Letter of Intent for a Proposed Psychiatric Hospital Joint Venture

Dated as of December 10, 2020

This Letter of Intent (this "**LOI**") is entered into as of date of the last signature hereto (the "**Acceptance Date**") by and among Milwaukee County, a Wisconsin municipal corporation, as represented by its Mental Health Board ("**MHB**"), Department of Health and Human Services, and DHHS-Behavioral Health Division ("**BHD**") (collectively, "**County**") and Advocate Aurora Health, Inc. or one of its affiliates ("**AAH**"), Columbia St. Mary's, Inc. (d/b/a Ascension Wisconsin) or one of its affiliates ("**Ascension**"), Children's Hospital and Health System, Inc. or one of its affiliates ("**CHHS**") and Froedtert Health, Inc. or one of its affiliates ("**FH**") (FH, together with AAH, Ascension and CHHS, each individually referred to as a "**Health System Partner**," and, collectively, the "**Health System Partners**" and with the County, each individually referred to as "**Party**" and collectively, the "**Parties**") with respect to the formation of a joint venture among the Parties to develop and operate a licensed psychiatric hospital to serve as a psychiatric emergency crisis center (the "**Psychiatric Facility**") in accordance with the terms set forth in this LOI.

Statement of Intent and Timeline:	The Parties desire to enter into this LOI to memorialize their intention to work collaboratively to establish a centralized, joint venture Psychiatric Facility as a free-standing, licensed hospital entity with emergency services, observation beds and transition care management capabilities for adults and youth in Milwaukee County. The Parties anticipate that the negotiation of definitive agreements would commence as soon as possible after the Acceptance Date, with the intention of opening the Psychiatric Facility no later than July 1, 2022.
Organization and Structure:	The Parties would form a Wisconsin non-stock corporation under Chapter 181 of the Wisconsin Statutes (the "**JV**"). The purpose of the JV shall be to develop, own and operate the Psychiatric Facility as a psychiatric hospital with a scope of services and number of inpatient beds to be agreed upon by the Parties. The Psychiatric Facility would be located on a yet-to-be subdivided, approximately 2.35-acre portion of the property at 1227 West Walnut Street, Milwaukee, Wisconsin (the "**Property**"). The JV would have two (2) classes of voting members: a Health System Class and a Milwaukee County Class (each, a "**Class**" and collectively, the "**Classes**"). Each Class would have fifty percent (50%) of the overall membership vote for the JV. Voting members in the JV are collectively referred to herein as ("**Members**"). Membership in the Health System Class would be divided equally among the Health System Partners, with each Health System Partner holding twenty-five percent (25%) of the Health System Class, or twelve and one-half percent (12.5%) of the membership interests in the JV. Membership in the Milwaukee County Class would be held entirely by the County, meaning the County would hold one hundred percent (100%) of the Milwaukee County Class, or fifty percent (50%) of the membership interests in the JV. It is intended that the JV will apply for and receive tax exempt status under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "**Code**").

Capital Contributions: Each Party would make the capital contributions (including without limitation each Party's share of any annual operating losses and costs required to keep the Psychiatric Facility operational) contemplated by this section to the JV in proportion to its membership interest in the JV. Accordingly, subject to the restrictions below regarding additional capital contributions beyond the 10 (ten)-year period, the County would be responsible for fifty percent (50%) of the overall capital contributions to the JV and each Health System Partner would be responsible for twelve and one-half percent (12.5%) of the overall capital contributions to the JV; provided, that the Health System Partners would be responsible for fifty percent (50%) of such overall capital contributions to the JV.

The initial capital contribution to the JV of each Party is set forth on the proforma financial statements and projections attached as Exhibit A to this LOI (the "**Financial Statements**").

The Parties may seek debt financing for up to ninety percent (90%) of the initial capital requirements for the JV without the requirement of a guaranty from any Party. The Parties will explore all reasonable alternatives for financing, including commercial loans, contributions from foundations and direct contributions from the Parties. The Parties will seek a firm commitment on such financing within sixty (60) days of the Acceptance Date.

