

**SPECIAL BOARD OF DIRECTORS
AGENDA (AFFILIATION)
FRIDAY, NOVEMBER 8, 2019
REDWOODS ROOM MCDH
10:00 AM**

700 RIVER DR. FORT BRAGG, CA 95437

**NOTICE OF SPECIAL BOARD OF DIRECTORS MEETING
OF THE BOARD OF DIRECTORS
MENDOCINO COAST HEALTH CARE DISTRICT**

NOTICE IS HEREBY GIVEN in accordance with Section 54956 of the Government Code that a Special Session of the Board of Directors of the Mendocino Coast Health Care District is called to be held on November 8, 2019 at 10:00 a.m. at Mendocino Coast District Hospital, 700 River Drive, Fort Bragg, California

CONDUCT OF BUSINESS:

OPEN SESSION: MS. KAREN ARNOLD, CHAIR

1. Call to Order
2. Roll Call
3. Comments from the Community
This portion of the meeting is reserved for persons desiring to address the Board of Directors on any matter which the District has jurisdiction. You must state your name and address for the record. Time is limited to 3 minutes per speaker with a 20-minute total time limit for all comments. The Board of Directors can take no action on your presentation, but can seek clarification to points made in your presentation or comments.
4. **Action:** Approval of September 26, 2019 Minutes **TAB 1**
5. **Information/Action:** Update on the nine Public Forums: Mr. John Redding, Dr. William Miller, Mr. Wayne Allen
6. **Information:** Cal Mortgage Update: Mr. Wayne Allen, Interim CEO

MR. STEVE LUND, ACTING CHAIR

7. **Information/Action:** Due Diligence Notes: Mr. Bob Beehler & Mr. Jason Wells **TAB 2**
8. **Information/Action:** Lease Term Sheet: Mr. Bob Beehler & Mr. Jason Wells **TAB 3**
9. **Information/Action:** Future Action Steps & Timelines: Mr. Wayne Allen **TAB 4**

MS. KAREN ARNOLD, CHAIR

10. **Information:** Interim Management Agreement: Mr. Bob Beehler & Mr. Jason Wells
11. Comments from Community
This portion of the meeting is reserved for persons desiring to address the Board of Directors on any matter which the District has jurisdiction. You must state your name and address for the record. Time is limited to 3 minutes per speaker with a 20-minute total time limit for all comments. The Board of Directors can take no action on your presentation, but can seek clarification to points made in your presentation or comments.
12. Comments from Board of Directors
13. Adjourn

Gayl Moon
Secretary to the Board of Directors

STATE OF CALIFORNIA)
COUNTY OF MENDOCINO) §

I declare under penalty of perjury that I am employed by the Mendocino Coast Health Care District Board of Directors; and that I posted this notice at the North and Patient Services Building Lobby entrances to the Mendocino Coast District Hospital on November 6, 2019

Gayl Moon
Secretary to the Board of Directors

Date

All disabled persons requesting disability related modifications or accommodations, including auxiliary aids or service may make such request in order to participate in a public meeting to Gayl Moon, Secretary to the Board of Directors, 700 River Drive, Fort Bragg, CA 95437 no later than 1 working days prior to the meeting that such matter be included on that month's agenda.

*Per District Resolution, each member of the public who wishes to speak shall be limited to three minutes each per agenda item. Please identify yourself prior to speaking. Thank you.

T A B 1

**MENDOCINO COAST HEALTH CARE DISTRICT
BOARD OF DIRECTORS
SPECIAL SESSION
FORT BRAGG, CA
THURSDAY, SEPTEMBER 26, 2019**

1. CALL TO ORDER:

**2. ROLL CALL: Lund, Redding, Arnold, Grinberg (telephonically), Arnold
ABSENT: None**

- Arnold and Grinberg recused themselves due to potential conflicts of interest.

ALSO PRESENT:

Dr. William Miller, Chief of Staff

Mr. Wayne Allen, Interim CEO

- Mr. Allen introduced Noel Caughman, BB&K Law Firm who attended the meeting. BB&K Law Firm is the Hospital's Legal Counsel.

