

September 27, 2011

Ms. Annette Tomarazzo  
Chair, HMHA  
Hoboken City Hall  
94 Washington Street  
Hoboken, NJ 07030

Re: Proposal for Privatization of Hoboken University Medical Center

Paradigm Physician Partners stands ready to move forward with our offer to purchase Hoboken University Medical Center and operate the hospital as a non-profit acute care hospital well beyond the next seven years.

Our investor is willing to finance the acquisition of the hospital assuming the Mayor and the members of the Hoboken Municipal Hospital Authority are willing to provide in writing a formal invitation to work exclusively with us for a period of 45 days so that all parties can work quickly, cooperatively and transparently toward a transaction that supports the mutual goals of all parties involved.

P3's bid and the details of the transaction are more clearly spelled out in the proposal, which I've attached again for your information.

Thank you for your consideration, and we look forward to hearing from you.

Sincerely,

**Electronic Signature Provided**

Geoffrey Teed  
President

CC: Hon. Mayor Dawn Zimmer  
Council President Ravinder Bhalla and Council Members  
Creditors' Counsel

Cabot Hyde, Esq.

# **Hoboken Municipal Hospital Authority**

**P3 - Supplemental RFP Revisions**

**12.10.2010**

## Table of Contents

● Stated Goals .....	3
● P3 Options .....	4
● Structure .....	6
● Response To Requirements “Answering the Call” .....	7
● Addendum (HMHA Due Diligence on P3) .....	10

## Stated Goals

### BACKGROUND

Founded in 1863 as Saint Mary Hospital, the Hoboken University Medical Center is the oldest continuously operating hospital in New Jersey. Hoboken Municipal Hospital Authority (the “Authority”) is seeking proposals from parties interested in acquiring the Hoboken University Medical Center and its affiliated entities (“HUMC” or the “Hospital”) and continuing to operate HUMC as an acute care hospital.

### GOALS

Hoboken Municipal Hospital Authority’s stated goals:

- Privatizing the Hospital
- Continuing Hoboken UMC as an acute-care hospital
- Preserving jobs of Hoboken UMC employees
- Continuing the working relationship with the Hospital’s medical staff
- Relieving the City of Hoboken of its financial obligations with respect to its guaranty of the Hospital’s bond debt

## P3 Privatization Options

**Paradigm Physician Partners (P3)** will form a unique public-private partnership that will allow P3 take over operations of Hoboken University Medical Center and also achieves the Authority's stated goals and will be supported by all stakeholders involved, including the patients, doctors and nurses, employees, community, labor unions, city of Hoboken, and the state of NJ.

Under this public-private partnership, P3 will operate Hoboken University Medical Center as a non-profit community hospital delivering high quality care and provide an excellent clinical experience for patients and an outstanding work environment for physicians and clinical staff.

HUMC will be recognized as the best and safest hospital to receive health care services and the city of Hoboken will be recognized as the best place to live a healthy and productive life.

**Subject to due diligence P3 will provide three or more options for HMHA to select from:**

### 1) Asset Purchase Agreement (APA)

Upon completion of diligence, P3 will acquire all HUMC assets and operations and will refund the Authority's existing Series 2007 Bonds and Series 2009 Bonds utilizing funds provided by P3s funding partners.

Under this arrangement the City of Hoboken is taken off balance sheet and relieved of its financial obligations with respect to the outstanding hospital bond debt. P3 will have no further obligation to transfer HUMC back to the City of Hoboken.

HUMC will continue to be operated as a full service non-profit community hospital.

The details of this option will be determined by the next level of diligence.

### 2) Master Management and Strategic Funding Agreement (MMA)

P3 enters into a Master Management Agreement for a defined period and P3's funding partner provides strategic funding in the form of an asset backed loan for ongoing operations and capital projects such as infrastructure, technology and equipment upgrades. This is the simplest form of public-private partnerships and does not include any investment obligations.

Under this agreement hospital ownership remains with HMHA while P3 assumes responsibility for governance and management.

HUMC will continue to be operated as a full service non-profit community hospital.

The details of this option will be determined by the next level of diligence.

### **3) Concession Agreement**

A hybrid of APA & MMA outlined above. P3, alone or with strategic (hospital/non-hospital) partner, will refund a portion of the Authority's existing Bond debt and assume debt service payments on remaining balance.

Depending on the type of structure proposed (i.e. sale & lease back), this type of agreement requires that the existing \$34.4mm Series 2007 tax exempt series will need to be retired.

P3 will control all Hospital assets and hospital operations for a contract period, during which the investment obligations in new equipment or the replacement of the existing infrastructure are required. Thus, commercial risks are imposed completely on P3's funding partner with ownership remaining with Hoboken Municipal Hospital Authority for as long as Bond debt remains.