The County will include in the BHD budget for each year a line item that reflects its obligations. The Parties agree that the County will transfer the Property to the JV as part of the County's initial capital contribution with an agreed upon value of Six Hundred Forty Thousand Dollars ($640,000). Other than the contribution of the Property, absent approval by the Parties, no capital contributions may be made other than in cash and the JV shall not be obligated to recognize as a capital contribution any transfer to the JV of property other than cash.

For a period of ten (10) years after the Psychiatric Facility opens, each Class would be obligated to make additional capital contributions in accordance with its membership interests in the JV (i.e., fifty percent (50%) by the County Class and fifty percent (50%) by the Health System Class with each Health System Partner responsible for twelve and one-half percent (12.5%) of the overall amount of such capital contributions) to fund any shortfall in start-up costs for the Property and to cover annual operating losses, reserves and one-time fixed expenses of the JV. For the avoidance of doubt, during this ten (10) year period, the County will be responsible for fifty percent (50%) of the overall capital contributions and the Health System Partners, collectively, would be responsible for fifty percent (50%) of the overall capital contributions. During the initial ten (10) year period, the Parties will work towards making the JV self-sustaining. The County will include in the BHD budget for each year a line item that reflects its obligations. The Parties' obligation to make such additional capital contributions and the obligations of the Parties after the initial ten (10) year period would be set forth in the definitive agreements. No Party would have the right or obligation to make capital contributions except as specified above or in the definitive agreements. No interest would be paid on any capital contribution.

Dissolution of the JV: The definitive agreements would address the circumstances under which the JV may be dissolved and the process for any distributions upon any such dissolution.

Governance: The JV will be governed by a board of directors (the "**Board**") comprised of eight (8) voting members (each, a "**Director**"), with each Class appointing four (4) Directors subject, with respect to the County, to one of its four (4) Directors serving in an *ex officio* capacity as specified below. For the avoidance of doubt, the Directors appointed by the Health System Class will be divided among the Health System Partners, with each Health System Partner having the right to appoint one (1) Director. The Chairperson of MHB or his or her designee will serve *ex officio* as a voting member of the Board. The Parties would ensure that, subject to applicable legal limitations, each Director would have the position and authority to make commitments with respect to the JV on behalf of the Party appointing such Director.

The Directors and the Members would be subject to a conflict of interest policy to be documented in the JV's organizational documents, which will prevent Directors and Members from voting on certain matters in which they or their affiliates have a separate interest as identified in the policy.

Subject to the Reserved Matters (as defined below), the Board will act with the customary power, authority and responsibility of a board of directors of a Chapter 181 corporation and will have ultimate authority to conduct the business and affairs of the JV, including but not limited to the following matters:

(a) establishing contracts to provide its services (subject to receipt of approval of contracts specifically included in the Reserved Matters detailed below);

(b) assuring that necessary certification, licensure, accreditations, and permits are maintained by the JV;

(c) in general, managing and developing the business of the JV consistent with strategic plans and budgets;

(d) maintaining adequate records and reports of operations and expenditures;

(e) providing the members with financial reports;

(f) establishing, implementing, and maintaining policies and procedures;

(g) proposing capital and operating budgets which reflect major objectives and anticipated volumes, revenues, expenses and cash flow;

(h) supervising and directing the development of a management information system;

(i) providing recommendations to the Members regarding insurance for the JV; and

(j) entering into contracts with payors, providers and vendors to allow the delivery of its services (subject to receipt of approval of contracts specifically included in the Reserved Matters detailed below).

All matters will be decided by the vote of the Directors specified in the definitive agreements, subject to the reserved powers of the Members set forth in the definitive agreements.

Notwithstanding the foregoing, the Board may not take any action with regard to certain matters set forth in the definitive agreements (each, a "**Reserved Matter**") without the approval of both the Milwaukee County Class and the Health System Class, including the following:

(a) altering the philosophy, mission, long-range goals, strategic plans and overall purposes of the JV;

(b) approving amendments to the JV's governing documents, including the conflict of interest policy adopted by the JV from time to time;

(c) approving any borrowing or lending of money to or from the JV and other forms of indebtedness;

(d) approving any mortgage, lien or other encumbrance on any asset of the JV;

(e) approving any guaranty by the JV of any obligations of any other person or entity;

