

November 30, 2018

St. Joseph Health ("SJH") and the Petaluma Health Care District ("District") remain committed to facilitate the transition of Petaluma Valley Hospital ("PVH") to a new operator. Though the Lease expired on January 19, 2017 ("Expired Lease"), SRM Alliance Hospital Services ("SRM Alliance") continues to manage and operate PVH. After multiple negotiation sessions, the parties have agreed to the following material terms and conditions, as described in this Letter of Intent ("LOI"):

1. **Material Terms and Conditions:**

- **Operator:** If the transaction between SJH and Adventist Health System/West is approved, the operator of PVH shall be NewCo. NewCo will work directly with the District to negotiate the final lease terms, and NewCo will take all appropriate actions to become the new operator, i.e. obtain a hospital license.
- **Services:** NewCo will operate the facility as an acute care hospital and provide the same core services and additional services as provided under the Expired Lease with SRM Alliance. Closure or discontinuation of core services and/or additional services will require same approval process provided under the Expired Lease, except as related to the closure of the Family Birthing Center, which, subject to Family Birthing Center below, will be at NewCo's sole discretion.
- **Term:** 30 years.
- **Termination:** Either party may terminate the lease, without cause, at years 8, 13, 19 and 25, with three (3) years' prior written notice.
- **Option to Purchase:** SJH or its affiliate has the option to purchase the PVH campus property, including the undeveloped vacant portion of the property bordering N. McDowell Blvd (the "Front Portion"), at a price equal to its Fair Market Value ("FMV"), subject to Lot Split and Development of Front Parcel below. FMV will be determined by an independent third party appraiser as selected and paid for by the District. The parties agree that SJH or its affiliate will continue to operate the facility as an acute care hospital with an emergency department for at least 10 years following the purchase.
- **Lot Split:** In the event the District desires to apply to convert the Front Portion into a separate legal parcel, SJH and Newco and their affiliates shall cooperate with the District and support such lot split, subject to the continuing right of SJH to exercise its rights under Option to Purchase above and Development of Front Portion below. SJH may not purchase the Front Portion without simultaneously purchasing PVH.
- **Development of Front Portion:** In the event the District desires to develop the Front Portion, the District must obtain the prior approval of SJH, which approval shall be granted or rejected within 120 days of SJH receiving written notice of the District's intention to develop, and subject to SJH's election to purchase set forth above, including both the hospital campus and the Front Portion. In the event the District proceeds with the development of the Front Portion and SJH does not elect to purchase the hospital campus including the Front Portion, Newco and SJH and their affiliates shall support such use and development. The District shall

meet and consult with NewCo and SJH regarding any such proposed development at least 120 days before entering into any contract pertaining to the Front Portion. If the District develops the Front Portion, SJH's option to purchase shall be reduced to exclude the Front Portion. If SJH does not provide a response within 120 days, it is deemed a rejection of the proposal, and the District cannot move forward with the rejected proposal.

- **Rent:** Subject to FMV, rent shall be \$800,000 annually, with a 2% annual increase beginning in year 11 of the lease. This rent amount is inclusive of both the hospital rent as well as the rent paid in renewal periods for the Hospice Commercial Lease, as noted below.
- **Capital Commitment:** \$3.5 million minimum commitment per year, with a minimum 2% annual increase.
- **Electronic Medical Records ("EMR"):** NewCo and the District shall work cooperatively to determine the most practicable and feasible option for an EMR system for PVH, with the sole decision made by NewCo. Upon any termination and transition to a new operator, NewCo shall provide the new operator with all required and appropriate patient data from all patient care settings in an electronic format.
- **Restrictions on Competitive Activities:** District and NewCo/SJH share a common mission and vision for providing excellent health and healthcare services/programs to residents within the District Service Area. The District or its affiliates shall not directly or indirectly, participate or engage in any healthcare related program, transaction or activity in the District Service Area (which is defined in Attachment 1 attached hereto) that competes with PVH or SJH affiliates in Sonoma County unless (a) prior written approval is obtained, which NewCo shall not unreasonably withhold, condition or delay (provided that it shall be reasonable for NewCo to withhold approval for any program, transaction or activity that would reduce or impair NewCo's financial condition), or (b) such program, transaction, or activity is identified as an allowed services in Attachment 2 attached hereto. The parties' legal counsel will provide further specificity as to "behavioral health outpatient care," "mental health," "partnering with local governments," "services for individuals with disabilities," and "senior wellness" as allowed services as noted in Attachment 2.
- **Family Birthing Center:** There is a commitment to maintain the Family Birthing Center for at least three (3) years from the effective date of the new lease.
- **Hospice Program:** In consideration of and in conjunction with SRM Alliance's payment of rent as provided in Section 3 below, and payment by SJH of the sum of \$400,000 upon execution of this LOI to settle the dispute about ownership of the Hospice Program, the District releases all claims against SJH and its affiliates, including liabilities, relating to, and the District shall have no rights, ownership, or interests in, the Hospice Program at: (i) Hospice of Petaluma, 416 Payran Street, Petaluma, California, (ii) North County Hospice, 205 East Street, Healdsburg, California, and (iii) Memorial Hospice at 439 College Avenue, Santa Rosa, California.
- **Hospice Commercial Lease:** The tenant under the existing Hospice Commercial Lease, St. Joseph Home Care Network, will continue to pay rent through January

