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April 10, 2020

Dear Partnership Advisory Group, New Hanover County Board of Commissioners, and New Hanover Regional Medical Center Board of Trustees:

Thank you for reaching out for additional clarification on our response to your request for proposal for a strategic partnership with New Hanover Regional Medical Center (NHRMC). This letter includes responses to your Initial Clarifying Questions to Submitted Proposal Supplement, received by UNC health on April 8, 2020.

UNC Health Clarifying Questions to Submitted Proposal Supplement

1. We want to clarify UNC Health's position regarding NHRMC's capital needs. Please specify UNC's capacity for capital commitments.

UNC Health is prepared to make an initial capital investment in an amount equal to 20% of the value of NHRMC at the time of the transaction to help NHRMC achieve its capital needs. In addition to this initial capital investment, UNC Health, with support from the state, expects an investment of approximately \$375 million for academic operations over the next 20 years to develop the Academic Partnership described in our submitted RFP response. We anticipate additional investment for the affiliate campus major capital improvements. Further, capital investment beyond this initial investment and the investment in the Academic Partnership is something that UNC Health has the capability and desire to do, but would be subject to more detailed discussions with NHRMC leadership as our partnership progresses.

We firmly believe it is in the best interest of NHRMC to have as much local control as possible and made this quite clear in our original response. This is evident in every partnership we have enjoyed with other health systems either owned, managed or through a joint venture. However, our originally submitted RFP response did not include a specific capital investment commitment which is now requested, the result of such will require additional provisions to be discussed and negotiated as we move forward. These may include, but are not limited to, UNC Health representation on the NHRMC Board, reserve powers, and a potential management agreement between UNC Health and NHRMC. A management agreement will ensure a more seamless integration with UNC Health to expedite improvement and returns articulated by the Partnership Advisory Group throughout this process.

- 2. Per the Partnership Advisory Group Charter Section II (7), the PAG is able to recommend a combination of proposed models from among the Respondents. We assume, but would ask UNC to confirm, that the proposed Academic Partnership is something that UNC could or would consider in connection with any County/NHRMC partnership with a health system that isn't within an academic model.**

We believe strongly in the benefits of UNC Health and UNC School of Medicine being integrated as partners operationally and academically. If you choose to embark with another partner, UNC Health and UNC School of Medicine will not be able to continue our current educational and clinical presence in Wilmington. We would not carry out the proposed Academic Partnership included in our submitted RFP response should UNC Health not be selected as NHRMC's primary partner. The reality is that new health system partnerships sometimes compromise existing educational partnerships. That was demonstrated with the upcoming closure of the UNC School of Medicine branch campus in Charlotte.

Thank you again for your consideration of UNC Health as your Strategic Partner. Please don't hesitate to reach out if you have any additional questions. We look forward to future discussions.

Sincerely,



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Dear Partnership Advisory Group, New Hanover County Board of Commissioners, and New Hanover Regional Medical Center Board of Trustees:

Thank you for reviewing our response to your request for proposal for a strategic partnership with New Hanover Regional Medical Center (NHRMC). This letter includes responses to your Clarifying Questions to Submitted Proposal, received by UNC health on March 27, 2020.

UNC Health Clarifying Questions to Submitted Proposal

- 1. Describe what impact, if any, Respondent's Proposed Strategic Partnership would have on NHRMC's ability to further develop and/or reconfigure existing inpatient facilities in the Service Area? Please comment on the Respondent's support for and alignment with the inpatient facility planning included NHRMC's Master Plan provided in the Data Room.**

UNC Health does not see any reason it would not be able to support or align with NHRMC on the inpatient facility planning included in NHRMC's Master Plan provided in the data room. UNC Health has extensive experience and expertise with expanding and renovating facilities on existing medical campuses including both at UNC Medical Center and UNC REX, as well as building new facilities in the community. UNC Medical Center is currently in the process of building a new 300,000+ square foot surgical tower on its campus scheduled to open in 2022. The UNC Hospitals Hillsborough Campus opened in 2013 with a Medical Office Building and in 2015 was expanded to include an 83-bed community hospital with an Emergency Department that is the only ACEP accredited Geriatric ED in the state, outpatient surgery, and inpatient services. At the current time, construction is underway in Hillsborough for another bed tower. Further, in 2017, UNC REX opened the North Carolina Heart & Vascular Hospital on its campus, which is over 300,000 square feet and includes inpatient rooms, procedural rooms, PACU, and prep and recovery units and construction continues in Holly Springs for a new acute care hospital.

