

Confidential Term Sheet

Proposed Joint Powers Authority For Governance of Hazel Hawkins Memorial Hospital

1. Parties (each, an “Agency”):

San Benito Health Care District (“District”)

County of San Benito (“County”)

One or more other public agencies (as defined in California Government Code § 6500) could be added at the approval of the District and the County. The roles and powers of these other agencies would be determined by the District and the County at that time.

2. Overview of Proposed Arrangement:

The Agencies’ joint formation and maintenance of a new and expanded governing body for Hazel Hawkins Memorial Hospital (“Hospital”), and its skilled nursing facilities, and related ancillary services and physician clinics (collectively with the Hospital, “Facilities”), that shall assume responsibility for oversight of the management and operation of the Facilities.

3. Objectives of Proposed Arrangement:

- (a) To oversee the management and operations of the Facilities, including without limitation to oversee implementation of the new business plan the Hospital prepared by ECG Management Consultants (“Business Plan”).
- (b) To create a governance structure that would include board members with a broad range of needed expertise to guide the future of health care services in the region.
- (c) To foster and capitalize the further development and expansion of a local healthcare delivery system to provide high quality services to residents of the region.
- (d) To ensure a sufficient foundation of local support through a transparent governance model with participation of residents who may have disparate ideas.
- (e) To ensure long-term financial stability for the Facilities.
- (f) To provide mechanisms for expanding access to care through the formation of a new, sustainable, multi-specialty group of twenty five (25) or more medical providers.

- (g) To increase public confidence in the local healthcare delivery system, increasing the likelihood that patients will choose to receive their care locally.
- (h) To maintain a locally operated health care delivery system focusing on serving the health care needs of the residents in the region, and to preserve and enhance access to the broadest range of services possible to all residents, regardless of their ability to pay.

4. Composition of Board:

The proposed joint powers arrangement shall create a new board of directors (“Board”) that shall serve as the governing body of the Facilities, and provide operational and strategic oversight for the Facilities and have the roles and responsibilities of the governing body as required by applicable laws and regulations and accreditation standards.

- (a) The Board shall have between nine (9) and fourteen (14) members.
- (b) Each Agency shall appoint two (2) members to the Board (“Agency Members”), subject to the approval of each appointee by the other Agency; these four (4) members shall act as the Nominating Committee.
- (c) The Nominating Committee shall appoint the remaining members of the Board, *i.e.*, no less than five (5) nor more than ten (10) (“Community Members”).
- (d) Vacancies on the Board shall be filled in the manner in which the holder of the vacant seat was appointed.
- (e) Members of the Board shall serve for terms of two (2) years; Agency Members may be removed and replaced at any time by the Agency that appointed them, with the replacement Agency Member’s appointment subject to approval by the other Agency; Community Members may be removed and replaced at any time by the Nominating Committee.

6. Reserved Powers of District:

The following actions of the Board shall be subject to approval by the District:

- (a) The Board’s adoption of each year’s Business Plan.
- (b) Unbudgeted expenditures by the Facilities in excess of five million dollars (\$5,000,000).
- (c) The Board’s approval of any agreement to enter into partnership with any third party health system.

- (d) The Board's approval of any discontinuation of a Hospital service.

7. Assessments:

The Agencies shall finance the operation of the proposed arrangement as follows:

- (a) The County shall contribute five million dollars (\$5,000,000) of initial capital to the operation of the Facilities.
- (b) The District shall delegate to the Board responsibility for the management all of the assets and liabilities associated with the Facilities, except for those to be specified. Specifically excluded shall be a fund of five hundred thousand dollars (\$500,000) each year, which shall be exclusively managed by the District in furtherance of wellness and preventive care for residents in the region.
- (c) All administrative expenses of the Board shall be paid from the operating budget of the Facilities.
- (d) All supplemental tax payments, grants, and income and expense related to Federal Disproportionate Share ("DSH") and Quality Assurance Fee ("QAF") programs shall be managed by the Board.
- (e) The County shall provide collateral to support the issuance of a bank line of credit in an amount not to exceed \$10 million.
- (f) The County may, at its sole discretion, adopt new development fees to provide an additional source of capital for the Facilities.

8. Contributions to Pension Fund:

For the first ten (10) years of the proposed arrangement, the District shall contribute amounts as necessary to fund the District's now-frozen employee pension fund. The Business Plan assumes that the required annual funding is \$3.1 million. Adjustments to such contributions to the pension fund may be made by the Agencies based on annual actuarial studies and professional advice.

9. Term and Termination:

- (a) The proposed arrangement shall be implemented after a brief transition period sufficient to accomplish an orderly transfer of powers and responsibilities and to comply with applicable regulatory requirements, and shall then remain in effect indefinitely, until terminated.
- (b) Either Agency may terminate the arrangement as of the beginning of a fiscal year of the Hospital by giving written notice to the Board not less than eighteen (18)

months before the start of that fiscal year, in order to provide sufficient time for the Board and the Agencies to work together to arrange for an orderly transition for governance and management of the Facilities.

- (c) The Agency terminating the arrangement shall bear the expenses of the Board and the other Agency in effecting that termination and transfer of responsibilities to the District.
- (d) Upon the termination of the arrangement, responsibility for the governance and management of the Facilities shall be returned to the District, and the District shall assume any and all debt incurred by the Board as described above.
- (e) Notwithstanding the foregoing, the arrangement may be terminated at any time upon the mutual agreement of both Agencies, and on the terms and conditions to which they may agree at that time.

10. Definitive Agreements.

This Term Sheet outlines the principal terms of a proposed arrangement, and is not intended to be a legally binding contract. No legally binding obligations will be created until definitive agreements are executed and delivered by the Agencies. The proposed arrangement is conditioned on the completion of due diligence, legal review, certain approvals, and the negotiation, preparation, and execution of documentation that is satisfactory to the Agencies.

San Benito Health Care District

County of San Benito

By: _____

Name: _____

Title: _____

Date: _____

By:  _____

Name: Ray Espinosa

Title: CAO

Date: 4/29/2024