress update

Key Milestones/Timeline

- Since the Caucus authorized us to begin negotiations with the Cleveland Clinic, we've had 7 formal negotiating sessions with them, in addition to numerous interim calls and discussions
- We received a formal draft letter of intent for consideration on September 11th

	Week of:																		
Key Milestones	16-Jun	23-Jun	30-Jun	7-Jul	14-Jul	21-Jul	28-Jul	4-Aug	11-Aug	18-Aug	25-Aug	1-Sep	8-Sep	15-Sep	22-Sep	29-Sep	6-Oct	13-Oct	20-Oct
Board Caucus Meetings	X																		X
Step 2 Team Meetings		X	X		X	X	X	X	X			X		X	X		X	X	
CCF Meetings/Negotiations			X		X				X		X		X	X	X				
Interim CCF Discussions					X	X		X	X								X	X	
Other Notable Events:																			
Received draft LOI from CCF													11-Sep						
Lakewood Counter Proposal Sent															24-Sep				



Current Status

Cleveland Clinic

- Have had numerous discussions and meetings
- Received a formal proposed letter of intent
- *Structure* of proposed deal is acceptable
- Current offer and specific financial terms are not yet acceptable; but additional negotiations are planned

Summary of Current CCF Proposal

- Scope of services
 - Family Health Center with approx. 62,000 square feet, including 24x7 Emergency department, imaging/diagnostics, multiple office-based physician specialties, and Family Medicine Residency program
 - Estimated capital investment = \$35-40M.
 - CCF will operate the ED through at least 1/2/2026 and the FHC through at least 1/1/2030
- CCF would pay the costs of the wind-down and transition costs using the LHA balance sheet, but would bear the risk for payment of any costs in excess of that amount; also retains any remaining assets after the transition (including 850 Columbia Road, but excluding the parking deck, the Community Health Center building, and the Belle Avenue medical office building)
- CCF would make a one-time transition payment of \$20 million to the Lakewood community to be used by the new Foundation and/or the City to offset loss of lease payments, taxes, etc.
- CCF would also contribute \$500,000 per year for 10 years to the new Foundation
- CCF pays fair market value of the land for the FHC

Summary Evaluation of CCF Proposal

Term	Current Offer	Notes
LHA balance sheet after transition	\$ 0	Indeterminate but probably near zero.
Loss of lease payments (present value)	(7,594)	Loss of lease payments from 2017 thru 2026
Reduction in payroll taxes (present value)	(4,786)	Reduction in payroll taxes over 12 years
Transition payment		
Base transition payment (present value)	20,000	Assumes up front, lump sum payment (revised offer from CCF as of 9/18/14)
Lease payment offset	-	Not provided for
Ongoing contribution from CCF (present value)	3,789	
Tax sharing offset (present value)	910	
850 Columbia Road	(8,000)-	LHA would lose the FMV of a valuable asset
Total	\$4,319	

Next Steps

- CCF has requested an in-person meeting with the Step 2 Team to discuss/review their current proposal – we are currently working on scheduling that for the next 1-2 weeks
- We expect to get an additional response to our counter-proposal
- Soon after, we will work with the Step 2 Team to decide whether to recommend the CCF proposal, or to consider an alternative approach

Subsidium Healthcare®

Insight and Action for Value

Lakewood Hospital Association Board of Trustees Discussion Document

December 12, 2013



CONFIDENTIAL DRAFT – FOR DISCUSSION ONLY

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Agenda

- Review the Select Committee's summary report
- Review and discuss the five overall evaluation criteria and the weighting exercise to prioritize the criteria
- Provide updates regarding the Informational Sessions with Trustees on December 3-4
- Q&A/Discussion
- Discussion and vote on Resolution #1
- If needed, then discuss "What's Next?"
 - Subsidium to provide an overview of likely next steps
- Discussion and vote on Resolution #2
- Discussion and vote on Resolution #3
- Dinner break
- Possible re-group to discuss the path forward

Review of the Select Committee's Report

Summary of Input from Select Committee Members re: Relative Weighting of Evaluation Criteria

- Based on the input from the Select Committee members, it appears that the evaluation criteria, in order of importance are:
 - Community Health Impact
 - Community Economic Impact
 - Financial Sustainability
 - Execution Risk
 - Potential Partner Congruency

Criteria	Select Committee Members - Points Weighting (out of 100)										Total	Average	Range
	1	2	3	4	5	6	7	8	9	10			
Community Health Impact	20	30	20	40	30	50	50	50	35	50	375	38	20-50
Community Economic Impact	50	30	20	25	20	10	25	20	30	10	240	24	10-50
Financial Sustainability	25	20	20	10	30	30	10	10	15	10	180	18	10-30
Potential Partner Congruency	0	10	25	5	10	10	5	10	10	5	90	9	0-25
Execution Risk/ Implementation Complexity	5	10	15	20	10	0	10	10	10	25	115	12	0-25

How Does Our Weighting Impact Our Evaluation of the Options?