The most common contractual forms are Rehabilitate, Operate and Transfer (ROT), Rehabilitate, Lease/Rent and Transfer (RLRT), Build, Rehabilitate, Operate and Transfer (BROT). All of these are long-term contracts.

Under this agreement, P3 will operate the hospital for a fixed number of years with the goal of returning the hospital to the community upon reaching certain milestones. Ownership of hospital remains with HMHA, and P3's funding partner will be repaid or will acquire ownership via refunding outstanding debt.

HUMC will continue to be operated as a full service non-profit community hospital.

The details of this option will be determined by the next level of diligence.

## Structure

Under all proposed options P3 will assume the role of Hospital Operators and perform the following tasks:

- Managing the Hospital's executive and financial functions.
- Providing leadership to the financial function including, without limitation, assisting the Hospital in (i) strengthening the core competencies in the finance organization, particularly cash management, planning, general accounting and financial reporting, information management and (ii) formulation and negotiation with respect to a plan of improvement.
- Overseeing development of an operating business plan to be used in managing the Hospital for the current year as well as for future years.
- Overseeing and driving financial, operational and clinical performance in conformity with P3's Clinical Transformation Roadmap (CTR) specifically designed for the Hospital.

Upon submission of our final proposal and binding LOI, P3 will provide the Authority with a detailed pro forma and high level tactical plan for HMHA to consider.

## **P3: Answering the Call**

### **A. Proposed use of the Hospital facilities, including level of service**

Hoboken University Medical Center (HUMC) will operate as a full-service, acute care community hospital offering comprehensive medical, surgical and therapeutic services staffed by a qualified and credentialed medical staff and highly motivated clinical caregivers.

HUMC will leverage innovation, technology and deliver advanced care to the patients we serve.

HUMC's Board will be reconstituted to include proper mix of physicians, nurse leadership, business and community representation. Reconstituted Board will reflect modern governance principles and will include newly developed roles and responsibilities and be guided by whole systems measures.

### **B. Proposed transaction structure, including price and form of payment**

P3 will propose a public-private partnership in addition to a traditional asset purchase, a modified acquisition (sale & lease back with management agreement), and a strategic master management agreement between P3 and the Authority. The details of the above transaction structures will be articulated in our final proposal.

### **C. Proposed distribution or allocation of funds**

In all proposed scenarios P3 expects to allocate a minimum of \$25 million in working capital for anticipated operating deficits and capital improvement projects.

Funding will be furnished by a prominent investor group further described herein below and financing terms will be articulated in our final proposal.

### **D. Proposed liabilities to be assumed by acquirer**

Subject to due diligence, we will propose options to assume all outstanding debt held by the City of Hoboken, pursuant to its guaranty related to the Authority's Series 2007 Bonds as well as its guaranty related to the Authority's Series 2009 Bonds.

### **E. Planned capital investment programs**

Capital investment requirements will be determined by the due diligence process but the initial focus will be on areas of high-value and in need of updates – MDs, nurses, staff, technology, equipment, Cath Lab, OR, L&D, ICU, facility upgrades, energy, etc.

### **F. Required financing for the proposed transaction**

Investor pool is in place - private placement will be entered into upon completion of due diligence and binding LOI.

### **G. Status of financing**

During this final due diligence phase we will evaluate options to refund all or part of the existing debt. Funding Partners are in place and have reviewed the preliminary pro forma. Various funding options and deal structure discussions are underway. During the remaining due diligence phase decisions regarding funding source—be it private placement or via accessing capital markets to refund outstanding bond debt or a combination—will be finalized.

Based on the information we have regarding HUMC, we believe HUMC meets our Funding Partner's criteria.

P3's primary Funding Partner is a Nevada corporation backed by domestic and international capital with interests in urban redevelopment, commercial real estate, entertainment, technology, and offshore drilling and specializes in the private placement of investment capital into distressed asset acquisitions.

### **H. Identity of acquirer**

A to-be-formed New Jersey non-profit corporation. Parent holding company is Paradigm Physician Partners (P3) - based in Easton, CT.

### **I. Prior health care experience of principals**

P3 has a deep bench of highly experienced executive leaders with significant experience in transforming distressed hospitals into high performance operations.

Additionally, P3 has formal agreements in place with several strategic partners to assist in the transformation of HUMC.

Partial list:

- Value Capture, LLC – Lean Toyota Production Systems in Health Care
- The Dartmouth Institute – Accountable Care Organization, Population Based Model & Clinical Microsystems
- BDC Advisors - clinical integration, physician engagement strategy and network development, organization design, performance-based reimbursement, transaction advisor and dispute resolution
- Paradigm Health Development – skilled nursing, senior living and sub-acute care services
- Medsphere Systems Corporation – electronic health record
- BusinessFirst HC Solutions - leadership framework, organizational architecture, performance management systems
- Tatum – strategic and interim executive leadership
- PICIS – ED, OR, ICU performance improvement technology
- Priority Nursing Services – comprehensive post acute and home healthcare services
- Home Care 24-7 – hospice and supportive homecare, companionship, and medical transportation

### **J. Proposed capital structure of acquirer**

P3 as Management Company will be a member-less nonprofit corporation with a self perpetuating board. The reconstituted Board of Trustees will be selected by an independent panel from among qualified individuals who are committed to the welfare of the Hoboken community. P3 and our Funding Partners will have the right to nominate individuals to serve as our representatives on the Board. The number of such representatives has yet to be determined.

