



December 10, 2010

Hoboken Municipal Hospital Authority  
30 Willow Avenue  
Hoboken, NJ 07030

Dear Sir or Madam,

In accord with your letter of December 3, 2010, Community Healthcare Associates (CHA) is submitting supplemental information and revisions for your consideration.

In September 2010, CHA submitted a proposal to The Hoboken Municipal Hospital Authority (HMHA) for the privatization of Hoboken University Medical Center (HUMC). Briefly, the plan proposed that CHA would purchase all the assets of HMHA including the real estate, provider numbers, medical licenses, medical equipment, furniture, fixtures, supplies, etc. Under the proposal, CHA would assume liability for the payment of the current bonds guaranteed by the City through a combination of CHA investments, urban transit hub tax credits, Hospital Stabilization Funds and the issuance of Redevelopment Area Bonds which shall be re-paid thru a PILOT agreement between CHA and the City of Hoboken.

Under the new proposal, CHA, in partnership with Jersey City Medical Center (JCMC), would develop the HUMC campus to provide essential inpatient and outpatient health care services to meet the needs of the greater Hoboken area. Services would include Emergency Services, a Women's and Children's Center of Excellence, appropriate medical/surgical support services, ambulatory surgical services, children's mental health services, and other inpatient and outpatient services. No other changes to the provision of services at HUMC would be made without the consent of the healthcare subcommittee, as outlined below.

Additionally, this letter revises our prior plan by incorporating a management agreement which will assume liability for potential losses in excess of the current monthly operating losses, until the final transfer of the Hospital to CHA. This new proposal provides a specific plan and timeline for the ownership transition. This guarantees that the City will incur no additional debt, as previously defined, during the transition phase.

### **HOBOKEN MUNICIPAL HOSPITAL AUTHORITY GOALS**

As stated in its RFP, HMHA's goals are to:

- (1) Privatize the hospital, thereby relieving the City of Hoboken of its financial obligations related to the hospital;
- (2) Continue the facility as an acute care hospital;
- (3) Preserve the jobs of HUMC employees; and
- (4) Continue the working relationship with the medical staff.

The plan, outlined herein by CHA, addresses each of HMHA's stated goals.

### **CHA'S PROPOSED APPROACH**

Under the revised plan CHA is proposing a management/purchase agreement that would begin upon execution, presumably no later than February 1, 2011. During the term of the management agreement (Phase I) HMHA would be held harmless for any additional losses incurred through the operation of the Hospital, as previously defined. CHA anticipates that Phase I would last approximately 10 months and that the "asset transfer" (Phase II) would be completed by the end of 2011. On or about January 1, 2012, CHA would assume ownership of the hospital and defease the bonds that were guaranteed by the City (Phase II). During Phase I, CHA and its partner, JCMC, would begin the transfer of maternity and pediatric services from the JCMC campus to HUMC and development of a Women's & Children's Center of Excellence.

Also, during Phase I, CHA, in conjunction with HMHA, the New Jersey Department of Health and Senior Services (NJDHSS), the other affected Hudson County hospitals, the Health Care Facility Financing Authority (HCFFA) and its agent Navigant Consulting, would determine how best to meet the health care needs of the Greater Hoboken area. This would be accomplished through a process that recognizes the desire to maintain a strong and viable health care presence at HUMC, ensures the continuation of essential acute and non-acute care services, retains health care workers' jobs while dealing with the realities of the marketplace and addresses the conclusions of the Reinhardt Commission (The Commission).

The Commission found that the State's oversupply of beds is concentrated in the Hackensack, Ridgewood/Paterson and the Newark/Jersey City market areas (market areas which encompass hospitals in Hudson, Bergen, Passaic and Essex counties -- the northeastern region of the State). The Commission also found that the most financially distressed hospitals were located in the northeast region of the State. These hospitals have other commonalities including a high volume of publicly insured patients, a low volume of surgical cases, and tend to be small to medium in size. According to the Commission, "These findings reflect the detrimental impact that the oversupply of beds, underpayment of public insurers, and poor compensation for medical vs. surgical care has on the economics of hospitals. In addition, it emphasizes the importance of size and scale in improving profitability."

The financial distress experienced by hospitals in Hudson County is evident in the fact that in December 2009, three Hudson County hospitals (HUMC, Christ Hospital and JCMC) received \$21 of the \$38 million in hospital stabilization grants. These grants were issued to nine financially distressed hospitals in order to maintain health care service access in communities where services were threatened as a result of the hospitals' potential closure or reduction in service capacity due to financial distress. As a result, the approach CHA proposes to take in determining how best to meet the acute and non-acute care needs of the area would be a regionalized plan aimed at addressing health care service needs of the Greater Hoboken area, including the safety net services provided by HUMC, while strengthening the existing providers through a reduction of licensed beds. Such an approach would reduce or eliminate Hudson County hospitals' dependence on hospital stabilization funding.