3. COMMENTS FROM THE COMMUNITY

- There were no comments from the community.

4. ACTION: Approval of August 23, 2019 Minutes

MOTION: To approve the August 23, 2019 Minutes

- Redding moved
- McColley second
- Roll call
 - Ayes: Lund, Redding, McColley
 - Noes: None
 - Absent: None
 - Recused: Grinberg, Arnold
 - Abstain: None
- Motion carried

5. INFORMATION/ACTION: Discussion regarding schedule of future meetings: Mr. Wayne Allen, Interim CEO

- The Ad Hoc Committee will meet October 1st and Adventist Health will be in attendance.
- The Board will have a special meeting every Thursday for the month of October at 5:00 p.m. October 24th and the October 31st meetings will be at 4:00 pm.

6. INFORMATION/ACTION: Discussion regarding content of Fact Sheet: Mr. Wayne Allen, Interim CEO

- Include the 5 year re-evaluation issue with the 30 year lease.
- Ms. McColley suggested rearranging the order of the opening questions.
 1. Why are we only considering Adventist Health?
 2. How will the decision be made?
 3. What will the relationship be between the District and Adventist Health?
 4. How will this affect the hospital?
- Mr. Allen will rearrange the opening questions per Ms. McColley's suggestions.

- Mr. Allen will put the Town Hall meeting dates in sequential order.
- Some suggestions of items to be added to the Fact Sheet were made:
 - ✓ Add labor, delivery and oncology
 - ✓ How would this effect property values
 - ✓ Define therapeutic abortion
 - ✓ Due diligence/fair market value
 - ✓ What happens if affiliation doesn't happen
- The suggested items will be taken in consideration for additions to the Fact Sheet.
- Mr. Allen will update the Fact Sheet and add it will be on the October 3rd agenda.

7. COMMENTS FROM COMMUNITY

8. ADJOURN:

The meeting adjourned at 4:45 p.m.

Mr. Steve Lund, Acting Chair
Board of Directors

ATTEST:

Ms. Gayl Moon
Secretary to the Board of Directors

These minutes constitute a portion of the official record of the Board and are the written record of the proceedings. Documents distributed to the Board of Directors at the meeting are available for public review except legally privileged or confidential documents.

T A B 2

Adventist Health Relationship with Mendocino Coast Healthcare District

Adventist Health's Position

Adventist Health's proposal has two main short-term objectives: 1) improve the financial position of MCDH to make it sustainable (which it is currently not), and 2) keep the District solvent.

The first can only be achieved by turning a \$2M per year loss into a profitable operation while also making a \$1.5M a year lease payment. Put another way, with current losses plus the lease Adventist Health is taking on a \$3.5M per year risk from the District. To overcome this, Adventist Health will invest substantial efforts and resources to the operations on top of the benefits of being a Critical Access Hospital.

The second will be achieved by paying those lease payments to the District which will allow it to pay the existing debts and put funds into a reserve.

If the financial position of MCDH cannot be turned around, the seismic challenges are irrelevant because it would be extremely ill advised to invest in an unsustainable hospital, and we should look for a different way to deliver healthcare in the district.

Due Diligence

Items for Discussion

1. Labor & Delivery solutions. Will AH train all of its ER doctors and nurses to deliver babies in the ER? Yes. This is currently the practice in Willits.
2. If MCDH invests money into the existing hospital (ongoing repairs, seismic upgrades), the Medicare reimbursements will increase. How will that increase be shared? There is no plan to share risks or rewards of operations or investments. Similarly, if Medicare reimbursements were to decrease, the District would not be liable for making up the shortfall.
3. If AH invests money in the hospital (for deferred maintenance, EHR), will that affect the lease payments? Would AH be content to capture the Medicare increase instead? We do not intend to offset the lease payments.
4. Propose a profit-sharing plan that would capture the value of leasing our business (not just the facilities) with MCDH's share of the profits being put into a sinking fund for a new hospital. The business is currently not profitable and if included in the lease calculation would reduce the FMV lease payment. To put it another way, we are leasing the franchise and are the ones exclusively taking risk on it. The District is trading the operational opportunities and risks for a stable lease payment.
5. What is AH's opinion/judgement on the whether MCDH should pursue the seismic upgrades or build a new hospital? Should we put off the new hospital until after 2030? The first step is to try to make MCDH successful and see what the market will support. Current estimates are that to bring all California hospitals into 2030 seismic compliance would cost \$150 BILLION dollars and that there will be modifications to the seismic requirements. We will know a lot more about both in 4 or 5 years.