**K. Prior acquisitions or investments in the health care industry**

P3's executive team has decades of experience with hospital acquisitions, including asset valuations, strategic joint ventures with physicians and commercial entities, and structuring alternative financing options.

**L. Conditions to completion of transaction, required approvals and permits**

P3 and our Funding Partners will need an additional 30-45 days of confirmatory diligence with full access to the Authority and individual management for interviews. We will need access to all HUMC data, facility, records and staff personnel will be asked to participate in surveys. We will ask the Authority to sign a definitive agreement to announce a transaction, receive regulatory and other approvals and communicate with the community in the form of Town Hall Meetings.

Our Funding Partner's credit committee will need up to 120-days to complete investment due diligence and execute.

During this phase an MOU can be signed and funds can be escrowed so agreements can be advanced. Additionally, depending upon the ultimate structure of the transaction, CON, CHAPA and licensure approvals may need to be addressed.

## Addendum – Due Diligence Answers

1. Amount of equity to be invested.	TBD
2. Sources(s) of the equity. Who is P3's "Funding Partner".	Funding pool includes private equity investors, asset backed lenders and institutional investors
3. Intended financial partners.	TBD
4. Is the equity committed (does P3 have a commitment letter or the like)?	Equity is tied to strength of pro forma forecasts
5. Does the proponent have the cash on hand for the equity component.	
6. Evidence of having the equity available.	
7. Amount of anticipated financing from third parties.	TBD
8. Amount of working capital on opening balance sheet (cash on hand and availability under credit lines).	Min \$25mm - working capital and capital improvement
9. Amount of secured debt on opening balance sheet.	TBD
10. Aggregate purchase price.	TBD and will differ depending upon the type of Agreement; Asset Purchase, Concession or Master Management
11. Amount of purchase price to be paid in cash at closing.	TBD and will differ depending upon the type of Agreement; Asset Purchase, Concession or Master Management
12. Amount of purchase price to be paid in the form of assumption of liabilities.	TBD and will differ depending upon the type of Agreement; Asset Purchase, Concession or Master Management
13. Application of the purchase price. Use of the proceeds.	Refund the Authority's Bond Debt, fund operating deficits and capital improvement projects, decision support technology, equipment, facility upgrades (OR, ICU, L&D, etc)
14. Liabilities not being assumed.	TBD and will differ depending upon the type of Agreement; Asset Purchase, Concession or Master Management
15. Treatment of contracts with unions.	Meet to rework and align for shared goals. Reverse concessions in return for cooperative partnership. Revise work detail and modify to include benchmark goals and performance incentives – cash and non-cash.
16. Proposed treatment of contracts with medical staff.	All contracts will be reviewed, rationalized and KPIs and SLAs will be applied where appropriate and as necessary.
17. Proposed treatment of claims of trade creditors and vendors.	TBD and will differ depending upon the type of Agreement; Asset Purchase, Concession or Master Management
18. Product lines that will not be continued.	Services will be reviewed and modified to reflect capability and a balance of demand matched with capacity.
19. Product lines that will be continued.	Services will be reviewed and modified to reflect capability and a balance of demand matched with capacity.
20. Intended capital expenditures.	TBD but all deferred infrastructure upgrades and technology and equipment investments will be included in our CTR.
21. Intended strategic arrangements with other healthcare providers.	We will actively seek out partnerships and joint venture opportunities to build centers of excellence and establish evidence based referral arrangements. We will pursue clinical trials, demonstration projects, grants and available federal

