



H.C. Buck Niehoff
Chairman
Board of Trustees

August 19, 2009

Board of Directors of
The Jewish Foundation of Cincinnati

Board of Directors of
Jewish Health System, Inc.

Ladies and Gentlemen:

The Board of Trustees of the University of Cincinnati ("UC") has authorized me to convey to you in this letter its grave concerns over your decision to sell Jewish Hospital to Catholic Healthcare Partners ("CHP") and your formal notice of termination of participation in the Health Alliance of Greater Cincinnati. While you have said that the JFC wishes to divert the value of these assets to other, non-healthcare uses, your actions will do great harm to the safety-net health care services on which our community relies, and to the teaching and research programs of the University of Cincinnati. We also strongly object to your recent harsh tactics and distortion of the Health Alliance's long-established governance processes as it develops terms for your disengagement.

The Context

When Jewish Hospital joined the Health Alliance, JFC was paid about \$67 million, which capitalized the Foundation. As you know, the whole intent of the Health Alliance's governing document (the Joint Operating Agreement -- "JOA"), was to operate the Health Alliance as an integrated entity, and not to treat each hospital as a separate fiefdom that sought only to maximize its particular interests. In this spirit, the Health Alliance made significant capital investments in Jewish Hospital, recruited (at significant cost) additional doctors who helped to fill its beds, and made decisions about which services to develop there and which to place elsewhere, all in light of how best to serve the whole community. Jewish Hospital was allowed to close its obstetric service, for example, leaving mothers to be served by University Hospital ("UH") and others -- regardless of whether or not they could pay for care. All this was possible because a dollar earned or spent at any Health Alliance hospital affected all the Health Alliance members equally -- we shared a bottom line. Because of the location of UH, UC's historic missions, the County tax levy, and the special capabilities of the UC faculty -- the Health Alliance decided that UH would be the best site within the system to provide many specialized services that happen to be needed by patients who often lack insurance.

The result is a high indigent care (14%) and Medicaid (24%) load at UH. In stark contrast, Jewish Hospital was allowed to build up mostly profitable lines of business. Therefore, among Jewish Hospital patients, only 5% are on Medicaid and 3% are indigent care/self pay. Consequently, the operating margin at Jewish Hospital for the most recent year was 13.1%,

while that at UH was 3.3% -- despite their being managed by the same organization. This profitability in effect has been subsidized by the efforts of UC and its faculty in serving the poor and in providing specialized services that often must operate at a loss. This has enabled Jewish Hospital to negotiate the reported \$180 million offer from CHP. Having benefited from successful management by the Health Alliance, and the implicit subsidy from UH's community services, it is not fair or reasonable for JHSI to simply leave with its enhanced value and ignore the obligations that were undertaken by others in the Alliance that made this enhancement possible. And it is certainly not in the interests of our broader community. The proposed departure of Jewish Hospital from the Health Alliance will force UH to bear critical social burdens alone, while JHSI diverts its transaction proceeds to non-health care uses.

University Hospital is the preponderant "safety net" hospital for our community. In addition to indigent care, it provides a range of specialist services -- such as trauma, burn care, infectious disease, neurosurgery, OB/GYN and so on. If UH is destabilized or rendered unable to produce enough resources to sustain those services, then it will either need to appeal to the taxpayers for more support -- which is surely unrealistic in the current economy -- or it will need to cut back services, and the community will suffer. The harm that could be caused by shrinkage of our resident training, education, and research programs could be significant as well. The medical school's ability to continue recruiting world-class scientists/practitioners depends on a healthy clinical enterprise. If that is jeopardized, UC's standing, and its role as a magnet for intellectual capital to the State, could be impaired.

Other components of the Health Alliance also could be jeopardized. We need to operate the new West Chester Hospital in conjunction with UH; we need to sustain the Drake Hospital that provides key rehabilitation services; and we need to sustain the Lindner Center for Hope that provides needed mental health services. The Health Alliance also maintains Alliance Primary Care ("APC"), the largest group in the Cincinnati area providing primary care services to the community. That group is most effective if held together, and not fractionated by a breakup of the Health Alliance. Importantly, the APC physicians Executive Committee has formally stated that they strongly desire to stay together -- yet JHSI's plan would ignore this desire and break them up.

So in these and other ways, the departure of Jewish Hospital from the Health Alliance would be bad for our community, and by harming UC, would be bad for our entire State.

We are also concerned that in your rush to depart the Health Alliance, you have not shown sufficient concern for the need to make appropriate provisions for satisfying other Health Alliance commitments and liabilities to others -- before a partner such as JHSI gets paid.

According to published reports, the final "offer" made to JFC by CHP was \$180 million - and we suspect that after due diligence and the usual due diligence process purchasers go through, CHP will actually pay you far less. The Health Alliance made you a very comparable offer -- yet you rejected it. Such a transaction would keep the Health Alliance together and avoid cutbacks in needed services; it would avoid harming UC; it is favored by the hard-working doctors; it would still convey fair value to JHSI; and it could almost surely be completed faster than a transaction with an outside party that does not know anything about Jewish Hospital. It is also disturbing to us that at a recent meeting, your representative stated your position that in order to leave the Health Alliance, JHSI does not need any reason and does not to state a reason - that it has an arbitrary right just to do so. We don't think this is the way responsible entities

should act. We assume that the Attorney General will review these and related issues in the transaction.