(f) approving any purchase, sale or lease by the JV of real property or any personal property with a value in excess of $50,000 unless set forth in an approved budget;

(g) approving any plan of dissolution or any merger, consolidation, conversion or acquisition or other business transfer involving the JV;

(h) requiring the development of, and approving capital and operating budgets for the JV which reflect major objectives and anticipated volumes, revenues, expenses and cash flow, and approving unbudgeted expenditures in excess of stated minimums;

(i) reviewing and approving periodic financial reports of the JV;

(j) approving any action which would change the character of the JV;

(k) approving the execution of all contracts: (i) between the JV and any Party or affiliate of any Party or (ii) involving: [a] consideration of more than Fifty Thousand Dollars ($50,000) in any twelve (12) month period or [b] a term of more than twelve (12) months;

(l) approving any affiliation, joint venture, change in membership or other form of reorganization involving the JV;

(m) approving any matters that relate to changes to the membership of the JV, including (without limitation) the addition of any new members, the reclassification of memberships or the creation of any new classes of memberships;

(n) directing and approving the development and implementation of new programs to be offered by the JV;

(o) settling or compromising any dispute or claim involving the JV;

(p) approving distributions by the JV;

(q) such other matters as the Parties may, from time to time, reserve for Member approval.

Additional Reserved Matters may be included in the definitive agreements.

If no budget for a given year is approved by the Members, then the prior year's budgeted capital and operating expenses plus two percent (2%) would be deemed automatically approved for the following year.

The definitive agreements would include voting and quorum requirements for the Board and the Members.

Dispute Resolution: The definitive agreements would provide the mechanisms for resolving any deadlock, dispute, controversy or claim arising out of or relating to the JV, including a deadlock in the Board or among the Classes.

Statutory Obligations and Directives: Notwithstanding any other provision of this LOI, the Parties acknowledge (i) that each Health System Partner is exempt from taxation pursuant to Section 501(a) of the Code as an organization described in Section 501(c)(3) of the Code and is a nonprofit corporation under Wisconsin law; (ii) that the County is subject to certain statutory obligations under Chapter 51 of the Wisconsin Statutes (the "**Chapter 51 Obligations**"); and (iii) the Psychiatric Facility would be operated in accordance with all local, state and federal laws, rules and regulations applicable to a hospital of its type (the "**Psychiatric Facility Laws**" and, together with the Chapter 51 Obligations, the "**Statutory Obligations**"). To the extent permitted by applicable law, including the Statutory Obligations, the County (including without limitation MHB) would delegate its oversight responsibilities to the Board and defer to the authority of the JV in connection with the operation of the Psychiatric Facility. To the extent permitted by applicable law, the governing documents of the JV would require the JV to be operated in a manner which is consistent with (i) the mission and vision of each Party; (ii) the JV's tax-exempt status; (iii) allowing each Party to maintain its tax-exempt status; (iv) the charity care policies adopted by the JV; (v) the United States Conference of Catholic Bishops edition of the Ethical and Religious Directives for Catholic Health Care Services, as amended from time to time (the "**Directives**") when applicable; and (vi) the Statutory Obligations; provided that, if the Directives change after the date of the formation of the JV in a manner that adversely impacts operations of the JV, the Parties would negotiate in good faith to address such change.

The Parties also acknowledge that each Health System Partner would act in a manner consistent with its tax exempt purposes in carrying out its duties in connection with the JV, Ascension would act in a manner consistent with the Directives in carrying out its duties in connection with the JV, and the County would act in a manner consistent with its Statutory Obligations in carrying out its duties in connection with the JV. Compliance by a Health System Partner with its exempt purposes, compliance by Ascension with the Directives, and compliance by the County with the Statutory Obligations would not be construed as a breach of such Party's fiduciary duties to the JV or the other Parties, or of its obligations under the governing documents of the JV.