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	stimulus funds for projects that lower costs, improve quality and promote social progress.
22. Proposed management team of the hospital.	TBD – deep bench of expertise available.
23. Treatment of the City's guarantee. Will the City be relieved of its obligations under the guarantee?	Will differ based on type of agreement: APA = market value + Master Management = 100% Concession = market value +
24. List of all contingencies to closing (other than due diligence).	None
25. Required permits, approvals and licenses.	Depending on type of Agreement. Divestiture will require full CON, CHAPA and other federal and State licensure.
26. Investments and partnerships with other parties in the Hudson County area.	We've begun conversations with community MDs (JVs and possible co-investment opportunities.) We have signed LOI with a Home Healthcare provider. We are in high level discussions with other nearby hospitals to discuss possibility of joint bid, shared services and other strategic business arrangement options (i.e. lease beds or leverage synergies – IT, systems, mobile units, etc.)
27. Name of P3's legal counsel.	Windels Marx Lane & Mittendorf, LLP - Maryann Kicenuik
28. Name of P3's financial advisor.	JH Cohn, LLP - Clifford Zucker, CPA
29. Prior acquisitions in the health care industry.	P3's executive team has decades of experience in hospital acquisitions, including asset valuations, strategic joint ventures with physicians and commercial entities, and structuring alternative financing options.
30. Prior acquisitions of acute care hospitals.	P3 has made formal proposals (including raising capital) to acquire four separate hospitals. <u>Pascack Valley (PVH)</u> –\$175mm raised via combo of debt & equity provided by GPMP out of Nashville. <u>Saint Mary's Passaic</u> - \$35mm raised via source combo S&LB, debt & equity, ABL & SNF developer & operator <u>Raritan Bay Medical Center (RBMC)</u> – S&LB and funding was provided by PBSF <u>Johnson Memorial (JMH)</u> –\$63.3mm via combo of debt & equity provided SNF developer & operator
31. Nature of competitive relationship (if any) with HUMC.	None
32. Nature of products/services offered by P3 similar to HUMC.	None
33. Length of time for completion of due diligence.	30 days
34. Projected date for submission of an Asset Purchase Agreement.	Min 45 days post binding LOI
35. Projected closing date	APA – 120-days Master Management – 60-90-days Concession – 90-120-days
36. Provide details of the proposed "public-private partnership with the Authority".	<b><u>Asset Purchase Agreement =</u></b> <ul style="list-style-type: none"> <li>✓ P3 acquires HUMC</li> <li>✓ HUMC assets and liabilities are transferred to P3</li> <li>✓ HUMC retains non-profit status</li> </ul> <b><u>Master Management Agreement =</u></b> <ul style="list-style-type: none"> <li>✓ The HMHA contracts with P3 to operate HUMC</li> </ul>

	<ul style="list-style-type: none"> <li>✓ P3 is paid industry average management and recruitment fees</li> </ul> <p>P3 funding partner makes strategic loan for operating deficits and capital improvement projects</p> <p><b><u>Concession =</u></b></p> <ul style="list-style-type: none"> <li>✓ P3 either acquires full-operational control of HUMC for period of time</li> <li>✓ HUMC assets and liabilities are transferred to P3</li> <li>✓ HUMC retains non-profit status and HMHA has the option to purchase HUMC back at a predetermined future date or upon achievement of performance milestones</li> </ul>
<p>37. Plans for implementing a Quality Improvement project.</p>	<p>Top-down &amp; bottom-up supported by data and driven by workforce and leadership in full support.</p>
<p>38. Method for Quality Improvement (e.g.; PDSA, Nolan, Six Sigma, Six Sigma</p>	<p>TPS, Lean, Baldrige, Magnet, systems theory, design theory, human drivers (incentives), Clinical Microsystems, IHI, etc.</p> <p>Priority will be given to no-brainers with observable clinical, quality and financial gains such as elimination of CLABs and SSIs, Never Events, Readmissions, Adverse Events; implementation of Bundles, highest achievable Core Measures; improved revenue cycle; implementation of patient and asset tracking technologies, OR Time Outs and Checklists, etc</p>
<p>39. Identify challenges for a successful Quality Improvement project at HUMC and how they will be resolved.</p>	<p>Tragedy of the commons. Accountability, lack of institutional will.</p> <p>These will be resolved by strong leaders armed with relevant data and P3's "Setting the Standard" institutional compact as a precondition.</p>
<p>40. Identify whether and how, in the governance of the facility, P3 plans to involve and get input from the community, the medical staff and other</p>	<p>HUMC will be governed and led from the whole systems perspective and all stakeholders will be actively involved –MDs, RNs, clinical workforce, community outreach in schools (food programs, immunizations &amp; wellness activities) and partnerships to activate the community via outreach to weak and frail elderly and self management training wellness programs for chronic condition patients and Rx programs for more effective med management, etc.</p>

# **Hoboken Municipal Hospital Authority**

A P3 Solution

09.13.2011

**Paradigm Physician Partners, LLC (P3) offers to acquire Hoboken University Medical Center (HUMC) and to rehabilitate and return HUMC as a vibrant and self-sustaining non-profit community hospital.**

## **Acquisition**

P3 proposes to acquire all HUMC assets and operations and will relieve the City of Hoboken of its financial obligations with respect to the outstanding hospital bond debt.

P3 will rejuvenate HUMC, deliver a strategic reorganization plan that satisfies the creditors' debt, recognize organized labor, have no layoffs, and align with the principles and the recommendations set forth in Navigant's Hudson County Hospital Services Consolidation/Regionalization Assessment.