6. How long did it take to plan, design, construct and license Howard Memorial? About 6 years.
7. Does AH own the rights to the engineering design of Howard? Probably, but even that would not meet today's OSHPD design codes.
8. Perform a 10-year cash flow analyses, with several scenarios, of MCDH's finances post affiliation. Use that information to determine if the lease fee offered by AH is sufficient. The lease is a product of two FMV studies. It will be inflated annually by the CPI. Remember that AH is taking sole risk for operations. However, if the District were to make a significant addition to the assets, we could agree to a re-appraisal.
9. Will the meetings of the new Board be open to the public? Sometimes? No, they would not be. We would make routine reports to the District in addition to a fairly detailed annual report to the public.
10. Will the new Board have any involvement in creating and recommending approval of the budget (much as our finance committee does now)? Yes
11. What can be done to include Ambulance Service in the lease package, given the apparent legal constraints on providing services outside the District boundaries? Since all assets and operations of the District are included in the lease, the ambulance services will also be included. We will research the issue of District boundaries.
12. What assurances/commitments are there that ambulance service on the Coast won't suffer? We can include a commitment in the lease that ensures continued ambulance services.
13. Will AH take responsibility for the lease payment to the owners of NCFHC's facilities? Yes. Since all assets and operations will be included. NCFHC is currently an operation of the District so both its revenues and its expense would move to AH.
14. Is AH interested in having a Crisis Stabilization Unit located in the remaining portion of the hospital, with the resulting benefit being to reduce the costs of the ER? It makes sense on the surface, but we will have a much better idea after we begin operations.
15. What are the specifics of the exit clauses? Will this just be a force majeure clause or something broader? It would be broader and would include unforeseen things like significant reimbursement changes such as the elimination (without replacement) of Critical Access Hospital status.
16. Home Health loses a good deal of money. How will AH expand this service without it becoming a financial drain? We don't know much yet about how MCDH runs specific services. Once we do, we can answer that question better. We do know that we run Home Health in many challenging markets and do ok in them.
17. How many C-level executives will be stationed at MCDH on a daily basis? Who will be the person with day-to-day decision-making authority? Likely a local president and nursing executive.

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MCDH Long Term Lease

Term Sheet

November 5, 2019

On Behalf of Adventist Health, this Term Sheet is submitted to the Mendocino Coast Health Care District for its review and consideration. The terms described are intended to capture the significant business points we have discussed up until this point. This Term Sheet is non-binding on either party and is intended to guide our negotiations to reach an agreement on mutually agreeable terms.

<p>1. Legal Entities</p>	<ul style="list-style-type: none">• Stone Point Health, LLC, a subsidiary of Adventist Health System/West, will be the sole member of a new nonprofit entity ("Adventist Health").• Mendocino Coast Health Care District ("District"), a local healthcare district under division 23 of the California Health and Safety Code.
<p>2. Lease Terms</p>	<ul style="list-style-type: none">• The proposed lease will be subject to District Board and voter approval on the March primary election as well as regulatory and licensing Change of Ownership ("CHOW") approvals. Prior to obtaining these approvals, the Parties are negotiating a Management Services Agreement ("MSA"). It is proposed that Adventist Health manage the District operations under the MSA until such time as all approvals are received, at which time the lease will commence and the MSA will terminate.• 30 year lease, subject to both District Board and voter approval• The lease will include the acute care facility and all clinics and healthcare facilities, including ambulance services, owned or operated by the District.• Each party will have termination rights for unforeseen circumstances beyond the parties' control that materially affect the ability of either party to perform their obligations in the relationship.• In the event the facility does not achieve seismic compliance at least three years prior to the date required under state law, Adventist Health may terminate the agreement.• Rent will be established at 1.5 million dollars per year and not subject to any increase, deductions, or offsets beyond annual CPI adjustments.• District will retain ownership of existing assets, including the Furniture Fixtures & Equipment ("FF&E"), and District liabilities that were incurred as of the Effective Date of the Lease.