Management Agreement:

The JV would enter into a management agreement (the "**Management Agreement**") with an entity (the "**Management Entity**") to be determined by the Parties, pursuant to which, subject to applicable laws (including antitrust laws), the Management Entity would provide certain transition and implementation services in connection with the development of the Psychiatric Facility (including without limitation the transition of Psychiatric Crisis Service ("**PCS**") operations to the JV as described below), and manage the day-to-day operation of the Psychiatric Facility once it opens. Subject to applicable laws and antitrust guidance, all non-professional staff for the Psychiatric Facility would be employed by the Management Entity. It is currently contemplated that AAH (or an affiliate thereof) would serve as the Management Entity. The Management Agreement would be on commercially reasonable terms and consistent with similar transactions negotiated on an arms-length basis between unrelated parties. All fees under the Management Agreement would be commercially reasonable and consistent with the fair market value for the services. The Parties anticipate that the Management Agreement would be entered into on or before January 1, 2021.

Professional Services Agreement:

The JV would enter into a professional services agreement (the "**PSA**") with an entity (the "**PSA Entity**") to be determined by the Parties, pursuant to which, subject to applicable laws, the PSA Entity would provide the services of medical doctors and other professionals in connection with the operation of the Psychiatric Facility. The PSA Entity may be a Health System Partner. The PSA would be on commercially reasonable terms and consistent with similar transactions negotiated on an arms-length basis between unrelated parties. All fees under the PSA would be commercially reasonable and consistent with fair market value for the services.

Real Estate:

The Psychiatric Facility will be constructed on the Property. The County will transfer the Property to the JV pursuant to a transfer agreement in the form agreed to by the Parties. The Parties will use their best efforts to obtain appropriate zoning for the use of the Property as the Psychiatric Facility by no later than February 28, 2021.

Transition of PCS Operations to the JV: The definitive agreements would address the transition of PCS operations during the period before the opening of the Psychiatric Facility, including:

(a) patient care;

(b) maintenance of professional and non-professional staff;

(c) access to tangible and intangible assets; and

(d) allocation of costs.

Subject to applicable law, the Management Entity would provide services to assist with such transition in accordance with the Management Agreement.

The Parties agree that certain costs incurred in connection with the transition of PCS operations before the opening of the Psychiatric Facility would be borne by the Parties as set forth on Exhibit B to this LOI.

Closing: Closing would occur upon the satisfaction of the closing conditions set forth below.

Closing Conditions: The closing of the transaction would be subject to the satisfaction of mutually agreeable terms and conditions including, without limitation, the following:

(a) negotiation, execution and delivery by the Parties of the definitive agreements, including the JV governing documents, the PSA and the Management Agreement;

(b) the approval of the definitive agreements and the transactions contemplated therein by the respective boards of directors and other governing bodies of each Party, the approval of which shall be obtained by the applicable Party prior to such Party's execution of the definitive agreements;

(c) satisfactory completion of due diligence by the Parties; and

(d) satisfaction of such other conditions as may be reasonable as set forth in the definitive agreements.

Development Costs and Expenses: Each Party will bear its share of the reasonable, out-of-pocket costs that are unanimously approved by the Parties (such approval not to be unreasonably withheld, conditioned or delayed) and incurred in furtherance of this LOI prior to the execution and delivery of the definitive agreements ("**Development Costs**") in proportion to its membership interest in the JV; provided, that the value of the Property as described above will be credited against the County's share of the Development Costs. For the avoidance of doubt, Development Costs shall include: (x) costs and expenses incurred by FH for owner representative, construction management, and other services and efforts related to the construction of the Psychiatric Facility and (y) the current engagements with Kane Communications and WIPFLI related to the Psychiatric Facility, all of which will be borne by the Parties in proportion to their respective membership interests in the JV. Unless otherwise agreed by the parties: (a) prior to the incorporation of the JV, each Party will pay its share of Development Costs directly; (b) following the incorporation of the JV, each Party will pay its share of Development Costs to the JV; and (c) the Parties will enter into such arrangements as necessary to ensure that the burden of Development Costs is borne by each Party in the proportions described above.

Each Party shall bear its own expenses arising out of this LOI and the transaction, with no liability for such expenses of the other Parties (regardless of whether the Parties consummate the closing), except:

(a) Development Costs, which will be borne as described above;

(b) as detailed in any existing agreement previously entered into between the Parties with regards to such expenses, which agreement remains in full force and effect as of the date hereof; or

(c) as may be expressly agreed to in the definitive agreements of the JV.