Moreover, under the JOA, JHSI does not have the right freely to sell the Jewish Hospital assets, as it has apparently told CHP it can do. Under the JOA, a termination requires various steps -- which until last week, JHSI had not begun. We understand your reasons: in a termination, JHSI would be entitled only to "termination value" as defined in the JOA, which is not what you want, among other reasons because it first requires resolution of issues and liabilities which you may seek to avoid. Alternatively, the members could seek dissolution of the Health Alliance -- a result that JHSI and other members have until now sought to avoid, due to the vast waste of charitable resources that it entails. While UC will do its level best to stabilize the situation and preserve the Health Alliance, JHSI's actions may make it unavoidable in the future to dissolve the Health Alliance.

JHSI's Latest Actions

JHSI's strategy is clearly to have both ways -- to leave the Health Alliance while continuing to tell it how to operate as it goes forward. In so doing, you are ignoring your serious conflict of interest and acting contrary to rules of fair dealing. Your position is that you can: (a) unilaterally declare your departure from the Health Alliance; (b) require the Health Alliance to agree to unfavorable terms to the detriment of its own strategy in exploring alternatives; and (c) at the same time, continue to participate fully in governance and decisions of the Health Alliance business that JHSI is trying to dismantle. Since you are still negotiating your transaction with CHP, you desire to bring them as much future value as possible. You have an incentive to cause paralysis in Health Alliance strategy and fractionate APC, so that it will be a less potent competitor to CHP/Jewish going forward. Likewise, you have an incentive to try to derail any transaction the Health Alliance might complete on its own. Hence, when voting on Health Alliance matters, your representatives have a serious conflict of interest that is inconsistent with the community-minded fiduciary duties of a non-profit director.

We also want to object in the strongest terms to the tactics that JHSI tried to implement this past week. For many years, the Health Alliance has been managed by its Board, which is a balanced body, including not only representatives of the members, but also practicing physicians and outside independent, community-based directors. Suddenly last week, JHSI and Fort Hamilton ganged up in their voting in order to distort the decision-making process. You called a Special Board Meeting on five days notice. Then you sprang upon the UC representatives at that meeting a whole series of complicated written resolutions that others had seen before -- but we had not. The effect of those measures was to end "all functions, responsibilities, powers and authority of the Board" of the Health Alliance on the separation -- and instead place those powers in a new group in which JHSI and Fort Hamilton would have a higher voting percentage; and then to require that group to make decisions only with special permission of JHSI -- and of a consulting firm hired not to help the Health Alliance but hired to advance the interests of JHSI alone. At the same time, you tried to ram through proposals that would reduce the significance of the Health Alliance management and its counsel. This is inconsistent with the conduct one would expect from respected leaders of non-profit health care organizations in our community.

JHSI's justification for these improper measures was some perceived "emergency" of its own creation. I will not address here the details of confidentiality agreements and discussions

concerning physicians, but the more important overall point is this. Transactions like the proposed Jewish Hospital/CHP deal take many months, and often much more than a year, to complete. Our process for disengagement began just a few weeks ago, and our representatives and yours have been working in good faith almost every day. You prepared a list of some 50 issues to be addressed; there have been a dozen or more calls to discuss them. Yet JHSI tried to abort and distort the Health Alliance governance process simply because UC is not willing to give in to your demands on the schedule you want.

You also state that JHSI is entitled now to the Jewish Hospital "cash flow," and therefore that JHSI representatives will be giving orders to Health Alliance management about the "conditions" for use of funds. We remind you that JHSI is just one member and does not have a right to arrogate to itself all management, or the right to order Health Alliance staff to do things - especially things that may harm UC. Obviously, if UC, Fort Hamilton and JHSI all gave their own inconsistent orders to management, chaos would occur. Bear in mind that it is not just the JOA that determines the parties' respective financial rights and obligations. There is also the Master Trust Indenture and other financial agreements establishing joint and several liability of members. Therefore, we are all tied together and UC will not permit JHSI to make unilateral decisions that have major effects on all.

Summary:

Let me be clear. For the reasons described above, we believe the Jewish Hospital/CHP transaction is unwise and bad for the community, and we believe many reasonable groups and individuals in our community will be opposed to it. But within the context of the Health Alliance, we will continue to negotiate reasonable terms for your departure. What we will not do is "roll over" and allow hard-earned assets of the University and the State of Ohio to flow to a private organization to the detriment of the University. We managed to successfully negotiate the departure of The Christ Hospital and St. Luke Hospitals. Perhaps the same can occur here. But in order for that to occur, certain results must be part of the equation.

Our concept is that if the Health Alliance is to break up, the paramount community interest is that all the institutions must emerge healthy and able to meet community needs. For UC to emerge healthy from the Health Alliance will require that it retain a stable University Hospital, control of West Chester Medical Center, continued success of our University of Cincinnati Physicians Group, and a large component of Alliance Primary Care Physicians who already are associated with UH. What we cannot accept is simply that Jewish Hospital would leave, receive its deal proceeds -- and leave a mass of community health care delivery problems in its wake. We hope and trust that you will join us in fashioning a responsible separation that meets the needs of the community.

Sincerely,

Buck Niehoff

H. C. Buck Niehoff
Chairman
Board of Trustees, University of Cincinnati

cc: UC Board of Trustees