

September 13, 2011

Annete Tomarazzo
Chair HMHA
Hoboken City Hall
94 Washington Street
Hoboken, NJ 07030

Re: Proposal for Privatization of Hoboken University Medical Center

Ms. Tomarazzo:

This letter sets forth the general terms and conditions on which Paradigm Physician Partners (“P3” or the “Buyer”) would be willing to acquire Hoboken University Medical Center (the “Hospital” or the “HUMC”), from the Hoboken Municipal Hospital Authority (“HMHA” or the “Seller”) for approximately \$87.6 Million – relieving the City of Hoboken of its outstanding bond obligation. We are also willing to assume all secured and unsecured legally recognized debt.

To refresh your memory, P3 is a management organization which provides capital, operating experience, and a 21st century strategic vision to provide a solution which is best suited for the HMHA, the HUMC physicians, care-givers and staff, and patients in and around the community of Hoboken. The attached proposal will provide evidence and specifics to our willingness to work together in good faith to consummate the transaction that will meet the goals of the HMHA and preserve HUMC’s non-profit, community-centered purpose within the context of Hudson County.

The goals expressed by both you and HMHA describing the right partner for HUMC were clear and specific, and we are confident that we can fulfill and exceed those goals, including:

1. Privatizing the Hospital;
2. Continuing HUMC as an acute-care hospital;
3. Preserving the jobs of HUMC employees ;
4. Continuing the working relationship with HUMC’s qualified medical staff; and
5. Relieving the City of Hoboken of its financial obligations with respect to its guaranty of the bond debt

Based on the information provided to us to date, P3 is interested in acquiring HUMC under the terms and conditions contained within.

If the foregoing proposal is acceptable to you, we would like to execute a MOU with the HMHA and initiate our due diligence immediately.

Please feel free to call Geoff Teed at (203) 520-9471 if you have any questions about the terms of this proposal.

Sincerely,

Electronic Signature Provided

Geoffrey Teed
President and Founder, Paradigm Physician Partners, LLC

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

Bradley Cooper, Esq.

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

P3 Proposal Q&A

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

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Addendum A:



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

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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

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<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"> 1. Align the supply of beds with the current and future need of the market area population for beds; 2. Improve the clinical quality, operational efficiency, and financial performance of services provided; 3. Enhance the ability to recruit and retain an appropriate complement of high quality physicians, clinical staff, and support personnel; 4. Invest in initiatives that represent the optimal use of capital over the longer-term (i.e., more than five years); and 5. Reduce (eliminate) the amount of State operating subsidies. <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>

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<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>See attached sample executive bio.</p>	<p>25. Proposed management team of the hospital.</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>26. Required permits, approvals and licenses.</p>
<p>Waller, Lansden, Dortch & Davis</p>	<p>27. Name of P3's legal counsel.</p>
<p>TBD</p>	<p>28. Name of P3's financial advisor.</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>29. Prior acquisitions in the health care industry.</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 & equity provided by GPMP of Nashville, TN <u>Johnson Memorial (JMH)</u> –\$63.3mm raised via combo of debt & equity provided by local MDs & SNF developer & operator <u>St Mary's Passaic (SMH)</u> - \$51.8 mm raised via combo of debt & equity provided by RE developer and private equity investors</p>	<p>30. Prior acquisitions of acute care hospitals.</p>
<p>None</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>45 days</p>	<p>33. Length of time for completion of due diligence.</p>

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<p>34. Projected date for submission of an Asset Purchase Agreement. 35. Projected closing date</p>	<p>Min 30 days post MOU 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"> ✓ P3 acquires Public asset (HUMC) & all assets and liabilities are transferred to Private partner ✓ P3 leases and operates HUMC under management agreement. HUMC retains non-profit status ✓ Upon operations achieving financial strength, Private investor is bought out by Public non-profit asset ✓ All assets revert back to Public as a true non-profit community health system asset
<p>37. Plans for implementing a Quality Improvement project.</p>	<p>Top-down & 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>

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<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 & 5 million lives campaigns, etc.</p>	<p>Chief among challenges: 1) status quo 2) governance 3) leadership 4) lack of accountability, transparency & institutional will 5) underinvestment in infrastructure, people, processes & 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>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 & 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>
<p>39. Identify challenges for a successful Quality Improvement project at HUMC and how they will be resolved.</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>	