**Acquisition Price:** **\$62.6 Million** - P3 will purchase HUMC for \$62.6 million (\$51.6 million + \$11 million guaranteed interest) and relieve the taxpayers and the city of Hoboken of its bond obligation.

**Working Capital Investment:** **\$25 Million** - Upon acquisition P3 will invest an additional \$25 million in ongoing operations, new equipment, facility and technology upgrades and patient care.

**Total Investment:** **\$87.6 Million**

## **Additional Consideration**

**Creditors' Debt:** **\$35 Million** - P3 will assume *all* legal accounts payable less penalties

P3's proposal is qualified and superior on four key perspectives that should be considered:

- 1) **Money** – funding is in place and preliminary pro forma is “bankable”
- 2) **Management** – hand-picked executive team that is qualified and capable with an outstanding track record
- 3) **Model** – not-for-profit, non-predatory, population-based wellness model of operations, governance and leadership held accountable to highest achievable standards and high reliability outcomes
- 4) **Methodology** – leverage real estate in sale & lease back, invest in people, processes and technology

## 1) Money/Financing

P3 has secured sufficient debt and equity financing to complete \$87.6 million transaction.

P3's equity investment comes from an investor pool led by a high net worth private investor, who will be disclosed upon indication of interest (to be disclosed) and is also backed up by a Fortune Global 500 construction company (to be disclosed.) Investor enters public/private partnership investments in local markets as well as with state and federal governments. Investor's US headquarters are located in New Jersey.

### **Other Innovative Sources of Funding**

P3 has also engaged a specialty-financing firm with expertise in tax credit financing to pursue additional funding options (transaction not contingent upon these sources):

- **New Markets Tax Credit Program** - a federal program being used to attract private sector capital for underserved communities
- **NJ's Urban Transit Hub Tax Credit Program** - provides tax breaks to developments within proximity of New Jersey Transit, PATH, PATCO, or light rail stations in cities which include Newark, East Orange, Elizabeth, Hoboken, Jersey City, New Brunswick, Paterson, Trenton and Camden

Take-out funding will be furnished by Oppenheimer & Co (LOI attached – Addendum A.)

## 2) Management

P3 has a deep bench of highly experienced top tier executive leaders with significant experience in transforming distressed hospitals into high performance operations (Sample Transformation CEO Bio attached – Addendum B.)

In addition P3 has an extended network of hand-selected subject area experts—clinical and operational leaders with extensive experience in solving strategic, clinical and operational problems for a wide range of health care system properties. These consultant partners also share P3's passion to help health systems solve today's most pressing challenges and achieve our mutual goals for outstanding clinical and operational performance (sample list):

**Value Capture, LLC** – Lean Toyota Production Systems in Health Care

**The Dartmouth Institute** – Accountable Care Organization, Population Based Model & Clinical Microsystems

**Medsphere Systems Corporation** – EHR (electronic health record) and healthcare IT applications ensuring patient safety, improving clinical efficiency and increasing healthcare quality

**Subsidium Healthcare** – Clinical integration, physician engagement strategy and network development, organization design, value-based reimbursement, strategic management and financial advisor

**Tatum** – Strategic and interim executive leadership

### 3) Model

P3's investors acquire HUMC under a **public/private partnership**, which is a traditional (opco/propco) asset purchase agreement with the addition of a buy-back provision that allows the hospital to operate as a non-profit and allows the investor to receive an acceptable Return on Investment (ROI) from the real estate performance. The buy-back provision allows the asset to return to a fully non-profit community hospital once operating performance goals have been met.

P3 enters a master management agreement to operate HUMC as a non-profit hospital and signs a master lease with investor to operate the hospital.

### 4) Methodology

The P3 model is non-predatory and addresses the collective stakeholders' concerns and harmonizes with the Navigant Report's recommendations for consolidation and regionalization. P3's model is supported by science, research, experience, data and it's grounded in a solid, socially-responsible business model that lowers cost, improves quality and increases access to health services Hudson County.

P3's investor receives an acceptable Return on Investment (ROI) from lease payments and improved real estate asset performance.

Aside from the significant tax advantages of NFP operations, the act of reinvesting operating profits builds trust, fosters collaboration and cooperation with the front-line clinical caregivers and allows for investments in ongoing innovation.

P3's socially-responsible model allows P3 to reinvest all operating profits into the hospital's relentless pursuit of providing safe, effective, timely, patient-centered, efficient, equitable health care as outlined in the Institutional Compact (attached – Addendum A.)

## Comparative Benefits

P3's proposal offers a refreshing alternative to a hotly contested, single bidder choice that is perceived as a threat by major stakeholder groups.