	<ul style="list-style-type: none"> • The District will retain all assets and liabilities as of the date that the CHOW is approved. Once Adventist Health’s CHOW application is approved it will invest its own working capital. • Adventist Health will be responsible for all utilities. • Adventist Health maintain the facility in good order, but the District will maintain ultimate responsibility for the facility.
3. Scope of Services	<ul style="list-style-type: none"> • Adventist Health will continue to provide existing services at the current level for at least 2 years. In addition to the two year commitment, Adventist Health will maintain the acute bed count, ED services, home health services, and ambulance services for a period of at least 10 years.
4. Additional Financial Terms	<ul style="list-style-type: none"> • The District shall continue to invest Measure C funds into priorities as established and agreed upon by Adventist Health.
5. Capital Commitments	<p>Adventist Health will implement the use of its Electronic Medical Record (“EMR”) system and other standard business platforms. In the event of termination, Adventist Health will sell its EMR platform to the district at FMV and provide a one-time electronic transfer of data related patient care in a manner consistent with state and federal law.</p>
6. Furniture, Fixtures, & Equipment	<ul style="list-style-type: none"> • In consideration of the use of Measure C funds and the reinvestment of the rent, the District will own the FF&E.
7. Seismic Compliance	<ul style="list-style-type: none"> • District shall maintain responsibility for achieving seismic compliance for the facility. • Construction and/or capital projects involving or addressing seismic issues will be excluded from Adventist Health’s commitments. • In the event the District pursues a complete rebuild of the hospital facility in order to achieve seismic compliance, Adventist Health will enter negotiations with the District. Adventist Health’s contribution (if any) would be capped at the net present value of future rents due under the lease. In exchange for accelerated rent contribution, Adventist Health will have a voice in the design of the facility. The District would be responsible for and contract with all construction and design professionals. • Adventist Health’s obligation to enter negotiations with the District would arise once the District places a bond measure on the ballot or secured financing for the project.
8. Assignment of Contracts and Liabilities	<ul style="list-style-type: none"> • Adventist Health will assume contracts it deems necessary for the licensed operation of the facility. The parties will work together to determine these contracts. • Provider agreements will be assumed by Adventist Health where necessary for participation in government healthcare programs.

	<ul style="list-style-type: none"> • The District will indemnify Adventist Health for any breaches, violations, and penalties of any contracts, including the Collective Bargaining Agreement, that arise from actions prior to the assumption date. • After the assumption date, the assumed contracts will become Adventist Health’s liability. • The District will maintain responsibility for contracts not assumed by Adventist Health and liabilities associated with its activities prior to the assumption date or the lease commencement date. This will include all professional and general liability claims, medical staff claims, tort and contract claims, and environmental and hazardous material issues, employment liabilities, and liabilities under any government healthcare programs. In the event District policies are claims made, the District shall provide for tail coverage that is reasonably acceptable to Adventist Health.
<p>9. Employee Transition</p>	<ul style="list-style-type: none"> • Adventist Health’s goal is to make the District’s employee’s transition as nondisruptive as possible. • The District shall provide a WARN Act notice to affected employees upon receiving voter approval of the proposed transaction. • Adventist Health shall make offers of employment to coincide with the conclusion of the WARN Act notice and commencement date of the lease. • The District shall maintain responsibility for employment liabilities prior to the commencement date. • Adventist Health will assume the current Collective Bargaining Agreement for the period of July 1, 2018 through June 30, 2020. • Adventist Health will transition all District employees and will not terminate any employees, cause excepted, for a period of 90 days.
<p>10. Right of First Refusal</p>	<ul style="list-style-type: none"> • For the duration of the Lease, Adventist Health will have a right of first refusal in the event the District decides to sell the facility. • Adventist Health shall have 60 days to respond to the District’s notice. • Subsequent sales to third parties will be completed within 180 days and the sales price must be 95% or more of the price offered to Adventist Health or it must be offered to Adventist Health again.
<p>11. Transfers and Subleases</p>	<ul style="list-style-type: none"> • Any District transfer of the facility must comply with the Adventist Health’s right of first refusal. • Adventist Health may transfer or sublease to an affiliate Adventist Health entity, but all other transfers are subject to District consent.
<p>12. Defaults and Remedies</p>	<ul style="list-style-type: none"> • Failure to pay monies when due and owed, any lien encumbering the property, bankruptcy of Adventist Health, or a breach of the

