



TO: Norton Healthcare employees, medical staff, and affiliated providers,

FROM: Stephen A. Williams, CEO, Norton Healthcare
Russell F. Cox, President and COO, Norton Healthcare

DATE: January 24, 2014

SUBJECT: Norton Healthcare to continue to honor its existing 2008 master academic affiliation agreement with U of L re: Kosair Children's Hospital

As many of you know, Norton Healthcare has been in discussions with the University of Louisville (U of L) concerning Kosair Children's Hospital and its academic affiliation. Our children's hospital has been U of L's designated pediatric teaching hospital since approximately 1930 through a series of academic affiliation agreements. The most recent version of these agreements was signed in 2008. We have no intent to jeopardize or change this longstanding agreement and nothing at Kosair Children's Hospital changes. Everything that was in place yesterday remains in place today.

Despite our best efforts, the two organizations have not been able to reach common ground on an updated affiliation agreement for pediatrics or a proposal to state officials regarding an amendment to the 149-year land lease Norton Healthcare has with the Commonwealth of Kentucky, ending in 2130. It was this land lease that U of L used as the basis for their notice of default, which could lead to the eviction of Norton Healthcare from its Kosair Children's Hospital building.

Accordingly, we have opted to continue to operate under our 2008 academic affiliation agreement, which automatically renews on an annual basis and is supported with over 135 individual agreements. Hopefully, when the time is right, we can renew our discussions about an updated academic affiliation agreement. We intend to continue to invest in clinical services and academic support for Kosair Children's Hospital and U of L Pediatrics, as we have in the past, and in fact we have provided the University with contracts for incremental funding in the amount of \$6.6 million, bringing a total annual support for pediatric services of \$27.9 million.

How we got here

We have been in negotiations for three years to develop an updated agreement. U of L issued a notice of default of the ground lease for Kosair Children's Hospital last fall and we consequently asked for a judicial interpretation to resolve the matter. Both parties then agreed to enter into confidential negotiations in an effort to resolve the issues at hand and reach agreements that would be satisfactory to both organizations.

Norton Healthcare approached these negotiations in good faith and with considerable deliberation. This process included scores of emails, letters, phone calls and meetings, involving hundreds of hours of senior executives' time from both organizations. It also included two out of town retreats, the most recent spanning four days involving internal and external legal counsel and other staff.

What Norton Healthcare offered

Norton Healthcare proposed a 20 year agreement with a financial commitment of over \$830 million. U of L would continue to be Norton's primary academic partner for pediatrics with inclusion and involvement in our evolving statewide pediatrics partnership activities. Norton Healthcare would take no action which could put the accreditation of any pediatric training program at risk.

Why we cannot move forward

Norton Healthcare made it clear that a requirement for our moving forward with a new affiliation agreement was for both parties to reach agreement on land lease amendments that we would both support and recommend to the Commonwealth for their approval. Despite our best efforts, we unfortunately could not reach an agreement on the proposed land lease amendment and many other major issues.

What happens now?

We intend to continue our relationship with U of L, building on a successful academic relationship going back more than 80 years. We have no desire or intent to discontinue this relationship. We will continue to provide significant economic support for U of L pediatric faculty, specialists and academic programs. At a time when funding is being cut throughout the health care sector, including academic programs, our annual funding for U of L pediatric programs has continued to increase. This annual funding should exceed \$27.9 million for 2014, up from \$17.9 million in 2010 and \$7.3 million in 2003.

It is our hope that U of L will continue to be our primary academic partner in pediatrics. Norton Healthcare will continue to meet the requirements of the land lease with the Commonwealth of Kentucky. Since U of L has declared Norton to be in default of the land lease, we must obtain a judicial interpretation of the land lease and the rights and responsibilities of both parties. Consequently, we will let that judicial process continue and the Court will determine the validity of U of L's purported notice of default of the Land Lease.

Norton Healthcare intends to include U of L faculty and others in the pediatric statewide network and other appropriate planned joint activities of the two children's hospitals, as we continue to explore how the Commonwealth's two children's hospitals could work together to improve pediatric care throughout Kentucky.

Our commitment to the community

Nothing at Kosair Children's Hospital changes today. We will continue to provide quality pediatric care and do what is best for children's health care in the Louisville metro region and across the Commonwealth.