- When the evaluation of each option is weighted based on the input of the Select Committee members, the recommendation remains the same

UNWEIGHTED RELATIVE SCORES							
CRITERIA							
	Community Health Impact	Community Economic Impact	Financial Sustainability	Potential Partner Congruency	Execution Risk/ Implementation Complexity	Total Raw Score	Average Weighted Score (Lowest Score is Best)
Option 4: Family Health Campus (No IP)	2	3	1	1	1	8	1.87
Option 5A: Hybrid -- Family Health Campus (With General IP Beds)	2	1	3	3	2	11	2.05
Option 5B: Hybrid -- Family Health Campus (With IP Rehab Beds)	2	2	2/3	2	3	11.5	2.23
Average Weighting by Criteria	38	24	18	9	12		

Summary of Informational Sessions with Trustees

- Held two informational sessions for Trustees
- Attendees included:

December 3rd session:

- Non-Select Committee:
 - Joe Gibbons
 - John O’Neill
 - Rebecca Patton
 - Gary Pritts
 - Mousab Tabbaa, MD
- Select Committee:
 - Curt Brosky
 - Bill Gorton
 - Ken Haber
 - Bill Riebel, MD

December 4th session:

- Non-Select Committee:
 - Jon Fancher
 - Richard Freeman, MD
 - John Litten
 - Kathleen McGorray
- Select Committee:
 - Ken Haber
 - Mike Summers

Summary of Informational Sessions with Trustees

Primary Observations and Discussion Themes:

- Appeared to be consensus among attendees that significant change is needed and that the health care delivery system in Lakewood in the future will need to look very different from current; essentially agreement with the overall strategic direction recommended by the Select Committee
- Majority of discussions focused on timing questions and specifics regarding what the future delivery system would look like
 - General consensus that we must take active next steps now to prepare and the general window for preparation to act is within the next three years
- General agreement that the eventual community dialogue must be able to clearly articulate what the community “will get” in return for a change from the current delivery system in Lakewood
- Agreement that the wording of the original recommendation from the Select Committee was too specific and needed to be more general until additional analysis and negotiations could be completed

Resolution #1: For Review and Discussion

Resolution #1

RESOLVED, that the BOT of LHA accepts the report of the Select Committee to evaluate and recommend a set of strategic options to fulfill Lakewood Hospital's mission to provide for the health care needs of the community, and to proactively prepare for the end of the current lease agreement in December 2026.

FURTHER RESOLVED, that the BOT thanks the members of the Select Committee for their time, contributions and recommendations and hereby discharges the Select Committee.

Beginning the Journey: Overview of Possible Next Steps

Timeline: Next 12-16 weeks and beyond

Preliminary Due Diligence and Selection of Preferred Investor/Partner

- Evaluate potential investors
- Seek Board approval for preferred investor(s) for negotiations
- Financial overview

Letter of Intent and Negotiations

- Issue formal solicitation for draft letters of intent

- Complete LOI negotiations; submit LOI to Board for preliminary approval
- Financial construct

Envisioning the Future Lakewood Health Care System

- Stakeholder meetings
- Architectural reviews

- Understand what's possible with existing physical plant
- Additional planning/vision for ancillary programs and facilities

Transition Planning

- Communications planning (education campaigns, process planning, etc.)
- Services transition planning to ensure continuity of care
- Financial planning/analysis

Definitive Agreement

- Review of draft documents
- Seek Board preliminary approval for recommendation to City Council

Resolution #2: For Review and Discussion

Resolution #2

RESOLVED, that the BOT of LHA, based on the Select Committee's recommendations, authorizes those actions reasonably necessary to continue to define a more comprehensive model for the delivery of future healthcare and health services in Lakewood, potentially including the solicitation of letters of intent with potential partner(s) or investor(s), specifically evaluating two critical criteria: support for future community health needs, and financial viability in the near term and sustainability for the future; and

FURTHER RESOLVED, that the BOT of LHA authorizes the Mayor of Lakewood to appoint a "Step 2 Team" to lead in the oversight of said actions and to report back periodically to the Chair of the BOT who in turn will update the BOT at appropriate intervals.

Resolution #3: For Review and Discussion

Resolution #3

RESOLVED, that the BOT of LHA authorizes the aforementioned Step 2 Team to engage advisor(s) as needed to support the planning process and further authorizes the Chair of the BOT and the Chair of the Finance and Audit Committee of the BOT jointly to approve the expenditure of LHA funds for this purpose in an amount not to exceed \$200,000 and to update the BOT at appropriate intervals. Amounts in excess of this amount must receive the approval of the BOT or the Executive Committee.

Appendix

(other information for potential reference)



Subsidium Healthcare®

Insight and Action for Value

Update on Select Committee's Strategic Options Assessment
Presentation to Lakewood Hospital Association Board of Trustees
November 13, 2013



CONFIDENTIAL DRAFT – FOR DISCUSSION ONLY

PRELIMINARY WORK PRODUCT; NOT FOR DISTRIBUTION

Agenda and Objectives

- Select Committee's charter and scope of this effort
- Overview of the strategic options assessment process
- Market overview and key findings from the analyses
- Select Committee's recommendation to the Board
- Discussion
- Next steps and timing