	<p>lease that remains uncured for more than 45 days will constitute a default under the lease.</p> <ul style="list-style-type: none"> • Remedies for default include the continuation of the lease and re-let to a third party, termination of the lease, the District may cure the default and charge Adventist Health as additional rent.
<p>13. Governance</p>	<ul style="list-style-type: none"> • Adventist Health would be operated as an independent corporation with its own local governing board. Adventist Health will select one District board member to serve on the governing board.
<p>14. Miscellaneous</p>	<ul style="list-style-type: none"> • Holdover- 120% of rent for the first month then 133% for the second, then 150% thereafter. • Expiration- District shall receive possession along with an opportunity to purchase the then existing Adventist Health EMR platform at FMV. • The Parties will execute a Memorandum of lease and have it recorded with the appropriate government office. • Governing law will be California. • Attorney fees and costs will be recoverable by the prevailing party in any action to enforce the terms of the lease. • Indemnification by each of the parties to the other shall be based on their obligations under the lease and positions relative to the facility. • Adventist Health shall procure insurance in amounts standard in the industry and shall name the District as an additional insured.

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TIMELINE FOR MARCH 3, 2020 AFFILIATION ELECTION

Detailed Action Steps & Timeline

WEEK/DATE	DAYS PRIOR TO ELECTION DAY¹	STEPS
Week of Nov. 4, 2019	E+127	Resolve Due Diligence Issues Finalize Terms Sheet/Lease Agreement and Resolutions
Week of Nov. 11, 2019	E+120	Resolve Due Diligence Issues Finalize Terms Sheet/Lease Agreement and Resolutions
Week of Nov. 18, 2019	E+106	BOARD VOTE & PUBLIC FORUM
Tuesday, Nov. 26, 2019 (Thanksgiving Week)	E-98	DEADLINE TO SUBMIT BALLOT MEASURE E-98 is the last day Board of Supervisors can consolidate a measure with a regular election. While Elections Code §10403 says E-88, the Board needs time to submit request for consolidation.
Thursday, Nov. 28, 2019 (Thanksgiving Day)	E-96	County Clerk to publish the deadline for submitting arguments. (Elections Code §9163 & Gov. Code §6061)
Dec. 2019 – Mar. 2020		Finalize Transaction Documents External Meetings (as necessary)
Friday, Dec. 6, 2019	E-88	Last day to submit direct arguments. (Elections Code §9163)
Monday, Dec. 16, 2019	E-78	Last day to submit rebuttal arguments. (Elections Code §9167) Last day for County Counsel to submit impartial analysis. (Elections Code §9160)
Dec. 06, 2019 Dec. 15, 2019	E-88 to E-77	10-day public inspection of arguments/analyses. (Elections Code §9190)

¹ E = Election Day, followed by the number of days prior to or following the election day when the various steps should be taken.

**DRAFT 11/01/19
FOR DISCUSSION PURPOSES ONLY**

Jan. 23, 2019 – Feb. 11, 2020	E-40 to E- 21	Mailing of sample ballots. (Elections Code §13303, 13304)
Monday, Feb. 3, 2020	E-29	Absentee period begins. (Elections Code §3001, 3003)
Tuesday, Feb. 25, 2020	E-7	Last day to request an absentee ballot by mail. (Elections Code §3001)
Tuesday, Mar. 3, 2020 (Election Day)	E	ELECTION DAY
Mar. 4, 2020 – Mar. 31, 2020	E+1 to E+28	Official Canvass
Tuesday, Mar. 31, 2020	E+28	CLOSING DATE