CHA principals who are seasoned health care professionals with over 100 years combined relevant experience would work to develop a transition plan to ensure that as many jobs as possible are retained at HUMC and within the county. CHA/JCMC would likewise work with the medical staff to ensure that physicians maintain an active presence at HUMC, are kept informed and assisted during the transition planning phase and are encouraged to maintain their medical practices within the City.

CHA is a New Jersey Limited Liability Company that was founded in 2008 by five health care executives who came together to purchase the Barnert Hospital and Medical Center in Paterson, NJ. With a vision to preserve health care services and jobs in the third largest city in New Jersey, CHA engineered a \$15 million renovation of the facility now known as the Barnert Medical Arts Complex. Today the facility is 90% leased or purchased by medical professionals providing a wide array of health care services such as: physician offices, an imaging center, three ambulatory surgical centers, pharmacy, reference laboratory, physical therapy, urgent care services and several outpatient clinics. Barnert also maintains inpatient sub-acute care services and inpatient addiction services. The successful conversion of Barnert Hospital has resulted in the preservation of over 600 jobs in the Paterson community.

In addition to Barnert, CHA is in the process of converting the William B. Kessler Memorial Hospital, in Hammonton, NJ to a Medical Arts Complex. Unfortunately, Kessler had suffered the same fate as several other financially distressed community hospitals and closed its doors in early 2009. CHA envisions this facility undergoing a similar health care conversion as Barnert, where both jobs and health care services will be brought back to the community. CHA is expecting to re-open the facility in early 2011.

CHA's partnership with JCMC provides hospital management expertise in performance and quality management. Since January 2008 the management team at JCMC has focused its efforts on organizational alignment around four central pillars: patient safety; clinical quality; satisfaction (employee, physician, patient); and economic health. In just three years, physician satisfaction scores have risen from the 3<sup>rd</sup> percentile to the 88<sup>th</sup> percentile. The Medical Center's physician engagement index is ranked in the 99<sup>th</sup> percentile.

In addition, JCMC has added a number of new clinical programs to its list of services including a vascular surgery program, Epilepsy Center, Stroke Center, Balance Center, Mammography Center, Mobile Liposripsy Center, and instituted the Spine Center of New Jersey. These programs add to an already broad list of programs and services available to residents of Hudson County. A new Medical Arts Building recently opened, providing a number of outpatient services and office space for some of the 200 new physicians who have been recruited to the Medical Center since 2008.



As a testament to JCMC's focus on performance quality, it has recently won a number of awards for "Nationally Recognized Care". These include:

- 1) The American Nurses Credentialing Center's Magnet Award for Nursing Excellence.
- 2) Certification and excellent ratings from The American College of Radiologists, The American College of Surgeons, and The American College of Pathologists.
- 3) Accreditation from The Joint Commission on Health Care.
- 4) Castle Connolly's number 1 rank hospital overall in New Jersey.
- 5) The first EMS service in the U.S. to earn triple accreditation – the gold standard in dispatch, education and essential medical services.

None of the changes would have been accomplished without the focused, participative approach of management and its ability to create and have employees and physicians embrace a collective vision of achieving a top 10 percentile ranking nationally in its four pillars.

These changes have resulted in phenomenal growth. Since 2008, JCMC has been able to increase its net patient service revenue from \$165 million to a projected \$205 million in 2008 (before any extraordinary State funding).

JCMC's performance in recent years, coupled with CHA's demonstrated ability to develop struggling hospital locations into viable community institutions, represents a significant opportunity to improve the health care services available to Hoboken area residents.

### **RATIONALE**

The proposed plan outlined by CHA is sound, sustainable and provides for the rational delivery of health care to the Hoboken/Hudson County region. Over the last 25 years HUMC has undergone three reorganizations in an effort to remain solvent as an acute care hospital, none of which have succeeded. Fully, 72% of primary service area residents seek care at other hospitals, 32% seek care outside the county and many outside the State due to residents' proximity to New York.

Perhaps the only reorganization model that has not been attempted by HUMC is the out-of-network hospital model. While such a model may allow low volume hospitals to operate profitably, the cost of doing so is passed on to payers and employers resulting in unsustainable health care premium costs for large and small private employers and federal, State and local employers. Moreover, in an era of expanding health care coverage and payment reform it is unlikely that such models can or will be sustainable. Employers, patients and payers will band together to call for legislation that ends practices that cause health benefit costs to continue to escalate.