Select Committee Charter

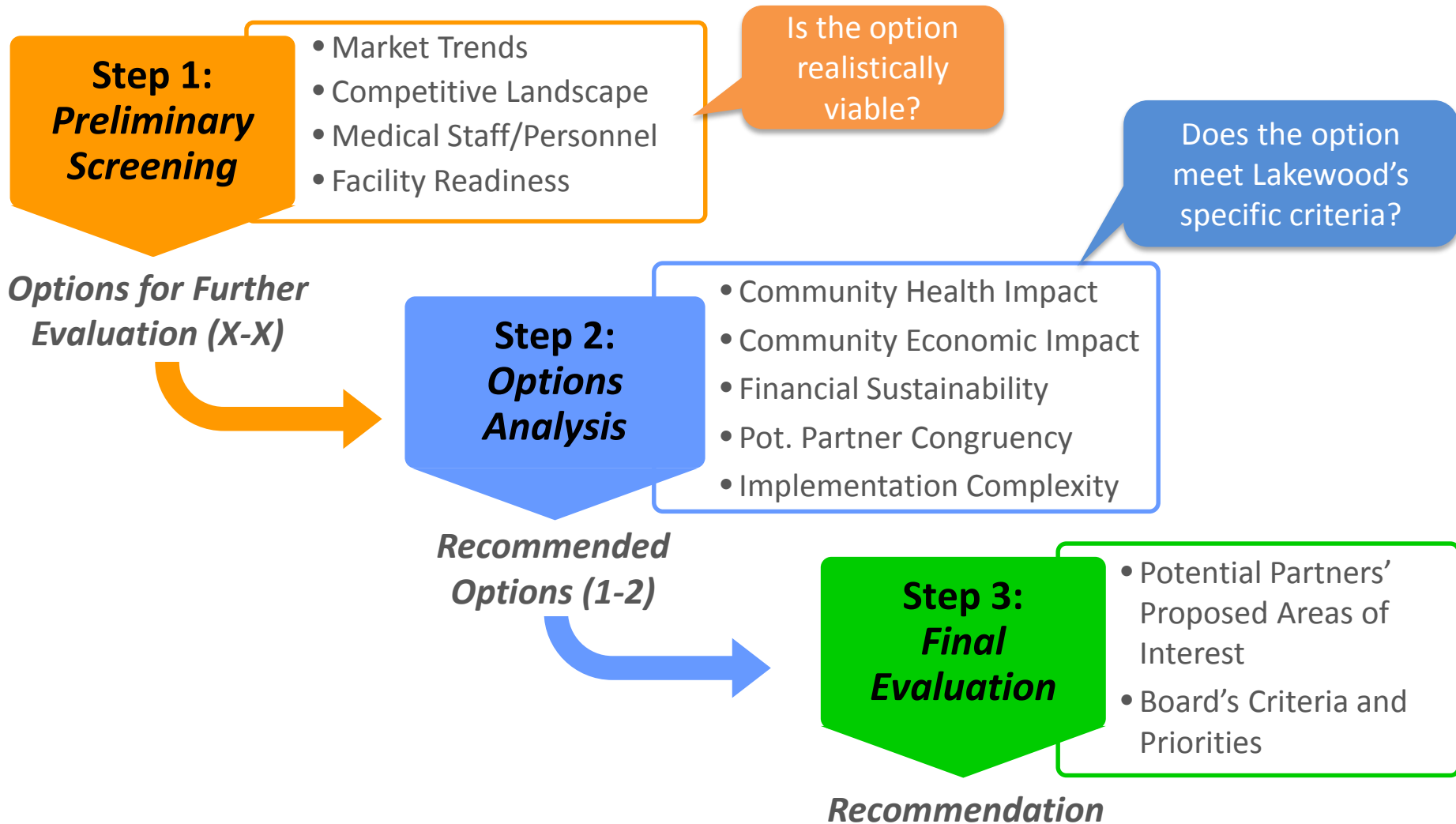
The LHA Board chartered the Select Committee to:

- Evaluate and recommend a set of strategies to fulfill our mission to provide for the health care needs of our community
- Proactively prepare for the end of the current lease agreement on December 23, 2026

Strategic Context

- Lakewood has consistently demonstrated a strong commitment to invest in its future. Our schools, our housing stock, and our commercial corridors are all receiving significant reinvestment for their second century of service.
- As trustees, we have an opportunity and obligation to invest in and build a healthcare delivery system that serves our community needs in the future.
 - We have mapped out a direction of compelling investment that will develop this system by 2026 and creates the capacity for Lakewood to become the healthiest community in America.

