

Executive Summary of Proposed Transaction

Mark Twain Health Care District (District) and Dignity Health propose to restructure the relationship by which Mark Twain Medical Center (MTMC) leases its hospital facilities from the District and by which MTMC is governed. The restructuring would establish a new long-term lease between MTMC and the District to:

- Maintain the continuity of the health care delivery system in Calaveras County
- Ensure community involvement and oversight of the quality of care, medical staff credentialing and privileging, and input on strategic planning and services offered to the community
- Enable the District to exchange most of its reversionary interest in MTMC for cash from Dignity Health

Proposed Affiliation Details

The District and Dignity Health negotiated intermittently from late 2015 to the present. Below are key highlights of the proposal:

1. Dignity Health would give the District a one-time \$12.5 million payment in exchange for a larger share of the reversionary interest in MTMC.
2. The District would use a portion of these proceeds to purchase MTMC's unamortized improvements, making a payment of approximately \$9 million to MTMC.
3. The District and MTMC would execute a new lease, with a 10-year initial term and four consecutive automatic five-year renewals (30 years total). MTMC would pay rent to the District of approximately \$102,000 per month.
4. For the entire 30-year term of the new lease, MTMC would commit to operating a general acute care hospital with 24/7 emergency services. Consistent with the 1989 lease, other than specified utilities, MTMC would be responsible to pay all costs of the leased premises, including but not limited to: insurance; maintenance; repair; painting; tenant improvements; County assessments; janitorial; building services equipment maintenance, repair and replacement; and hospital equipment maintenance, repair and replacement.
5. Dignity Health would commit to maintaining a full-time Chief Executive Officer at MTMC, and would commit to making a \$2 million contribution to the MTMC (philanthropic) Foundation within 90 days of closing.
6. MTMC's bylaws would be changed, such that:
 - a. MTMC's Board of Directors would establish a new Community Board comprised of seven members, six of whom would be Calaveras County residents. The Community Board would be responsible for Medical Staff credentialing and privileging, quality oversight and providing the Board of Directors with strategic guidance.

- b. The MTMC Board of Directors structure would be modified and would include an elected member of the District Board.
7. The proposed lease would be placed on the June 2018 ballot. A simple majority favorable vote would authorize the District to proceed with the new lease.
8. Assuming a favorable outcome, the prior lease would be terminated, and the new lease and other provisions would begin during the second half of 2018.

Background

In 1989, Dignity Health (through its predecessor, St. Joseph's Medical Center of Stockton) and the District formed MTMC for the purpose of saving the hospital from financial turmoil and ensuring access to care for the residents of Calaveras County. MTMC was established as a standalone 501(c)(3) tax-exempt corporation to operate the hospital. The District retained ownership of the hospital, leasing it to MTMC for 30 years (i.e. 1990 through 2019). Simultaneously, MTMC executed a 30-year management agreement by which Dignity Health manages MTMC.

The arrangement set forth that upon termination: (a) the District would purchase any unamortized improvements from MTMC, including real property improvements (e.g. the 1997 replacement hospital) and all the equipment acquired by MTMC (approximately \$9 million), and (b) upon dissolution MTMC's proceeds (i.e. the reversionary interest of approximately \$25 million) would be split 50/50 between the District and Dignity Health.

State law requires the District to obtain voter approval of its next lease. Without a majority of voters in support of the new affiliation, the District is unable to extend the existing affiliation.