Such action would render hospitals operating under an out-of-network model unprofitable and many will be forced to close. If HMHA is serious about maintaining health care services in the City considering such a path would be ill conceived and result in a short-term fix that would be a long-term disservice to residents of the City.

The alternative as proposed by CHA would create an agreed-upon model for health care delivery for the Greater Hoboken area that would preserve health care services and jobs at HUMC. CHA's proposal is built on the premise that residents of Hoboken deserve a long-term sustainable solution to providing essential health care services in a manner that is both rational and affordable. The HCFFA, with the financial support of Christ Hospital, JCMC and HUMC, commissioned Navigant Consulting, Inc. to identify the existence of any duplication of services or unused capacity in the hospitals' service areas and to propose recommendations for the consolidation or regionalization of services if such duplication or over-capacity is identified. Results of the study have yet to be released. CHA believes that a collaborative approach that involves CHA, HMHA, the NJDHSS and hospitals within Hudson County in a thoughtful review of the research already undertaken can evolve into a rational, affordable and sustainable approach to regionalizing services within the county.

JCMC is Hudson County's largest health care provider and its only tertiary medical center offering specialized services for maternity, pediatric, cardiac surgery, trauma and stroke patients. The transfer of its Post-Partum, Labor and Delivery, Level II neonatal Intensive Care Unit, Antenatal Testing Unit, OB/GYN teaching program, Regional Perinatal Intensive Care Unit, Acute Pediatric Unit, and Women's Imaging & Breast Center Satellite would immediately make the HUMC site the market leader for both maternity and pediatric care in the region. The combined numbers of deliveries at HUMC and JCMC would total approximately 3,000 deliveries. The combined strength of these services would create a foundation for a world class Women's & Children's Center for the entire region. The goal would be to extend JCMC's mission of enhancing life and their vision of being in the top 10 percentile nationally to every service on the HUMC site.

### **ACCOMPLISHING THE PLAN**

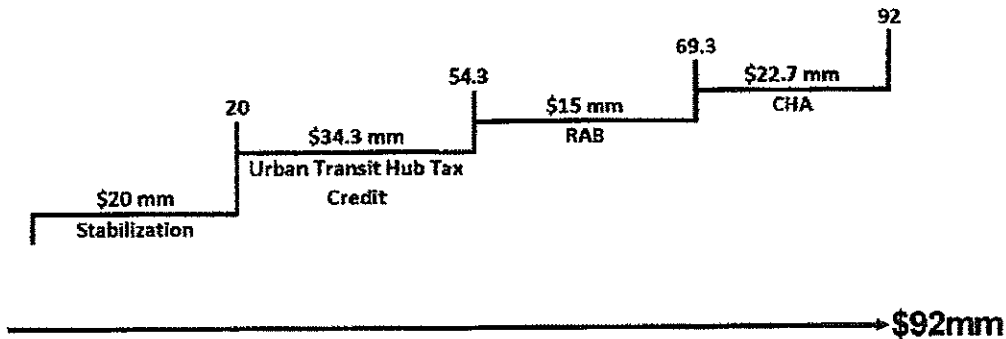
Accomplishing CHA's goal to extend JCMC's Vision of being in the top 10 percentile nationally at the newly redefined HUMC campus will require HMHA's approval and agreement to CHA's management and purchase agreement and an investment of \$92 million to cover the cost of the bond defeasement (\$52 million), transition costs (\$10 million), and building renovations (\$30 million). The project would be financed through a combination of funding sources, including:

- Urban Transit Hub Credits;
- Redevelopment Area Bonds;
- Hospital Stabilization Funds;
- Equity contribution from CHA; and
- Other funding sources.

In order to be eligible for the Urban Transit Hub Credit Program the proposed project must exceed \$50 million less the cost of the land value (\$10 million) and new capital investment (\$30 million); making \$52 million eligible for the tax credit. These credits can be sold at a minimum price of 75% of their face value (\$39 million). After adjusting for inflation, the present value that could be realized from tax credits is \$34.3 million. CHA would seek to raise \$15 million in Redevelopment Area Bonds. Accomplishing this would require recommendations by the Planning Board and City Council approval. The entire process would take approximately six



months. Another \$20 million would be raised from NJDHSS Stabilization Funds on behalf of JCMC and HUMC. Lastly, \$22.7 million would come from the equity contribution of CHA.



Other potential sources of funds may be available through charity care, disproportionate share or the special relief funding.

CHA has had preliminary discussions and a positive response from the NJDHSS regarding the use of stabilization funding for the regionalization of services in Hudson County. Horizon Blue Cross Blue Shield has expressed interest in purchasing tax credits and is seeking Board approval. They have also agreed to CHA's request for a rate enhancement during the transition period.