3-Step Process to Narrow the Options



Overview of Original Strategic Options

There are a variety of options which fall into one of four general categories

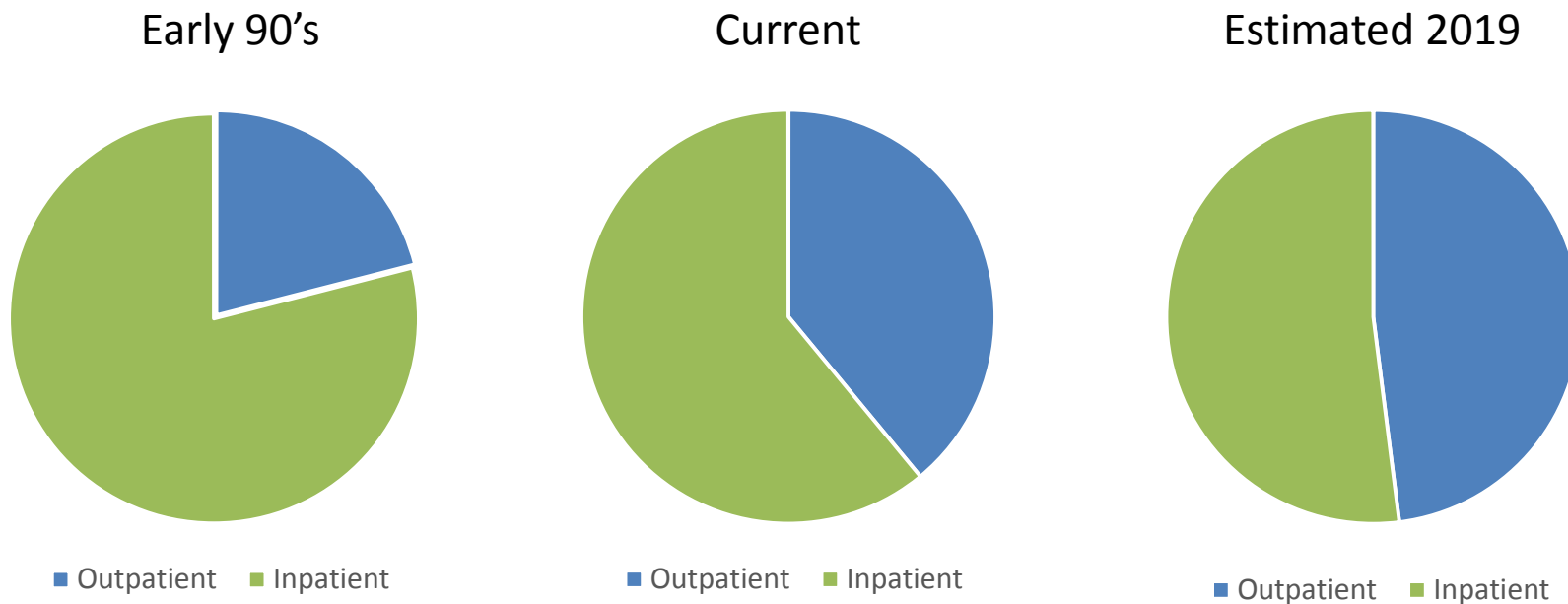
	Description	Specific Options
Modified Status Quo	These options are all relatively similar to the current model for Lakewood Hospital (a general acute-care hospital with 3-4 centers of excellence)	<ol style="list-style-type: none">1. Right size hospital2. Lower-Acuity, Chronic Care Focused Hospital3. Hospital with Center(s) of Excellence
Family Health Focus	These options represent a change to the primary service model for Lakewood, and take advantage of market trends toward increased care in outpatient settings	<ol style="list-style-type: none">4. Family Health Campus (No IP)5. Hybrid: Family Health Campus (With IP)
Single Specialty Hospital	All of these options are to create a single-specialty, inpatient-focused hospital; most would imply a larger geographic service area to attract sufficient patient volumes	<ol style="list-style-type: none">6. Specialty Hospital: <i>Ortho</i>7. Specialty Hospital: <i>Acute Rehab</i>8. Specialty Hospital: <i>Psych</i>9. Specialty Hospital: <i>LTAC and/or SNFs</i>
Transition Out of Healthcare	In the spirit of an exhaustive set of options, it is an option to consider exiting the business of direct provision of health care and fulfillment of the City's health care mission in other ways	<ol style="list-style-type: none">10. Phased Plan to Transition Out of Care Delivery Business

Market Data and Analysis: *Five Key Findings Were Critical to the Decision Process*

- Market and health care technology trends are driving a significant shift in total health care spending; toward outpatient services as a greater percentage of overall spending vs. inpatient services
- Relative size of the capital investment required per person served – opportunity to more cost-effectively address the health care needs of a larger portion of the Lakewood community
- Importance of physicians to the Lakewood community and economic base
- Understanding the overall community health needs of Lakewood's residents and those in surrounding communities
- Directional understanding of potential strategic partners and their general areas of interest in a partnership with Lakewood

Market and Technology Trends are Shifting the Focus of Healthcare Services from Inpatient to Outpatient Settings

Percent of total hospital revenues (inpatient vs. outpatient services)



Source: Taylor, Richard. Jones Lang LaSalle whitepaper entitled "The Spoke Before the Hub: Turning the Healthcare Delivery Model Upside Down." Page 2.

Options	Critical Success Factors				Overall Rating	Recommendation	Committee Decision
	Market Trends	Competitive Landscape	Medical Staff/ Personnel	Facility Readiness			
1. Right Size Hospital	U	U	U	U	U	No Further Evaluation	No Further Evaluation
2. Lower-Acuity, Chronic Care Focused Hospital	N	N	N	N	N	For Discussion	No Further Evaluation
3. Hospital with Center(s) of Excellence	U	U	U	U	U	No Further Evaluation	No Further Evaluation
4. Family Health Campus (No IP)	F	F	F	F	F	Additional Evaluation	Additional Evaluation
5. Hybrid Family Health Campus (with IP)	N	F	F	N	F/N	Additional Evaluation	Additional Evaluation
6. Specialty Hospital: <i>Ortho</i>	U	U	N	N	U	No Further Evaluation	No Further Evaluation
7. Specialty Hospital: <i>Acute Rehab</i>	N	U	F	N	N	For Discussion	Hybrid with Option 5 (#5B)
8. Specialty Hospital: <i>Psych</i>	F	F	U	N	N	For Discussion	No Further Evaluation
9. Specialty Hospital: <i>LTAC and/or SNF</i>	F	U	N	N	N	For Discussion	No Further Evaluation
10. Transition Out of Health Care	U	F	U	F	N	For Discussion	No Further Evaluation