No Violation: This LOI has been prepared and delivered in principle based on each Party's reliance on the understanding that the other Parties are not currently bound under any binding or enforceable contract or agreement with any third party that would materially interfere with the transaction contemplated hereby. Each Party represents that this LOI, and the transaction contemplated hereby, will not violate any contract, agreement or commitment currently binding on such Party.

Governing Law: This LOI, the transaction and the definitive agreements shall be governed, interpreted, performed and enforced according to the laws of the State of Wisconsin without giving effect to any choice or conflict of law provision or rule. Subject to the dispute resolution provisions of this LOI and the definitive agreements, the state court located in Milwaukee County will have exclusive jurisdiction to hear any suit, action or proceeding arising out of or in connection with this LOI, the JV or the definitive agreements.

Non-Binding Effect, Term and Notices: It is understood that this LOI merely constitutes a statement of the mutual intentions of the Parties with respect to the transaction, does not contain all matters upon which agreement must be reached in order for the transaction to be consummated and, except for the paragraphs entitled "Development Costs and Expenses", "No Violation", "Governing Law," "Non-Binding Effect, Term and Notices" and "Definitive Agreements; Negotiation," all of which will be binding on the Parties, this LOI creates no binding rights in favor of or obligations on any Party; provided, however, that notwithstanding the nonbinding nature of certain paragraphs of this LOI, each Party agrees that it will negotiate the terms of the definitive agreements (including without limitation terms relating to capital contributions, distributions, governance and real estate) in good faith and consistent with this LOI (referred to as the "**Good Faith Obligations**"). A binding commitment with respect to the transaction will result only if the definitive agreements are executed and delivered, and are then subject only to the terms and conditions contained therein. This LOI may be executed in counterparts, each of which shall be deemed to be an original and all of which, when taken together, shall constitute one and the same instrument. Signatures sent by electronic transmission shall be deemed to be original signatures. At any time after June 30, 2021, a Party may, in its sole discretion, terminate its participation in this LOI and the negotiations for the transaction, with or without cause, effective immediately upon giving a written notice of termination to the other Parties, and, in such event, each Party will have no further obligation with respect hereto except for obligations incurred prior to the date of such termination. Except as provided in the definitive agreements, this LOI will terminate automatically upon execution and delivery of the definitive agreements. No Party may assign its rights or responsibilities hereunder other than to an affiliate or subsidiary of such Party without the prior written approval of the other Parties. All notices and other communications hereunder will be in writing and will be deemed given and delivered three (3) days after being mailed, by registered or certified mail, postage and registration or certification charges prepaid, or sent via e-mail, to the addresses appearing below the signature of each Party hereto.

Definitive Agreements; Negotiation:

Promptly after the Acceptance Date, the Parties will commence the preparation of the definitive agreements governing the transaction contemplated herein in form and substance mutually satisfactory to the Parties in compliance with the Good Faith Obligations. Subject to the Good Faith Obligations, the definitive agreements will be in a form customary for transactions of the type described herein, and will contain reasonable and mutually agreeable representations, warranties, covenants and conditions relating to the transaction.

If the Parties are unable to reach agreement on the terms of the definitive agreements within sixty (60) calendar days following the Acceptance Date, each Party shall, for a period of twenty (20) calendar days after such date ("**Initial Negotiation Period**"), negotiate in good faith to resolve all open issues ("**Initial Negotiation**"). The Initial Negotiation will include no less than two (2) in-person meetings of an executive or other senior officer of each Health System Partner and a person of comparable authority from the County. If any issues remain unresolved following the Initial Negotiation Period, the Parties shall, for an additional period of fourteen (14) calendar days after the end of the Initial Negotiation Period, continue to negotiate in good faith to negotiate a resolution of such remaining issues ("**Extended Negotiation**"). The place of the Initial Negotiation and any Extended Negotiation shall be in Milwaukee, Wisconsin, or such other place as may be mutually agreed to by the Parties.

[*Remainder of page intentionally left blank. Signature pages follow.*]

ACCEPTED AND AGREED TO as of the 10th day of December, 2020:

Advocate Aurora Health, Inc.