Depending on the final structure of our Strategic Partnership, UNC Health could extend this experience and expertise to NHRMC to the benefit of their planning and execution of inpatient facility upgrades. As referenced in our cover letter we are also willing to explore the option of being a capital partner with NHRMC where it is deemed necessary and if it is a requirement for a strategic partnership.

2. Please clarify what impact, if any, Respondent's Proposed Strategic Partnership would have on NHRMC's ability to improve the timing in securing patient transfers for quaternary services not offered by NHRMC. Please specify availability of expedited transfers and processes and technology to coordinate care.

Requested transfers from UNC Health's affiliated entities are given priority over those requested from non-affiliated entities for patients requiring the same services and level of care. Through a Strategic Partnership with UNC Health, NHRMC would be given this same level of affiliate priority and our already strong working relationship related to patient transfers would be further strengthened and enhanced. As of February 2020, UNC Medical Center received approximately 450 patient transfer requests from NHRMC in the past thirteen months. Of those, approximately 70% arrived at UNC Medical Center, while approximately 18% of the requests were canceled, 4% were denied, and 9% were closed after phone consultation.

All requested transfers to UNC Health's tertiary and quaternary centers are triaged and prioritized by our Patient Logistics Center. Later this year, UNC Medical Center and UNC REX will be combining their Patient Logistics Centers to offer a single portal of entry for all hospital transfer requests which would provide affiliates like NHRMC faster access to all of UNC Health's facilities. Once transferred patients are received, coordination of care occurs through provider to provider communication, and transferring entities that utilize Epic as their EHR system also have the ability to view the patient's record. UNC Health strives to provide the highest quality clinical care as close to home as possible. As such, all efforts will be made to transfer patients back to their home hospital as soon as is clinically appropriate.

The additional bed tower at UNC Hospitals Hillsborough Campus, improvement in bed capacity at UNC Hospitals Medical Center campus following the completion of the surgical tower and introduction of the UNC Rex Holly Springs Hospital, coupled with operational changes to our logistics centers will increase availability of beds for complicated/complex patient needs.

3. If not already provided, please provide a brief statement on the Respondent's support for affiliated health systems in response to COVID-19?

UNC Health is committed to supporting its affiliated entities in response to COVID-19. Multiple task forces have been established at the system level to address the multitude of moving pieces and parts of our operations impacted by this pandemic. Support is being provided in the form of consistent and frequent communication to leaders, providers and co-workers. Through these communications we are providing the information and direction they need to care for patients and protect their own personal safety. We are checking in regularly to see how each affiliate can be best supported as our planning and response progresses. In addition, we are constantly monitoring the availability of supplies and resources across our system and doing what we can to ensure each affiliate has an appropriate supply of PPE and other necessary equipment on hand.

Examples of initiatives that have been undertaken to support our system affiliates include:

- Clinical microbiology experts at UNC Medical Center and the UNC School of Medicine developed a COVID-19 diagnostic test based on the WHO assay and made it available to our affiliated hospitals across NC to help enable faster results and more testing capacity at the state health department and other private testing companies in NC
- Set-up the UNC Health COVID-19 Helpline for patients across the state to call to be triaged by a nurse to determine if they should be tested and if so to refer them to the nearest UNC Health Respiratory Diagnostic Clinic
- Facilitated the set-up of Respiratory Diagnostic Clinics in each community with a UNC Health affiliated hospitals for the evaluation and testing of suspected COVID-19 patients
- Provided affiliates with resources and guidance including appropriate technology solutions, scheduling, billing, and question and answer sessions multiple times a week for providers and co-workers to facilitate the provision of virtual care to patients across the system
- UNC Health Supply Chain committed to supporting every entity in our organization with necessary patient protection equipment regardless of their owned or managed status and GPO
- All entities are included in regular touchpoints related to necessary UNC Health policy and direction through leadership teams – CEO, CNO, CMO, HR, etc.
- Established guidelines and recommendations by region for hospital visitor restrictions, limiting or canceling categories of procedures and surgeries, One Mask initiative for all employees and member organizations to limit the spread of COVID-19 and ensure patient and co-worker safety
- Provided legal expertise on contracting with local clinicians to assist with patient surge, if needed
- Monitoring and projecting the financial impact of COVID-19 at each of our affiliate hospitals and supporting them in evaluating the options for impact reduction and meeting immediate and long-term financial needs
- Providing guidance on Human Resources policies and procedures for minimizing disruption to clinical care and business operations (e.g. teleworking) while working to protect high-risk co-workers and help prevent the spreading of COVID-19