Legend: **U** Unfavorable; **N** Neutral; **F** Favorable

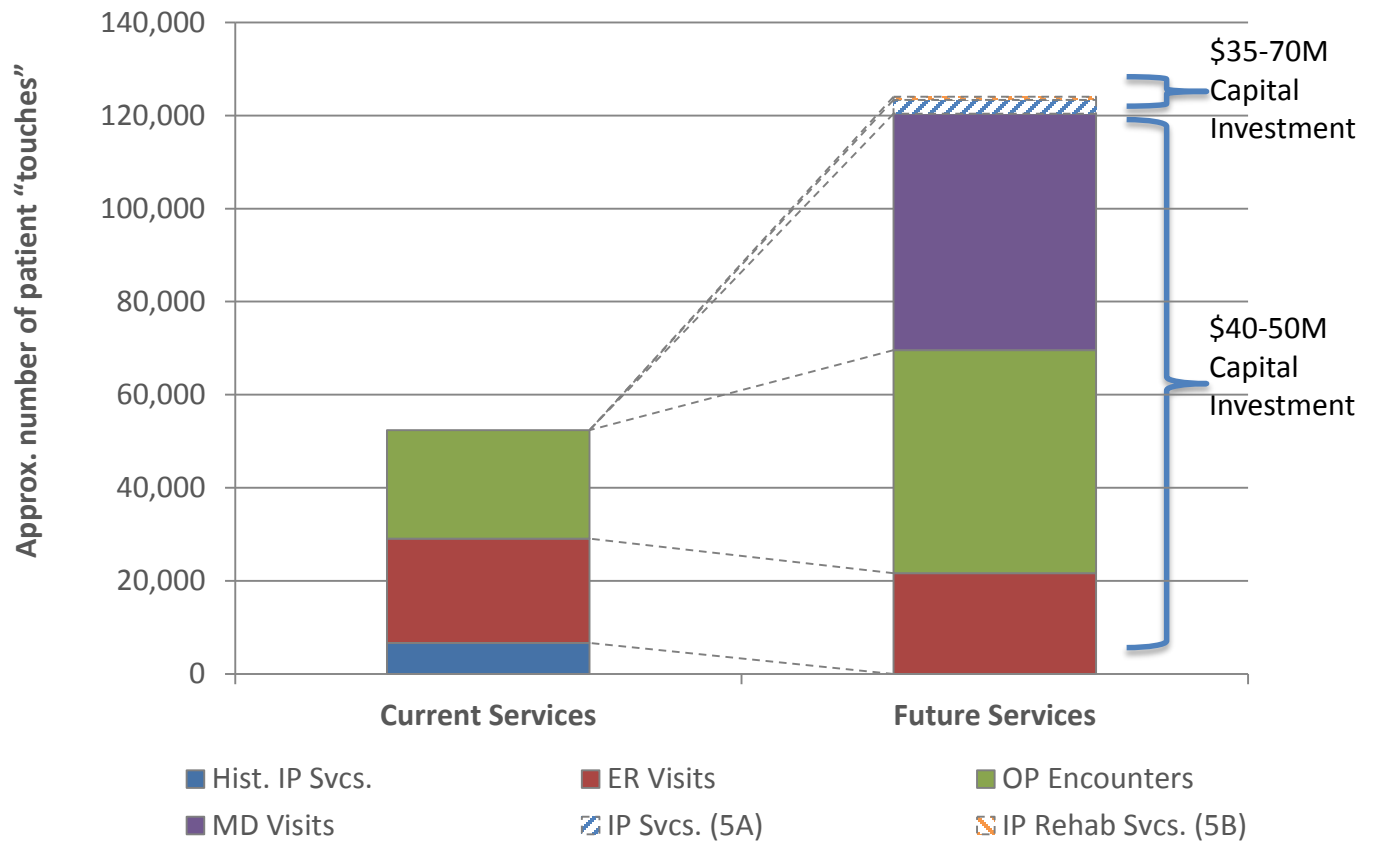


Market Need, Community Served and Capital Investments

Opportunity to Leapfrog the Market to Create a New Lakewood Health Care Experience

There is a significant opportunity to increase the number of people served by a Lakewood health care facility and to increase the frequency of interactions

Directional Impact of Change in Services



Step 2: *Options Analysis* Summary

We evaluated the remaining options relative to each other (ranked in order). Note that this chart does not apply any relative weighting or prioritization of particular criteria.

Options	Community Health Impact	Community Economic Impact	Financial Sustainability	Potential Partner Congruency	Execution Risk/Implementation Complexity
Option 4 – Family Health Campus (No IP)	2	3	1	1	1
Option 5A Hybrid – Family Health Campus (With General IP Beds)	2	1	3	3	2
Option 5B Hybrid – Family Health Campus (With IP Rehab Beds)	2	2	2/3	2	3

Overview of the Options Selection Process

Our 3-step evaluation process enabled the Select Committee to focus our analysis, narrow our options, and ultimately select a recommended option

Step 1: Preliminary Screening

"Is the option realistically viable?"