- Satisfies creditor's claims of approximately \$35 Million vs. cram-down of approximately \$30 Million
- HUMC remains a non-profit community hospital for the long term, vs. just the next 7 years
- No Layoffs vs. over 250 job reductions
- Adds new jobs via addition of complimentary service offerings (SNF, Sr. Living, Rehab, etc) and commercial development
- No service interruptions
- Acceptance of all major insurance carriers vs. out-of-network as a profit-maximizing business strategy/gimmick
- Regionalization/rationalization strategy for Hudson County's un/under-insured population vs. cherry picking highly insured cases and deflecting others to other local hospitals
- Formulates strategic partnerships with other Hudson County hospitals to lower cost, improve quality and increase access to all citizens regardless of insurance status vs. furthers a contentious model that limits access and causes a flood of un/underinsured cases to spill into other local hospitals
- Reduces vs. explodes health care costs

We believe P3 offers the best financial and clinical plan for the City of Hoboken, HUMC, and the community and patients HUMC serves.

The future of HUMC is to become a vibrant, self-sustaining hospital producing lowest cost, highest quality, and accessible healthcare and demonstrated superior medical outcomes.

P3's proposal harmonizes with the recommendations of the Navigant report and will be supported by all stakeholders, including the patients, doctors and nurses, employees, community, labor unions, nearby hospitals, the city of Hoboken, and the state of NJ.

## About P3

Paradigm Physician Partners (P3) acquires and manages hospitals under public-private partnership agreements with nonprofit organizations and local governments. P3 brings capital, operational expertise, accountability, and a new strategic direction for each hospital it partners with. P3 allows non-profit and public hospitals to remain an asset of the community while bridging the gap between public needs and private capital without compromising mission or margin.

P3 transforms each partner hospital to create sustainable organizations and implement a new leadership model with 21st century governing principles informed and guided by the six “Aims of Improvement” described in the Institute of Medicine’s 2001 report; Crossing The Quality Chasm - Health care should be: Safe, Effective, Timely, Patient-centered, Efficient, and Equitable.

For more information about P3 and its partners: [www.mdparadigm.com](http://www.mdparadigm.com)

## P3 Proposal Q&A

See P3 proposal details in the attached Q&A table (Addendum D.)

## Addendum A:

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Oppenheimer & Co. Inc.  
300 Madison Avenue  
New York, NY 10017

Member of All Principal Exchanges

December 10, 2010

To Whom It May Concern:

Oppenheimer Multifamily Housing & Healthcare Finance, Inc. (Oppenheimer), a wholly owned affiliate of Oppenheimer & Co. Inc., provides construction and permanent financing for multifamily rental developments, nursing homes, assisted living facilities and hospitals through the FHA mortgage insurance programs. As an FHA approved lender, Oppenheimer undertakes the process of securing the FHA mortgage insurance and then funds the construction/permanent loan at closing. In that regard, we have had discussions with Paradigm Physician Partners (P3) regarding its acquisition of Hoboken University Medical Center (HUMC), and would be interested in providing financing for HUMC after it has been stabilized and able to meet our lending criteria.

We will look forward to working with P3 in the future, and please do not hesitate to contact the undersigned if you have any questions regarding this letter.

Very sincerely yours,

OPPENHEIMER MULTIFAMILY HOUSING & HEALTHCARE FINANCE, INC.

By   
Lance H. Wilson, Senior Vice President

## Addendum B:

### **William Bithoney, MD, FAAP, FAANP – Transformation CEO**

Dr. Bithoney is expert and speaks nationally on developing Accountable Care Organizations and Patient Centered Medical Homes. He has led multiple non-profit system turnarounds, most recently at a 200-bed community hospital located in a very challenging demographic in the Boston area. Under his leadership his hospital was recognized as a Cleverly and Associates Top 100 hospitals in US for quality and value and the Leapfrog Group's top decile for efficiency.

Dr. Bithoney was a leading architect in designing and developing the teaching manual for managing the needs of vulnerable populations.

Dr Bithoney was a founding Medical Director, Trustee and Board Member of Medical Missions for Children, the largest private telemedicine program in the world. This organization has treated over 30,000 critically ill children in 36 countries.

*“P3 has a mission to transform healthcare and it is the simplicity in their public-private partnership that is a compelling concept that attracts me, and convinces me that their plan is so achievable. P3’s business model benefits and restructures urban hospitals in financial distress by making strategic investments in people, processes, and technology....applying evidence-based practice and business principles WHILE retaining a hospital’s non-profit status and preserving jobs. From my experience, this makes perfect economic sense, and the deeply rooted social values embedded in their business philosophy really impress me. I am proud and eager to lead this vision for P3.”*

## Addendum C:

### **“Setting the Standard” Paradigm Physician Partners' Institutional Compact**

#### **Mission**

Transform the way health care is accessed, financed and delivered by demonstrating the business value in providing safe, effective, timely, patient-centered, efficient, equitable health care. We will execute our mission through the institutional transformation and turnaround of hospitals by way of projects that analyze, design, implement and teach financial, clinical, and operational excellence.