By: ___________________________________

Name: _________________________________

Title: __________________________________

Address: _______________________________

____

E-mail: ________________________________

Notices Sent With a Copy To:

Michael M. Grebe
Chief Legal Officer
Advocate Aurora Health, Inc.
750 W. Virginia Street
Milwaukee, WI 53204
michael.grebe@aah.org

ACCEPTED AND AGREED TO as of the 10th day of December, 2020:

Columbia St. Mary's, Inc. (d/b/a Ascension Wisconsin)

By: ___________________________________

Name: ________________________________

Title: _________________________________

Address: ______________________________

____

E-mail: _______________________________

ACCEPTED AND AGREED TO this as of the 10th day of December, 2020:

Children's Hospital and Health System, Inc.

By: ___________________________________

Name: _________________________________

Title: _________________________________

Address: _______________________________

____

E-mail: ________________________________

ACCEPTED AND AGREED TO as of the 10th day of December, 2020:

Froedtert Health, Inc.

By: ___________________________________

Name: _________________________________

Title: _________________________________

Address: _______________________________

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E-mail: ________________________________

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ACCEPTED AND AGREED TO as of the 10th day of December, 2020:

Milwaukee County – DHHS, Behavioral Health Division

By: ___________________________________

Name: _________________________________

Title: _________________________________

Address: _______________________________

____

E-mail: ________________________________

Approved as to funds available per Wisconsin Statutes Section 59.255(2)(e):

By: _____________________ Date: _____
Comptroller

Approved:

By: _____________________ Date: _____
County Executive

Approved as compliant under sec. 59.42(2)(b)5, Stats.:

By: _____________________ Date: _____
Corporation Counsel

EXHIBIT A

Financial Statements

Milwaukee County
New Psychiatric Receiving Facility - Microhospital Behavioral Health Model
Projected Income Statement
WORKING DRAFT November 2020

	Microhospital			
Annual Volumes - ER/outpatient		*6,000*	*8,000*	*10,000*
Annual Volumes - observation		*900*	*1,200*	*1,500*
Annual Volumes - inpatient		*183*	*183*	*183*
Annual Volumes - telehealth		*300*	*400*	*500*
	Start-up	Low	Moderate	High
Total Net Reimbursement	0	2,784,615	3,350,614	3,916,619
		21%	20%	20%
Medicaid Reimbursement Enhancement - Hospital Outpatient				
Medicaid Reimbursement Enhancement - Crisis Intervention Services			TBD	
Other Revenue (OT offset)	0	86,528	86,528	86,528
Total Revenue	0	2,871,143	3,437,142	4,003,147
Expenses:				
Salaries	583,835	7,689,820	8,321,932	9,121,276
Benefits	157,118	2,072,527	2,230,711	2,470,514
Total salaries and benefits	740,953	9,762,347	10,552,643	11,591,790
Direct Expense:				
Peer support counselor	7,692	100,000	100,000	100,000
Security	1,923	25,000	25,000	25,000
Transportation	0	187,350	250,000	360,000
Food	0	60,000	80,000	100,000
Pharmacy	0	180,000	240,000	300,000
Turnover and training	0	511,792	556,040	611,994
Clothing	0	36,000	48,000	60,000
Other expense	0	96,000	128,000	160,000
Total direct expense	9,615	1,196,142	1,427,040	1,716,994
Indirect expense	2,574,835	2,264,800	2,428,940	2,573,540
Depreciation	0	449,567	449,567	449,567
Interest expense	0	481,105	481,105	481,105
Total expense	3,325,403	14,153,961	15,339,295	16,812,996
Net (Loss)	(3,325,403)	(11,282,818)	(11,902,153)	(12,809,849)

New Psychiatric Receiving Facility Model - Initial Capital Contribution
WORKING DRAFT November 2020

			Microhospital		
			Low	Moderate	High
Initial capital contribution	10%	Facility	1,200,000	1,200,000	1,200,000
Initial capital contribution		Start up costs	3,325,403	3,325,403	3,325,403
Initial capital contribution		Working capital	2,025,729	2,281,502	2,576,656
Total capital contribution		Total	6,551,132	6,806,905	7,102,059
Health Systems	50%	Cash contribution	3,275,566	3,403,453	3,551,030
Milwaukee County	50%	Cash & land contribution	3,275,566	3,403,453	3,551,030
Capital contribution in land value		Land value	(640,000)	(640,000)	(640,000)
Milwaukee County		Cash contribution	2,635,566	2,763,453	2,911,030