- ~~1. Right size hospital~~
- ~~2. Lower acuity, chronic care-focused hospital~~
- ~~3. Hospital with Center(s) of Excellence~~
4. Family Health Campus (No IP)
5. Hybrid: Family Health Campus (With IP)
- ~~6. Specialty Hospital: Ortho~~
7. Specialty Hospital: Acute Rehab
- ~~8. Specialty Hospital: Psych~~
- ~~9. Specialty Hospital: LTAC and/or SNF~~
- ~~10. Phased Transition Out of Care Delivery in Lakewood~~

Step 2: Options Analysis

Apply Lakewood-specific criteria

4. Family Health Campus (No IP)
- ~~5A. Hybrid: Family Health Campus With General Inpat. Beds~~
- ~~5B. Hybrid: Family Health Campus With Acute Rehab Beds~~

Step 3: Final Evaluation and Recommendation

Evolved Option 4: Comprehensive Care Campus in Lakewood

Recommendation of the Select Committee

- Our recommendation is that between now and 2026, we negotiate with potential partner(s) to jointly develop a Comprehensive Care Campus in Lakewood to include community health services, office-based physician services, comprehensive outpatient services (e.g., advanced imaging and diagnostics), ambulatory surgery services and a 24/7 emergency department with an appropriate number of 23-hour observation beds to stabilize Lakewood patients for potential transfer to a more comprehensive inpatient facility, if needed.

Next Steps

- During the week of December 2nd, we will schedule two informal sessions for Trustees to ask follow-up questions and provide input about what type of information would help them in understanding the Select Committee's recommendation
- On December 12th, we will convene a Special Meeting of the Board of Trustees to discuss the recommendations and request that the Board charter the Select Committee to continue with next steps

LAKWOOD PROFESSIONAL BUILDING
 14601 Detroit Avenue
 Lakewood, Ohio 44107
 RENT ROLL

Modified Rent Roll 2015.xlsx Updated 3/16/2015

February 1, 2015

TENANT	SUITE	SQ FT
Westshore Career Technical District	LL10	3,487
Lakewood Hospital / Data Processing	LL 20	2,150
Lakewood Hospital	LL25	400
Available	LL30	547
Available	LL 40	1,826
Hospice of the Western Reserve	100	4,152
Lakewood Travel Bureau, Inc.	120	852
Thrifty Peddler	130	1,785
Available	200 / 220	4,506
Lakewood Hospital Foundation	240	1,345
Lakewood Hospital (Occupational Health)	250	1,654
Lakewood Hospital (Timeshare Office)	260	1,908
Lakewood Hospital (Teen Health Center)	270	965
Lakewood Hospital (MIS Training)	310	1,269
Available	330	2,478
Premier Physicians Centers, Inc. and Steven C. Pearse, M.D.	350	1,090
Available	360	1,979
Lakewood Hospital (Care Management)	390	2,037
Govin Baskar, M.D. Umarani Ramachandran, M.D.	395	1,164
Available	400A	887
Carole Rojas, M.D., Inc.	400B	887
George Khuri, M.D.	400C	887
Available	400D	886
Available	450	1,958
Lakewood Hospital (Timeshare Office)	460	2,009
Available	480	1,431
Available	490	1,560
Available	500	1,499
Lakewood Hospital (Diabetes Center)	540 / 690	3,464
CCF (Lakeland Eye Surgeons)	550	1,867
Dr. William Riebel	570	655
Lakewood Hospital (IT Department)	580	463
Fairview Health System Federal Credit Union	585	337

LAKWOOD PROFESSIONAL BUILDING
 14601 Detroit Avenue
 Lakewood, Ohio 44107
 RENT ROLL

Modified Rent Roll 2015.xlsx Updated 3/7/2015

February 1, 2015

TENANT	SUITE	SQ FT
Nazih Zein, M.D.	590	1,410
Lakewood Hospital Diabetes Education	595	603
Clifford L. Thomas, D.D.S.	610 / 620	1,693
Available	630	1,450
Kenneth W. Chapman, M.D.	640	2,082
Westend Pediatrics/Rosemary Robbins, M.D.	650	3,070
Marie Albano, D.D.S.	680	1,368
Lakewood Hospital (Timeshare Suite)	700	4,504
CCF (Concern EAP)	710	843
Available	710A	2,289
Available	730	2,856
TOTALS		76,552

There is also a vacant space LL50 (772 S/F) in the lower level.

<u>Occupancy:</u>		<u>Totals:</u>			<u>Other:</u>	
Total # of Suites	44	Total Actual Rent	\$0.00 / month	\$0.00 / year	Average Rent / SF (excl Hosp)	\$0.00
Total # of Occupied Suites	30	Total Potential Rent	\$0.00 / month	\$0.00 / year	Month-to-Month Leases SF	337
Total # of Vacant Suites	14	Variance	\$0.00 / month	\$0.00 / year	SF Expiring in 2014	0
Total Square Feet	76,552				SF Expiring in 2015	15,615
Total SF Occupied	50,400 65.84%	Hosp. Affiliate SF (HA)	0	0.00%	SF Expiring in 2016	11,326
Total SF Vacant	26,152 34.16%	CCF Affiliate SF (CA)	0	0.00%	SF Expiring in 2017+	23,122
		Private SF (P)	0	0.00%		

DETROIT MARLOWE
 14501-15 Detroit Avenue
 Lakewood, Ohio 44107
 RENT ROLL

Modified Rent Roll 2015.xlsx Updated 3/16/2015

February 1, 2015

TENANT	STREET & NUMBER
Available	14501 Detroit
Available	14503 Detroit #1
Available	14505 Detroit
Available	14507 Detroit #2
Available	14507 Detroit #3
Available	14509 Detroit
Available	14511 Detroit
Available	14515 Detroit
Available	14513Detroit #4
Available	14513 Detroit #5
Available	1408 Marlowe
	1410 Marlowe
	1412 Marlowe
	1414 Marlowe
TOTALS	

