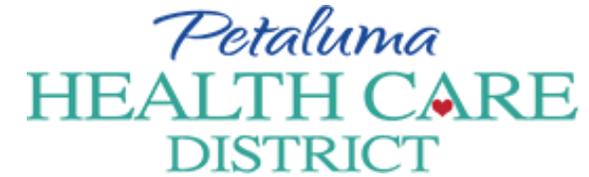

Petaluma
HEALTH CARE
DISTRICT

Board of Directors Discussion

July 22, 2020

Historical Context



- In 1997, District engaged with SRM Alliance Hospital Services (SRM) to operate Petaluma Valley Hospital (Hospital) under a 20-year lease
- District issued RFP which included lease or sale option March 2015
- District chose SRM to lease Hospital, negotiations ended September 2017
- District selected Paladin Healthcare to lease Hospital, transaction terminated 2018

Historical Context



- Dec 2018 | District entered into LOI to lease Hospital to proposed joint operating company (JOC) between Providence St. Joseph Health (PSJH) and Adventist Health
- Oct 2019 | California Attorney General denied JOC, LOI expired
- District has continued to work with SRM over this time period to ensure continued access to Hospital services

Negotiations Update



- Over the past several months, conversations and negotiations held with several parties interested in leasing Hospital, including NorCal HealthConnect, LLC (NorCal HealthConnect) who now is the Purchaser
 - All conversations subject to mutual Nondisclosure Agreements requiring confidentiality
- Draft terms sheets with respect to a lease transaction were shared with each interested party
- Concurrently, the District engaged VMG Health to complete Fair Market Value analysis of Hospital's business and assets

Negotiations Update



- Late in the negotiations, NorCal HealthConnect stated its desire to purchase, rather than lease, the Hospital
- Key factors influencing its decision
 - Capital expenditures
 - Future purchase option

Key Terms of Proposed Sale



- Purchaser is a newly created not-for-profit, NorCal HealthConnect, whose sole member is Western HealthConnect
- Sale price of \$52.6 million
- NorCal HealthConnect will commit to continue to operate Hospital as an acute care hospital with Emergency Department for **minimum 20 years** following Closing of the transaction
 - Commitment to continue OB services for 5 years following the Closing
 - Hospital does not provide now and will not provide:
 - Physician-assisted suicide
 - Elective abortions
 - Destruction of human embryos (fertility)

Key Terms of Proposed Sale



- Governance
 - District retains right to nominate one Hospital Board member for 10 years as long as community board exists
 - District will appoint one member to attend Quality Committee and Community Benefit Committee meetings for 10 years
- District will not compete in Hospital's Service Area for 5 years following the Closing
- NorCal HealthConnect will maintain Community Benefit expenditures in the Hospital service area consistent with current amounts for at least 10 years following Closing

Key Terms of Proposed Sale



- Employee Commitments:
 - NorCal will hire all eligible Hospital employees as of Closing with no diminution of salaries and benefits
 - All employees will be retained for at least 6 months following Closing
 - NorCal HealthConnect will assume all contract bargaining agreements
- All NorCal HealthConnect obligations guaranteed by Western HealthConnect
- **Closing of the transaction expected after voter approval on or before December 31, 2020**

Western HealthConnect



- Western HealthConnect (WHC) is a nonprofit corporation and is a “sister company” to Providence Health & Services (a subsidiary of PSJH)
- Created as part of the Swedish Health Services and Providence Health & Services affiliation in 2012
- WHC is the parent/sole member of other-than Catholic organizations affiliated with PSJH, such as Kadlec and Swedish Health Services

Advantages of Sale vs. Lease

- Locks in value of District's largest asset
- Creates substantial corpus available to fund operations and community benefit for District population
- Eliminates reliance on operator's acute care hospital profitability (ability to pay rent) to fund future District operations
- Covenant to maintain acute care hospital with emergency services for a minimum of 20 years
- Significantly less complicated transaction reduces District's risk
- Eliminates risk that SB977 negatively impacts interest from other operators, now and in the future upon lease purchase option exercise and lease termination

Disadvantages of Sale vs. Lease



- Hospital ceases to be a District owned and controlled hospital
- Transparency of hospital operations will likely decrease (hospital Board/committee participation, hospital financial statements, quality reporting)
- District asset value locked in at current FMV (long term lease with purchase option could potentially generate higher overall proceeds to District but at greater risk)
- No possibility to change operators if dissatisfied with NorCal HealthConnect
 - Except in the case where post-Closing covenants are breached but at risk of finding a new operator

Rent & Tolling Agreement Letter



- District and SRM entered into an agreement to toll any dispute between them regarding the 1997 lease
- District and SRM are coming to an agreement to ensure SRM pays rent on the lease of the Hospital
- Rent currently at \$800,000 per year unless and until voter approval and then increases to \$2.5 million per year unless the sale does not go forward due to breach of the transaction agreements by the District
- If the sale does not go forward, SRM will return the Hospital and the underlying business and related assets to the District after 30 months
- District afforded time to find a new operator
- Risk of Hospital closure if new operator is not identified