




County of San Benito ADMINISTRATIVE OFFICE

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February 7, 2024

San Benito Health Care District
911 Sunset Drive
Hollister, CA 95023-5602

Re: Letter of Intent Joint Power Authority

The County of San Benito (“County”) propose a potential collaboration with the San Benito Health Care District (“District”) to form a Joint Powers Authority (“JPA”) to capitalize, govern, and oversee the management of Hazel Hawkins Memorial Hospital.

JPAs are authorized under California Government Code § 6500, et seq., and provide a mechanism for one or more public agencies to jointly exercise powers in common to the members. In the formation of the JPA, a specific purpose is established, in this case will be focused on the operation and financing of healthcare services. JPA’s have the authority to issue bonds or to enter into contracts with outside agencies, to ensure fulfillment of stated goals.

It is understood that in 2022, the District experienced significant challenges related to its cash flow, and, as a result, the District engaged with and hired a third-party, B. Riley, to improve the performance of the hospital, medical clinics, and skilled nursing facilities. B. Riley assisted in stabilizing operations and, more recently, the District experienced positive cash flow and positive net income on a consolidated basis. Notwithstanding these recent successes, which are to be commended, the District has declared Chapter 9 bankruptcy, and the County shares the concern expressed by the District board that continued operation under the current structure may not a viable way to assure our sizable and growing community that our citizens’ future healthcare needs will be met.

As you are aware, the County engaged the healthcare management consulting firm, ECG, to provide an analysis of our local healthcare market, the future demand for services, the financial performance of HHMH, the clinics, and the SNFs, and to provide advice on strategic challenges, opportunities, and potential solutions. ECG subsequently developed a detailed business plan for the future operation of the hospital and clinics. The plan is focused on the establishment of a new medical group and restructuring of existing clinics. Additionally, the plan assumes that the JPA will establish partnerships with larger regional provider organizations to better meet local needs in areas such as cardiovascular medicine, stroke care, and others. A summary of this business plan is attached as Exhibit A.

The business plan demonstrates that the hospital could improve its operating margin and rebuild cash reserves, while gradually funding the now-frozen pension plan and investing in capital improvements. If effectively executed, the business plan will build the organization's cash reserves to over \$100 million in year 10.

In consideration of this work and ECG's advice, the County proposes the formation of a JPA that will oversee and establish a broader community governing structure the hospital, medical clinics, and skilled nursing facilities.

The purpose of the JPA will be to:

- To foster and capitalize on the further development of and expansion of a local healthcare system to deliver high-quality healthcare services to the residents of the County and the District
- To ensure a sufficient foundation of local support and long-term financial stability
- To provide mechanisms for expanding access to care by recruiting and building a local sustainable group (>25) of medical providers.
- To maintain a locally operated healthcare delivery system focusing on a mission to serve the healthcare needs of our community versus equity shareholders.
- To operate efficient health care services by eliminating unnecessary duplication of services and resources.
- To establish a formal structure for business discussions and decision-making leading to collaborative activities.
- To oversee the additional capitalization required by the District.

The JPA will appoint an operating board to include representation by each member of the JPA. The County and the District will propose a slate of representatives to be approved by the other JPA member(s). Additionally, we are suggesting that the operating board include 3-5 additional members to include healthcare experts, community members with needed skills, and physicians.

Significant components of the County's proposal are outlined below:

1. The assets of the District will remain assets of the District, and the long-term and current liabilities will remain. The District will continue to receive supplemental tax revenue, and public bonds will be repaid as specified in current indentures.
2. The County and the District will create a JPA for the purpose of operating the hospital, skilled nursing facilities, and physician clinics owned by the District. The JPA will drive collaboration, provide financial support, and set strategic direction for the organization, enabling the community to maintain locally owned, controlled, and governed healthcare. A locally controlled health system under the JPA will allow members of our community to determine how the healthcare needs of our community are met, which serves we support and need, and what investment meets the needs of our community versus those of a private, third-party organization, particularly one that is based out-of-state.
 - a. The JPA will develop an operating board, consisting of representation by the member organizations, but adding new members with different expertise, bringing

essential skills and perspectives (e.g., physicians, finance experts, healthcare administrators). A 9 to 11-member board is recommended.