<u>Occupancy:</u>		<u>Totals:</u>			<u>Other:</u>	
Total # of Suites	11	Total Actual Rent	\$0.00 / month	\$0.00 / year	Average Rent / Suite (excl Hosp)	\$0.00
Total # of Occupied Suites	0	Total Potential Rent	\$0.00 / month	\$0.00 / year	Month-to-Month Leases SF	N/A
Total # of Vacant Suites	11	Variance	\$0.00 / month	\$0.00 / year	SF Expiring in 2014	N/A
Total Square Feet	0				SF Expiring in 2015	N/A
Total SF Occupied	0	Hospital Suites Occupied	0		SF Expiring in 2016	N/A
Total SF Vacant	0				SF Expiring in 2017+	N/A

LAKEWOOD COMMUNITY HEALTH CENTER
 1450 Belle Avenue
 Lakewood, Ohio 44107
 RENT ROLL

Modified Rent Roll 2015.xlsx Updated 3/16/2015

February 1, 2015

TENANT	SUITE	SQ FT
Lakewood Child Care Center	100	6,504 (Does not include 1,841 sf of outside play- ground space)
Available	2nd	5,891
Geriatric Center	2nd	2,227
General Meeting Room	2nd	682
Cleveland Clinic Foundation (OBGYN & Women's Health Institute)	300, 300A, 310, 320, 330	9,697
Building/Conference Room	BR	894
TOTALS		25,895

<u>Occupancy:</u>		<u>Totals:</u>			<u>Other:</u>	
Total # of Suites	6	Total Actual Rent	\$0.00 / month	\$0.00 / year	Average Rent / SF (excl Hosp)	\$0.00
Total # of Occupied Suites	5	Total Potential Rent	\$0.00 / month	\$0.00 / year	Month-to-Month Leases SF	2,909
Total # of Vacant Suites	1	Variance	\$0.00 / month	\$0.00 / year	SF Expiring in 2014	0
Total Square Feet	25,895				SF Expiring in 2015	0
Total SF Occupied	20,004 77.25%	Hosp. Affiliate SF (HA)	0	0.00%	SF Expiring in 2016	16,201
Total SF Vacant	5,891 22.75%	CCF Affiliate SF (CA)	0	0.00%	SF Expiring in 2017+	0
		Private SF (P)	0	0.00%		

WESTLAKE MEDICAL CAMPUS
 850 Columbia Road
 Westlake, Ohio 44145
 RENT ROLL

Modified Rent Roll 2015.xlsx Updated 3/16/2015

February 1, 2015

TENANT	SUITE	SQ FT
Fairview Surgery Center	LL100	19,898
Available	LL200	1,529
CCF (ENT)	100	5,552
Fairview Hospital (One PACC)	101	2,548
CCF (Dept. of Vascular Surgery)	102	1,464
Cleveland Clinic Foundation (Edward Levy, M.D.)	103	1,432
CCF (OBGYN & Women's Health Institute)	104	1,293
Available	105	1,465
Available	106	1,993
CCF (Neurological Institute)	110	2,026
Landlord Storage	115	134
CCF Regional Operations	120	3,908
CCHS Westlake Imaging Center LLC	130	9,637
North Shore Gastroenterology, Inc. ^[1]	200	25,101
CCF (Dept. of Vascular Surgery)	202	1,400
Raj Plastic Surgery LLC	300	2,197
Available	310	1,314

WESTLAKE MEDICAL CAMPUS
 850 Columbia Road
 Westlake, Ohio 44145
 RENT ROLL

Modified Rent Roll 2015.xlsx Updated 3/16/2015

February 1, 2015

TENANT	SUITE	SQ FT
Fairview Hospital (Diagnostics)	320	3,492
Fairview Hospital (Women's Health)	330	9,448
TOTALS		95,831

[1] Tenant also has the exclusive right to provide gastroenterology services in the Building. See Lease for details. Prorata Share is based upon 27,524 square feet and a total Building size of 97,312 sf.

[2] When the balance of the Building is leased, the prorata share for each tenant will be adjusted to coincide with the final total square footage for Phases I and II of the Westlake Medical Center.

<u>Occupancy:</u>		<u>Totals:</u>			<u>Other:</u>	
Total # of Suites	19	Total Actual Rent	\$0.00 / month	\$0.00 / year	Average Rent / SF (excl Hosp)	\$0.00
Total # of Occupied Suites	15	Total Potential Rent	\$0.00 / month	\$0.00 / year	Month-to-Month Leases SF	0
Total # of Vacant Suites	4	Variance	\$0.00 / month	\$0.00 / year	SF Expiring in 2014	0
Total Square Feet	95,831				SF Expiring in 2015	54,554
Total SF Occupied	89,530 93.42%	Hosp. Affiliate SF (HA)	0	0.00%	SF Expiring in 2016	5,552
Total SF Vacant	6,301 6.58%	CCF Affiliate SF (CA)	0	0.00%	SF Expiring in 2017+	29,424
		Private SF (P)	0	0.00%		