4. In light of the demands the COVID-19 crisis will place on all healthcare systems, please confirm your organization's commitment to this process. Specifically, confirm the Respondent has the capacity and resources to continue this process over the coming months and clarify if the expected ramifications from the crisis change any aspects of Respondent's Proposal.

UNC Health confirms that we have the capacity and resources to continue this process over the coming months. Currently, we do not anticipate that the ramifications from the COVID-19 crisis change any aspects of our proposal. We do expect that as the landscape changes and unfolds following this pandemic, the priorities and needs for

New Hanover will have also changed from those described in the initial request. Our proposal quite purposefully indicated an interest and ability to invest in the community and care of the citizens of the New Hanover service area, but left open how to best apply that funding jointly for reasons such as this. We look forward to help reset or affirm the priorities with New Hanover Regional Medical Center leadership.

Please don't hesitate to reach out if you have any additional questions. We look forward to future discussions.

Sincerely,

A handwritten signature in black ink that reads "Wesley Burks". The signature is written in a cursive, flowing style.

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April 15, 2020

Dear Partnership Advisory Group, New Hanover County Board of Commissioners, and New Hanover Regional Medical Center Board of Trustees:

Thank you for reaching out for additional clarification on our response to your request for proposal for a strategic partnership with New Hanover Regional Medical Center (NHRMC). This letter includes the response to your Initial Clarifying Questions to Submitted Proposals Supplement, received by UNC Health on April 13, 2020.

UNC Health Clarifying Questions to Submitted Proposal Supplement

- 1. In your response to clarification questions received on April 10, 2020, you mention an initial capital commitment equal to 20% of the value of NHRMC. What is the value of NHRMC and over what period would you spend this capital commitment?**

The external environment we all find ourselves navigating has certainly changed since the New Hanover Regional Medical Center partnership process started. The devastating impact of the COVID-19 pandemic has drastically impacted many lives and businesses. In an interview April 8th, the NHRMC President mentioned that the revenues of the medical center as well as investments have seen significant decreases, while expenses have increased, and trends that are expected to continue in the long-term. These statements certainly change the foundation of information that has been made available in the data room and what is necessary to reframe a projection of the current value of NHRMC based on these external factors.

Our intention from the outset has been to offer minority interest in NHRMC with specific investment to be in projects that would ultimately be mutually beneficial to both parties. We described this as a 20% interest, although internally we have discussed additional investment based on ultimate nature of the association initially or over time. Your consultants, Joe Kahn and Ponder & Co., have enjoyed a long and successful history with UNC Health and can opine on the value, transparency and fairness we bring to partnerships.

Asking at this time to opine on a specific, current valuation given the changes to New Hanover described in the press over the last month without additional information would not be prudent. We stand behind our rationale for a 20% investment to begin a long-term partnership. This value would be determined through a third-party and settled after taking into account all factors available at that time including the nature of a deal. New

Hanover Regional Medical Center has engaged Ponder & Co. who has significant experience in business valuation and should have provided the PAG with a value range.

Recall that our proposal would maintain significant local ownership and control, establish a material relationship with an academic medical center partner for operational improvement, and a clinical investment that will help grow medical professions and enhance the community at large. We did not contemplate that such investment would be drawn out over any extended period of time. Once we are in agreement, such funding could be immediately available.

Our proposal and history show that what we offer goes far beyond the dollar value and should be balanced with the relationships we form. Though our full proposal responds directly to many of NHRMC's priorities desired in a partner, we want to briefly share examples of our partnerships to better articulate our approach to these types of agreements. We believe our approach to partnering, regardless of the legal structure of an agreement, is different from what others in the state can offer. We are not simply a capital partner. We are an integration partner that can also provide capital as one element of our investment in your local goals.