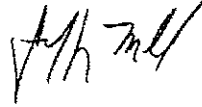
As indicated in the timetable below, CHA and JCMC believe that the management and asset purchase agreement can be completed in approximately one year.

Not later than 12/31/2010	Execution of Letter of Intent
Not later than 02/01/2011	Execution of Management & Purchase Agreement
02/01/2011	CHA to assume the management of the HUMC
04/01/2011	CHA to demonstrate viability of funding sources
04/01/2011	CHA and health care subcommittee to determine the regional plan for Hoboken/Hudson County
05/01/2011	JCMC to consolidate services to HUMC
01/01/2012	Defeasement of Bonds & Asset Transfer to CHA

CHA and its partner, JCMC, believe that this proposal is consistent with HMHA's goals and will provide the Hoboken community with a sustainable health care presence. The proposal will eliminate the City's bond obligation, is consistent with the findings of the Reinhardt Commission and the expected outcome of the Navigant Report. CHA has a proven track record in health care redevelopment projects and in preserving both union and non-union jobs. JCMC has a proven track record in medical staff relations and engagement. Both JCMC and CHA have a solid

relationship with the NJDHSS and JCMC's excellent relationship with insurers will help to serve as an added plus through the transition phase.

Sincerely,



Jeffrey S. Moll  
Managing Partner

JSM/cad

cc: Mr. Ken Rosen, Esq. Lowenstein Sandler  
Ms. Mary Seymour, Esq. Lowenstein Sandler  
Mr. Perry Mandarino, Price Waterhouse Cooper  
Mr. Stephen Fleming, Price Waterhouse Cooper





Community Healthcare Associates, LLC  
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Bloomfield, NJ 07003  
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March 31, 2011

Honorable Dawn Zimmer  
Mayor  
City of Hoboken  
Hoboken City Hall  
94 Washington Street  
Hoboken, NJ 07030

Ms. Toni Tomarazzo  
Chairperson  
Hoboken Municipal Hospital Authority  
308 Willow Avenue  
Hoboken, NJ 07030

Dear Mayor Zimmer and Chairperson Tomarazzo,

We have just received a commitment letter from **Hampshire Real Estate Companies** (copy attached) in support of our proposal for the acquisition of Hoboken University Medical Center. We believe that our strong financial partner will provide you with the comfort that you require in your deliberations.

To highlight some of the key points from our modified proposal we offer the following:

1. Commitment to an Acute Care Hospital.
2. Full Defeasance of Hospital Authority Bonds, eliminating all City and Authority guarantees
3. Financial Guarantee of the Operating Losses thru the transition period.
4. A fast and orderly transition.
5. JCMC will recognize the Unions and will work towards the assumption of all union contracts, obligations and liabilities.

The above is subject to full disclosure and due diligence. In conclusion we hope that this addresses all of your concerns regarding our proposal and appreciate your further consideration of our proposal.

Sincerely,

William J. Colgan  
Managing Partner  
Community Healthcare Associates, LLC

Joseph Scott  
President & CEO  
Jersey City Medical Center

# Hampshire

REAL ESTATE COMPANIES



Donald J. Engels  
Senior Vice President  
973-734-4246

March 31, 2011

Via Email: [jmoll@cha-properties.com](mailto:jmoll@cha-properties.com)  
[bcogan@cha-properties.com](mailto:bcogan@cha-properties.com)

Jeff Moll  
Bill Colgan  
Community Healthcare Properties  
2 Broad Street  
Bloomfield, NJ 07003

Re: Hoboken University Medical Center

Dear Bill & Jeff:

This letter shall serve as our intent to become the financial partner with Community Healthcare Associates, LLC to purchase the above "Property". We have reviewed the CHA proposal for the purchase of HUMC and are prepared to serve as the primary funding source for both the unfunded portion of their proposal as well as a backstop for the various proposed funding sources. This combination of resources will assure the defeasance of the bonds currently held by the Hoboken University Municipal Authority.

The Hampshire Companies is a full-service, private real estate investment fund manager with a portfolio of over 260 assets encompassing approximately 25 million square feet and containing an overall value in excess of \$2 Billion. We anticipate utilizing our Hampshire Partners Fund VIII to acquire the project. The Fund is a \$350 million discretionary real estate fund whose investment focus is on diversified commercial Real Estate opportunities in New Jersey and the Northeast.

This offer is contingent upon both the completion of a due diligence period and the execution of an Asset Purchase Agreement between CHA and HUMC.

Sincerely,  
HAMPSHIRE GLOBAL PARTNERS, LLC

BY:

  
Donald J. Engels  
Senior Vice President

Cc: Jon F. Hanson  
James E. Hanson, II  
Norman Feinstein