LAKEWOOD HOMES
 Belle Avenue/St. Charles Avenue, Lakewood, Ohio
RENT ROLL

Modified Rent Roll 2015.xlsx Updated 3/16/2015

February 1, 2015

TENANT	STREET & NUMBER
Tina Will and Sara Perry	1458 Belle Ave
Curtis S. Hill	1462 Belle Ave
Nora Swift and Mwale Kakusa	1466 Belle Ave
Lauren M. Bobich and Lindsey M. Bobich	1472 Belle Ave
Katherine Hopkins-Hyche and Joseph K. Hyche	1476 Belle Ave
Available	1451 St. Charles Ave
Sue Lamb	1461 St. Charles Ave
Paul & Sue Bishop	1471 St. Charles Ave
Michelle Fender & Jamie Long	1477 St. Charles Ave
TOTALS	

<u>Occupancy:</u>			<u>Totals:</u>			<u>Other:</u>		
Total # of Suites	9		Total Actual Rent	\$0.00 / month	\$0.00 / year	Average Rent / Suite		\$0.00
Total # of Occupied Suites	8	88.89%	Total Potential Rent	\$0.00 / month	\$0.00 / year	Month-to-Month Leases SF		7
Total # of Vacant Suites	1	11.11%	Variance	\$0.00 / month	\$0.00 / year	SF Expiring in 2014		0
						SF Expiring in 2015		1
						SF Expiring in 2016		0
						SF Expiring in 2017+		0

LAKWOOD HOSPITAL
 ("Tenant") Leases/Subleases
 RENT ROLL

Modified Rent Roll 2015.xlsx Updated 3/16/2015

February 1, 2015

LANDLORD/PROPERTY ADDRESS	TENANT (USER)/ PROPERTY ADDRESS	SUITE	SQ FT
Lakewood Hospital Association	Thomas B. Nowlin dba Arabica Coffee House	Hospital Kiosk	N/A
Lakewood Hospital Association Lakewood Hospital 14519 Detroit Avenue Lakewood, Ohio 44107	CCF (Neurological Institute) 14519 Detroit Avenue Lakewood, OH 44107	1st Floor of Lakewood Hospital	5,037
Lakewood Hospital 14519 Detroit Avenue Lakewood, Ohio 44107	James Crandell, M.D. 14601 Detroit Avenue Lakewood, OH 44107	460 (Timeshare Sublease)	2,009
Lakewood Hospital 14519 Detroit Avenue Lakewood, Ohio 44107	Stephen P. Smik, D.P.M. 3386 Warren Road Cleveland, OH 44111	540 (Timeshare)	N/A
Lakewood Hospital 14519 Detroit Avenue Lakewood, Ohio 44107	Orthopaedic Associates, Inc. 14601 Detroit Avenue Lakewood, OH 44107	700 (Timeshare Sublease)	3,189
Lakewood Hospital 14519 Detroit Avenue Lakewood, Ohio 44107	Nelson D'Silva, M.D. c/o Premier Physicians Centers, Inc.	460 (Timeshare Sublease)	2,009
Lakewood Hospital Association Lakewood Hospital 14519 Detroit Avenue Lakewood, Ohio 44107	CCF (Lorain Institute General Surgery)	260 (Timeshare Lease)	1,908

June 9, 2010

City of Lakewood
c/o The Honorable Edward FitzGerald, Esq.
12650 Detroit Avenue
Lakewood, Ohio 44107

Dear Mayor FitzGerald:

As you know, recently the City of Lakewood (“City”), through its elected Council, and The Cleveland Clinic Foundation (“Clinic”), as the sole member of the Lakewood Hospital Association (“LHA”), have undertaken an extensive discussion about services to be provided at Lakewood Hospital (“Hospital”) under the Vision for Tomorrow (“VFT”) plan, and how the lease between the City and LHA may be affected thereby.

The City has been seeking assurances that services to be provided under the VFT plan will make the Hospital a successful, sustainable community hospital that produces the highest quality of care possible and contributes to a healthier Lakewood. The Clinic seeks the same goals, but also the business flexibility to respond to changes rapidly, without unnecessary barriers to reformatting the services provided.

We believe we can achieve these goals by providing the following assurances to the City:

(1) At least 60 days prior to the LHA board of trustees taking any vote that would permit the elimination or transfer of any of the VFT “Centers of Excellence” services — neurosciences, geriatrics, endocrinology/diabetes, and orthopaedics — for the duration of the lease term, or otherwise at least 60 days before those services would be eliminated or transferred without board action, LHA will notify the City of such proposed change in services and permit the City to make inquiry of the LHA board members and appropriate Clinic officials regarding the proposed change. (A service would be considered eliminated or transferred if it were to result in the significant reduction in such service so as to be an effective elimination of such service at the Hospital.) This will give the City an opportunity to be heard with respect to any such change before it may occur, while respecting the role of the LHA board.

City of Lakewood
c/o The Honorable Edward FitzGerald, Esq.
June 9, 2010
Page 2

(2) Consistent with its obligation to produce an annual report to the City reflecting its compliance with the lease, the LHA would be happy to convene meetings with its trustees and the City, upon request by the City, in an effort to address any questions the City may have and provide requested data (as permitted by the lease) about operations at the Hospital for the duration of the lease term.

We hope these two assurances will address the City's concerns about its oversight function, while still yielding a fiscally sound and successful community hospital that produces the highest quality of care possible.

Very truly yours,

A handwritten signature in black ink that reads "David Bronson". The signature is fluid and cursive, with a large initial "D" and "B".

David Bronson, MD, FACP
President, Cleveland Clinic Regional Hospitals

DLB/

cc: Mr. Kevin Butler, President of City Council of Lakewood, Ohio
Members of City Council of Lakewood, Ohio c/o Clerk of City Council