#### **Vision**

A hospital with a culture where it's possible for all employees, clinical staff, affiliation partners, leadership and board members to say “Yes” to three propositions every day without reservation:

1. I'm treated with dignity and respect by everyone I encounter every day without regard to my job title or education attainment or my race or my ethnicity or my gender or any other distinguishing characteristic.
2. I'm given the things I need--education, tools, training, and encouragement—so I can make a contribution that gives meaning to my life.
3. I'm recognized for what I do.

#### **Values**

##### **What caregivers can expect from P3 affiliate hospitals:**

1. A patient-centric organization that manages with integrity, honesty, and open communication.
2. A commitment to recruit and retain superior physicians and staff.
3. Governance and leadership committed to providing resources, tools and unwavering support to our physicians, nurses and all clinical workforce and departments as you strive to deliver excellent care.
4. A commitment to continually respond to and make changes necessary to ensure ongoing availability of world-class, clinical care.

**What patients and hospital leadership can expect from all caregivers in return:**

1. Focus on decision making that serves the needs of patients and their families.
2. A commitment to treat all encountered with respect and dignity, and a commitment to embrace a team approach to achieving excellence in patient care.
3. A commitment to professional development including maintaining current knowledge within an individual's area of expertise.
4. Use of objective measures of clinical outcomes to improve the care given.
5. A recognition that personal change will be needed to accomplish organizational goals.

**Addendum D:**

1. Aggregate purchase amount	\$87,600,000
2. Amount of equity to be invested.	\$26,000,000
3. Amount of purchase price to be paid in cash at closing.	\$62,600,000
4. Sources(s) of the equity.	Xxx XXXXXX XXXX XXXXXX XXXX XXXXXX
5. Intended financial partners.	Oppenheimer (take out investor)
6. Is the equity committed?	Yes, subject to due diligence
7. Does investor have the cash on hand for the equity component?	Yes
8. Evidence of having the equity available.	Commitment letter upon receipt of Memo of Understanding
9. Amount of anticipated financing from third parties.	\$61,600,000
10. Amount of working capital on opening balance sheet (cash on hand and available under credit lines)	\$25,000,000
11. Amount of secured debt on opening balance sheet.	\$62,600,000
12. Use of the proceeds.	Purchase price: \$51,600,000 Interest payment: \$11,000,000 Working capital: \$25,000,000
13. Treatment of the City's guarantee?	Full defeasance of outstanding bonds and interest.
14. List of all contingencies to closing (other than due diligence).	None
15. Proposed treatment of claims of trade creditors and vendors.	All legal secured and unsecured debt will be assumed
16. Amount of outstanding liabilities to be assumed.	All legal secured and unsecured debt will be assumed
17. Liabilities not being assumed.	Fraudulent liabilities and late payment penalties
18. Treatment of unions - contracts and staffing.	Unions will be recognized, contracts will be jointly reviewed. No layoffs.
19. Proposed treatment of contracts with medical staff.	All contracts will be reviewed and rationalized. Performance and service level agreements will be incorporated where appropriate and as necessary.
20. Intended capital expenditures.	Capital investments in overdue infrastructure and technology upgrades and new equipment.
21. Product lines that will not be continued.	No service interruptions. Any duplicative and unnecessary

<p>services will be reviewed from a regional balance perspective and referral partnerships will be developed.</p>	<p>Services will be reviewed from a regional perspective and modified to reflect capability and reflect a balance of demand matched with capacity and expertise.</p> <p>P3 seeks to partner with regional health system operators to articulate the July 27, 2011 Navigant report recommendations:</p> <ol style="list-style-type: none"> <li>1. Align the supply of beds with the current and future need of the market area population for beds;</li> <li>2. Improve the clinical quality, operational efficiency, and financial performance of services provided;</li> <li>3. Enhance the ability to recruit and retain an appropriate complement of high quality physicians, clinical staff, and support personnel;</li> <li>4. Invest in initiatives that represent the optimal use of capital over the longer-term (i.e., more than five years); and</li> <li>5. Reduce (eliminate) the amount of State operating subsidies.</li> </ol> <p>Additionally, P3 will proactively pursue the development of a regional Accountable Care Organization (ACO) in Hudson County, and negotiate value-based purchasing initiatives. P3 will also pursue joint venture opportunities to build centers of excellence and establish evidence based referral arrangements with other providers. HUMC will participate in clinical trials, lead on demonstration projects and pursue state and federal grants and other available programs for projects that lower costs, improve quality, expand access and promote social justice.</p>
<p>22. Product lines that will be continued.</p>	<p>23. Intended strategic arrangements with other healthcare providers.</p>
<p>24. Investments and partnerships with other parties in the Hudson</p>	<p>Community MDs (JVs and possible co-investment</p>