- b. The JPA board will be responsible for selecting the Chief Executive Officer “CEO.”
3. The JPA will enter into strategic partnership agreements for various clinical services with academic organizations, such as Stanford Healthcare, or larger regional hospitals, such as Salinas Valley Health, to bolster the ability of the hospital to offer complex care, such as stroke, cardiology, neurosciences, etc.
4. The JPA will provide \$12-15 million of new capital for hospital operations, consisting of a minimum of \$5 million from the County and \$7-10 million of public debt issued to the JPA (not the District). JPA debt is not an obligation of the JPA members unless the members choose to become liable. The incurrence of JPA debt is not subject to a public vote. This new capital will support growth and any immediate liquidity concerns. Additional capital available to the organization may also include a ~~-\$7 million~~ receivable under the federal Employee Retention Tax Credit program and \$10 million previously committed by HCIA under California’s Distressed Hospital Loan program. This capital will be used to fund the following:
 - a. Development of a new medical group consisting of 25 physicians over a period of 5 years. These physicians will fill an increasing gap in physician capacity in the area and will drive growth to the hospital. San Benito County currently has a shortage of over 50 physicians.
 - b. Funding of currently deferred capital projects, growth capital (including a cardiac catheterization lab), and future routine capital.
 - c. Funding of an Electronic Medical Records (“EMR”) system to replace the hospital’s current antiquated system at a cost of \$10 million.
 - d. Funding of the unfunded employee pension liability overtime at the rate of \$1-2 million per year
 - e. Increasing days cash on hand (reserves) from 53 days in year 1 to 113 days in year 10. Business plan projections include:
 - i. The 2023-2024 reduction of costs in employee benefits;
 - ii. An increase in the severity and complexity of hospitalized patients (Case Mix Index or “CMI”) from 1.15 to 1.30;
 - iii. 2% growth in revenue per service; and
 - iv. Volume increases of 3-5% per year.
5. The District board will have the following reserve powers:
 - a. Approval of the JPA’s annual operating and capital budget;
 - b. JPA capital projects approval if over \$5 million;
 - c. Approval of strategic plan or business plan; and
 - d. Approval of new services or service discontinuation.
6. The County of San Benito may adopt new development fees or other appropriate fees under the existing Community Services District (CSD) to supplement hospital revenues. These funds for future development are not included in the ECG business plan, and financing of the business plan is not contingent on these fees. The City of Hollister and the City of San Juan Bautista could choose to impose similar fees as well.

8. The District will file a Plan of Reorganization with the U.S. Bankruptcy Court in San Jose that includes the terms and capitalization plan for the JPA, and essential components outlined in the ECG business plan.

Completion of this transaction will require the approval of the San Benito County Board of Supervisors, the District Board, and the U.S. Bankruptcy Court in San Jose. It also requires the execution of the JPA Agreement, the JPA Loan Agreement, and the adoption of Articles and Bylaws for the JPA.

We propose that over the next 60-90 days the County and the District work collaboratively to (1) codify the business plan and JPA formation as the centerpiece of the District's Plan of Reorganization and (2) agree on a finalized JPA Agreement and Loan Agreement, and (3) begin the process of selecting candidates for the JPA operating board.

This letter is meant to express the County's general intent only and does not constitute an offer which may be binding or create any legal rights or obligations between the parties. The parties are free to negotiate the terms of any agreement which may be reached between them with respect to the hospital.

The County looks forward to engaging in discussions around the hospital and the formation of a JPA which the County believes to be the best path forward for the community, retaining local control of the hospital and clinic and ensuring that resident needs are met for generations.

Sincerely,

By: _____

Ray Espinosa
County Administrator
County of San Benito

By: _____

Mary Casillas
Chief Executive Officer
San Benito Health Care District

Enclosures:

- a. Draft JPA Agreement
- b. Timeline
- c. Summary of ECG Business Plan
- d. Full Narrative – Business Plan