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EXHIBIT B

Gap Costs

Objectives:

- Ensure access to timely, clinically appropriate and legally compliant inpatient and emergency services for Chapter 51 patients
- Ensure comfort in moving forward with the JV by clarifying how parties will support ensuring there is no gap in adult and youth psych ER service in the community
- Reduce the length and cost of the gap time
- Ensure success of transition to new service
- Prevent law enforcement holds and transports, and associated patient trauma
- Align incentives for County and private system partners to continue to advocate with State for reimbursement and other resources that would both improve economics of new Psych hospital and PCS (including for transition time)
- Ensure trust and confidence in JV partners' ability to meet long term financial commitments to sustain the JV psychiatric crisis receiving facility ("new Psych hospital").

Position:

- Assumptions –
  - There appears to be a “gap period” between the time when: (a) UHS is at target capacity and thus BHD would look to close the hospital, and (b) when the new Psych hospital will be operational
    - Based on current BHD financial assumptions, there will be an incremental cost of operating PCS after UHS is at target capacity – between $210,000-$450,000 per month, assuming State reimbursement help (see definition below)
  - Both parties will make every reasonable effort to open the new Psych hospital as soon as possible (including taking actions to expedite construction)
  - Both the County and private health systems are pursuing State funding that would improve economics of the new Psych hospital, as well as mitigating costs of a “gap period” (see definition below)
  - There are opportunities for construction to be expedited, which would expedite the opening of the new Psych hospital

- Definition of “gap period” –
  - Time between dates of “UHS at target capacity” and “new Psych hospital opening”
  - “UHS at target capacity” = day when UHS has received accreditation and has capacity of 44 adult and 8-12 child beds
    - Currently estimated at Jan 1, 2022 – based on 8/1/21 opening and estimate of time to gain joint commission accreditation, and increasing staffing to handle target capacity. For the purposes of calculation related to the PCS gap period operating loss amount that may be shared between the County and the private system partners participating in the new Psych hospital, the target capacity date will be deemed to occur no earlier than January 1, 2022
  - “New Psych hospital opening” = day when new Psych hospital takes its first patient
    - Currently estimated to be July 1, 2022 – potentially as early as April 1, 2022 with expedited construction

- Cost of expediting construction of new Psych hospital –
  - Defined as supplemental costs that would be spent to speed up construction to open building before currently-slated date of 6/30
  - Private health systems take on costs of such supplemental costs to expedite construction

        - The cost is currently estimated at ~$200K, and looking to cut time to April 1, or 3 months after UHS is expected to be at target capacity

- Cost of operating PCS during “gap time” –
    - County commits to operating PCS and related observation /inpatient unit adjacent to PCS during “gap time”, until the new Psych hospital opening in a manner consistent with 2019 operations During this time period, the County will report the revenues and expenses related to the gap period in a manner consistent with projections provided
    - The County will look to offset costs of such operations, including with potential support from the State
        - Any support from the State that applies to PCS during the “gap period” will offset costs of PCS operations during that time, and will be structured to avoid incurring any credit or deficit that would impact the new Psych hospital after PCS closure

    - County commits to covering cost of operating PCS and related observation/inpatient unit adjacent to PCS during “gap period” for 3 months following the target capacity date (but at a minimum through March 31, 2022)

The private system partners would contribute 50% of the actual monthly operating loss of operating PCS and the related observation/inpatient unit adjacent to PCS starting from the date that is 3 months after the later of the actual target capacity date or January 1, 2022 to the new Psych hospital opening (which is projected to be July 1, 2022) subject to a maximum aggregate commitment of $105,000 from the private system partners for any such month; provided, however, that, if State reimbursement or other payment mechanisms do not meet or exceed the projections which form the basis for this proposal for any such month and such shortfall increases the actual monthly operating loss to an amount in excess of $210,000 for such month, the private system partners will pay 50% of such excess loss subject to a maximum aggregate commitment of $200,000 from the private system partners for such month