Important pieces of our partnership stories across North Carolina include:

- Johnston Health, a county-owned health system in Smithfield, sought a minority partner to assist with the construction of its hospital in Clayton. UNC Health was selected as its long-term partner and we used a third-party to fairly value the transaction and investment in a manner satisfactory to both parties.
 - This agreement goes beyond the simple dollar value investment. We have worked closely to offer services in Johnston County building cardiac and oncology volumes that were at one point leaving the market to receive care at UNC Rex in Raleigh.
 - While no agreement existed when Johnston's main data room flooded and brought down the entire computer network, UNC Health immediately shared personnel, equipment and provided expertise to bring the systems back up with little data loss, completing this process in just a couple of days. Johnston estimates this recovery would have taken more than a month on its own.
 - Today, Johnston Health seeks to materially enhance its partnership and has agreed to form a Joint Operating Company with UNC Rex.
- UNC Health was not the highest bidder for High Point Regional Health several years ago, but was selected as the successor organization based on our overall value as a partner. At the time, the entity was struggling and losing approximately \$25M annually. Near the end of UNC Health's 5 years of ownership, High Point Regional Health had returned to profitability.
 - UNC Health made the decision to divest High Point Regional following the erosion of an unaffiliated local 200+ member physician organization called Cornerstone Health Care. The physician community split primarily between UNC Health and Wake Forest Baptist. We felt the community would be best served to reintegrate the physician community rather than

- recruiting new providers, which would have oversupplied the market and likely added cost to consumers.
- Rather than soliciting the sale with multiple parties and looking for the highest offer to return a profit on our investment, we approached Wake Forest Baptist leadership singularly and through a third-party valuation, agreed to a sales price and completed the transaction. Our intentions were never to profit from this transaction and the final transaction supported our intent.
 - UNC Health invests in markets where we see the greatest health care need for the community versus a priority based on financial underpinnings alone.
 - Onslow Memorial Hospital tried unsuccessfully to find a partner as its fiscal status became weaker. No other system intervened to support even following a broad RFP process. UNC Health stepped in and the facility has seen an improvement in clinical quality and fiscal stability.
 - Morehead Memorial Hospital (now UNC Rockingham) was managed by another management partner, yet was forced to place itself in bankruptcy resulting from years of decay in the local economy. We talked with Morehead leadership for more than a year prior to the bankruptcy declaration offering what assistance we could as an unaffiliated group. When no suitors seemed apparent, UNC Health advanced a bid for the entire entity.
 - Our affiliated organizations see value in a relationship with UNC Health above all others in many cases. Some facilities have reached out to UNC Health without an RFP process as the strengths we bring collectively are seen as material, tangible and fair.
 - Margaret R. Pardee Memorial Hospital is a county owned facility in Hendersonville. The County Commissioners and City Manager reached out to UNC Health directly for assistance running their local health care system. In the years we have been associated with Pardee, its quality and fiscal strength has improved and it has emerged as one of the most efficient entities in our System. Solidifying the relationship, the hospital board appointed a UNC Health leader to the hospital board and the hospital and county rely on UNC Health to recommend local leaders to the Board.
 - Lenoir Memorial Hospital (Kinston, NC; now UNC Lenoir) approached UNC Health after cancelling what they have referred to as a short and less than ideal relationship with another management partner. UNC Health emerged as their top choice for a partner based on a need for a partner that would play an active role in supporting the local hospital, including empowering local leadership to deliver on the needs specific to their hospital. UNC Lenoir is now in the process of integrating its IT platform into UNC Health's *Epic@UNC*. Additionally, recent Leapfrog announcements have shown UNC Lenoir is now an A-rated entity.

- Wayne UNC Health in Goldsboro and UNC Nash in Rocky Mount, both found physician solutions through UNC Health that lowered the overall cost of care and enhanced local offerings. Since UNC Health doesn't rely solely on an academic model, we were able to customize approaches at these organizations using both the UNC School of Medicine Faculty Plan and our community physician model through UNC Physicians Network.
- No health care system has elected to terminate a relationship with UNC Health once affiliated. All of our management and joint venture agreements include an out clause for the partner and language to facilitate a reasonable transition should this need to occur. As further evidence of our commitment to each of our partners statewide, UNC Health's ability to terminate these relationships requires a much higher hurdle and has never been contemplated.

Thank you again for your consideration of UNC Health as your Strategic Partner. Please don't hesitate to reach out if you have any additional questions. We look forward to future discussions.

Sincerely,



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