<p>opportunities); regional referral hospitals for shared services and other strategic joint business options (i.e. leased beds or leveraged synergies – IT, systems, mobile units, etc.) and other community health providers as well as local schools, clergy and other community partners and home health providers.</p>	<p>County area.</p>
<p>25. Proposed management team of the hospital.</p>	<p>See attached sample executive bio.</p>
<p>26. Required permits, approvals and licenses.</p>	<p>Those required in a full asset transfer, i.e., CHAPA review, full CON review (application and hearing(s) and planning board hearing) and any other required federal and state licensure approvals.</p>
<p>27. Name of P3's legal counsel.</p>	<p>Waller, Lansden, Dortch &amp; Davis</p>
<p>28. Name of P3's financial advisor.</p>	<p>TBD</p>
<p>29. Prior acquisitions in the health care industry.</p>	<p>P3's executive team has decades of experience in hospital acquisitions, including asset valuations, strategic joint ventures with physicians and commercial entities, and structuring alternative financing options.</p>
<p>30. Prior acquisitions of acute care hospitals.</p>	<p>P3 has made formal asset purchase proposals to acquire three separate hospitals.  <u>Pascack Valley (PVH)</u> –\$175mm raised via combo of debt &amp; equity provided by GPMP of Nashville, TN  <u>Johnson Memorial (JMH)</u> –\$63.3mm raised via combo of debt &amp; equity provided by local MDs &amp; SNF developer &amp; operator  <u>St Mary's Passaic (SMH)</u> - \$51.8 mm raised via combo of debt &amp; equity provided by RE developer and private equity investors</p>
<p>31. Nature of competitive relationship (if any) with HUMC.</p>	<p>None</p>
<p>32. Nature of products/services offered by P3 similar to HUMC.</p>	<p>None</p>
<p>33. Length of time for completion of due diligence.</p>	<p>45 days</p>

<p>34. Projected date for submission of an Asset Purchase Agreement.</p>	<p>Min 30 days post MOU</p>
<p>35. Projected closing date</p>	<p>60-120 days post APA</p>
<p>36. Provide details of the proposed "public-private partnership with the Authority".</p>	<p>P3's public-private partnership proposal is to partner with the community of Hoboken not the "Authority".</p> <ul style="list-style-type: none"> <li>✓ P3 acquires Public asset (HUMC) &amp; all assets and liabilities are transferred to Private partner</li> <li>✓ P3 leases and operates HUMC under management agreement. HUMC retains non-profit status</li> <li>✓ Upon operations achieving financial strength, Private investor is bought out by Public non-profit asset</li> <li>✓ All assets revert back to Public as a true non-profit community health system asset</li> </ul>
<p>37. Plans for implementing a Quality Improvement project.</p>	<p>Top-down &amp; bottom-up Quality <u>is</u> the work of the hospital supported by data and driven by the workforce with the hospital's board and executive leadership accountable and in full support.</p>
<p>38. Method for Quality Improvement (e.g.: PDSA, Nolan, Six Sigma, Six Sigma</p>	<p>Institutional Compact (see attached); accountable governance and leadership via management science, systems theory, human factors engineering (incentives, benchmarking and monitoring) and ergonomic engineering (design theory); patient-centered medical homes, ACO, chronic disease prevention and maintenance; standardization via evidence and team-based medicine (multi-specialty teams, standard bundles, treatment protocols and order-sets); risk-sharing and innovative P4P payment bundles with payers (warrantees and MLR improvement); vertical provider integration.</p> <p>Priority will be given to strategic areas where observable clinical, quality and financial gains reside, i.e., highest achievable core measures (CMS' Hospital Compare), elimination of avoidable and costly adverse events - CLABs</p>

<p>39. Identify challenges for a successful Quality Improvement project at HUMC and how they will be resolved.</p>	<p>and SSIs, never events, readmissions; business office and revenue cycle; patient and asset tracking technologies, operating room time-outs and checklists, TPS, Lean, Baldrige, Magnet, Dartmouth's Clinical Microsystems, IHI 100k &amp; 5 million lives campaigns, etc.</p> <p>Chief among challenges: 1) status quo 2) governance 3) leadership 4) lack of accountability, transparency &amp; institutional will 5) underinvestment in infrastructure, people, processes &amp; technology</p> <p>These will be resolved by refreshed and rededication to the mission, reconstituted board and governance principles, strong and committed leaders armed with relevant data and P3's "Setting the Standard" institutional compact as a precondition and substantial investment.</p>
<p>40. Identify whether and how, in the governance of the facility, P3 plans to involve and get input from the community, the medical staff and other stakeholders.</p>	<p>HUMC will be governed and led from the "whole systems" perspective and all stakeholders—MDs, RNs, clinical workforce, community outreach in schools (food programs, immunizations &amp; wellness activities) and partnerships to activate the community via outreach to weak and frail elderly and self management training and wellness programs for patients with chronic diseases and Rx programs for more effective medicine management—will be actively involved</p>