

EXECUTIVE SUMMARY

Winchester House Lease and Management Agreement with TCM

This Executive Summary summarizes the proposed Lease and Management Agreement for Winchester House between Lake County and Transitional Care Management (“TCM”).

- The Lease has a three-year term (“Term”), at the end of which Term TCM shall transfer residents from the Facility to a new replacement facility constructed, wholly owned, operated, and licensed by TCM in the Lake County area.
- Lease makes it clear that TCM must keep existing residents in the current and new Winchester House (the replacement facility).
- TCM must achieve and maintain Winchester House’s historical census and payor mix with respect to Facility occupancy, subject to compliance with applicable Legal Requirements concerning discrimination based on payor type, and as needed to meet the financial performance set forth in the pro forma.
- During the Term of the Lease TCM is required to meet certain requirements in a Service Covenant which Covenant requires TCM to maintain a level of commitment to Lake County residents by obligating TCM to either admit or find alternative placement for a majority of prospective Lake County residents referred to the Facility. Violation of the Service Covenant carries a \$500 penalty per day per resident for each day of the violation.
- The Lease is divided into three phases.
 - In **Phase I**, TCM will become the interim manager of the Facility. During Phase I TCM will also work to secure the various regulatory approvals to become the licensed operator of the Facility.
 - Phase I ends upon TCM obtaining the license to operate the Facility from IDPH and, in turn, Landlord will discontinue being the license holder for the Facility, with TCM remaining as the lessee under the Lease.
 - During **Phase II** TCM will continue to manage and operate the Facility, but under its own license, and at the same time will diligently work towards planning and receiving all necessary approvals to build a new Winchester House.
 - Once TCM obtains the various regulatory approvals for the replacement facility, Phase II ends.
 - In **Phase III** TCM will continue to manage and be the licensee of the Facility, but will also diligently pursue construction of the replacement facility, meeting various milestones along the way.
 - Phase III and the Term of the lease will conclude upon the transfer of the then-last current resident at the Facility to the replacement facility, leaving Winchester House vacant, but still under the ownership of the County.

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- Cost of the proposal (three-year budget for TCM) is as follows:

	Year 1	Year 2	Year 3	Totals
Progress Payments	\$2,462,689	\$1,199,567	\$1,120,219	\$4,782,475
Start-Up Capital	\$1,931,957	\$0	\$0	\$1,931,957
Total	\$4,394,646	\$1,199,567	\$1,120,219	\$6,714,432

- Cost of proposal (three-year budget for TCM) includes reimbursements owed to the County such as rent (\$40,000/mo or \$480,000/yr) and reimbursement of Start-Up Capital (minimum of \$1,031,957).
- Net cost to the County at the conclusion of the three-year contract term is \$4,242,475
- During the three-year Term, various milestones have to be met in each of the Phases, and TCM is obligated to meet those milestones in order to receive monthly "Progress Payments".
- Progress Payments are the cost of the proposal broken out into monthly payments.
- Under the Lease, Landlord has no obligation to make Progress Payments beyond the Term or in an amount greater than the Progress Payments set forth in the pro forma (provides a not-to-exceed amount of what the County will pay).
- TCM is required to reimburse the Start-up Capital to the County, though part of that Start-up Capital may be retained by TCM in the event of certain extenuating circumstances to be determined at the end of the Term.
- Should TCM not meet certain specified Phase I-III milestones in a timely manner, certain penalties would apply, including (1) a discretionary reduction in Progress Payments, and (2) compensatory damages, including but not limited to a potential drawdown on a \$700,000 irrevocable standby letter of credit given by TCM.
- The Lease also incentivizes TCM to operate the facility with an eye toward quality by allowing TCM to partake in shared savings under the Lease, if TCM:
 - Performs better than the pro forma;
 - Improves the quality of care at the Facility; and
 - Receives satisfaction survey results for residents and employees above certain thresholds.