2022, which is the end date for the current 5 year term. Thereafter, for any renewal terms, no rent will be paid as future rent for the hospice property after January 2022 as rent is included in the rent amount set forth in Rent above.

- General Obligation ("GO") Bonds: At such time as NewCo may determine to continue to operate PVH long enough to cover the period required to repay any GO bonds, or develop another method to ensure repayment of any GO bonds and the continuation of PVH as an operating hospital if NewCo does not elect to continue to operate PVH, NewCo and the District will work together to obtain GO bonds to pay the costs of seismic upgrades of PVH, which as of now SJH believes would currently cost approximately \$10 million.
  - FMV Confirmation: Implementation of the overall transaction shall be subject to FMV confirmation.
2. It is anticipated that final lease terms will be negotiated by March 1, 2019, and be subject to a Health & Safety Code section 32121(p)(1) referendum and voter approval likely in Summer 2019. The cost of the referendum shall be borne by the District. The parties agree that if SJH or its affiliate exercises the option to purchase at a later date, it will require and be conditioned upon a second Health & Safety Code section 32121(p)(1) referendum and voter approval. The cost of a second referendum shall be borne by SJH.
  3. SRM Alliance will pay monthly rent of \$43,373.00 from January 20, 2017 until November 30, 2019, or as otherwise mutually agreed upon by the parties in writing. The monthly rent covering the time period from January 20, 2017 through execution of this LOI will be paid upon execution of the LOI. Monthly payments thereafter shall be paid in advance on or before the 20<sup>th</sup> of each month.
  4. If NewCo is not approved or the District and NewCo cannot agree to the lease terms in definitive documents, SJH will take the appropriate steps to transition operations of PVH, subject to obtaining any necessary approvals and as agreed upon by the parties.
  5. This LOI supersedes the Letter of Intent, dated March 27, 2018.
  6. Except for the District's release of claims and SJH payment of \$400,000 as set forth in Section 1, Hospice Program above, and SRM Alliance's agreement to pay rent in Section 3 above, this LOI is non-binding.

In witness whereof, the parties have executed this LOI effective as of November 30, 2018.

St. Joseph Health

By:   
Kevin Klockenga  
President, Northern California Region

Petaluma Health Care District

By:  12/3/18  
Ramona Faith, Chief Executive Officer

## Attachment 2: Restriction on Competitive Activities

Landlord and Tenant share a common mission and vision for providing excellent health and healthcare services/programs to southern Sonoma County. As such, Tenant and Landlord shall collaborate to develop and agree proactively on a community needs assessment and plan with the intent to establish coordinated investments to advance the health of the residents within southern Sonoma County.

As a community based health care district, Landlord intends to initiate, develop, provide and support health services and programs to meet the unmet community needs (such as senior living and wellness, child advocacy, behavioral and mental health) and develop partnerships to facilitate such service, in southern Sonoma County.

During the term of the New lease, no entity that is affiliated with Landlord shall, directly or indirectly, participate or engage in any healthcare or healthcare related program, transaction or activity in District service area that competes with services offered by Tenant in District service area, unless: (a) the prior written approval of Tenant is obtained, which the Tenant shall not unreasonably withhold, condition or delay (provided that it shall be reasonable for Tenant to withhold approval for any program, transaction or activity that would materially reduce or impair Tenant's financial condition), or (b) such program, transaction or activity is identified in the allowed services list below.

Allowed services, programs, transactions or activities which do not require any approval by Tenant:

- Expansion of current services – ie. HealthQuest, HeartSafe Community Program, and community health initiatives and programs
- Ambulance Services
- Medical transportation
- Senior living facilities, including assisted living and independent living facilities
- Assisted living and residential care facilities
- Senior housing and services
- Adult day care
- Behavioral health outpatient and residential care
- Mental Health
- Partnering with local governments to create opportunities for healthy lifestyles
- Homes and services for individuals with disabilities, including group residences to serve individuals with disabilities
- Senior wellness
- Nutrition and fitness education
- Education and career readiness
- Housing
- Oral health services
- Youth counseling and child advocacy
- Medical office development or leasing
- Child care facilities

If approval is required by Landlord, it shall be obtained within 90 days. Language that defines "competes with Tenant" to be "any service which materially reduces or impairs the financial condition of the Tenant".