



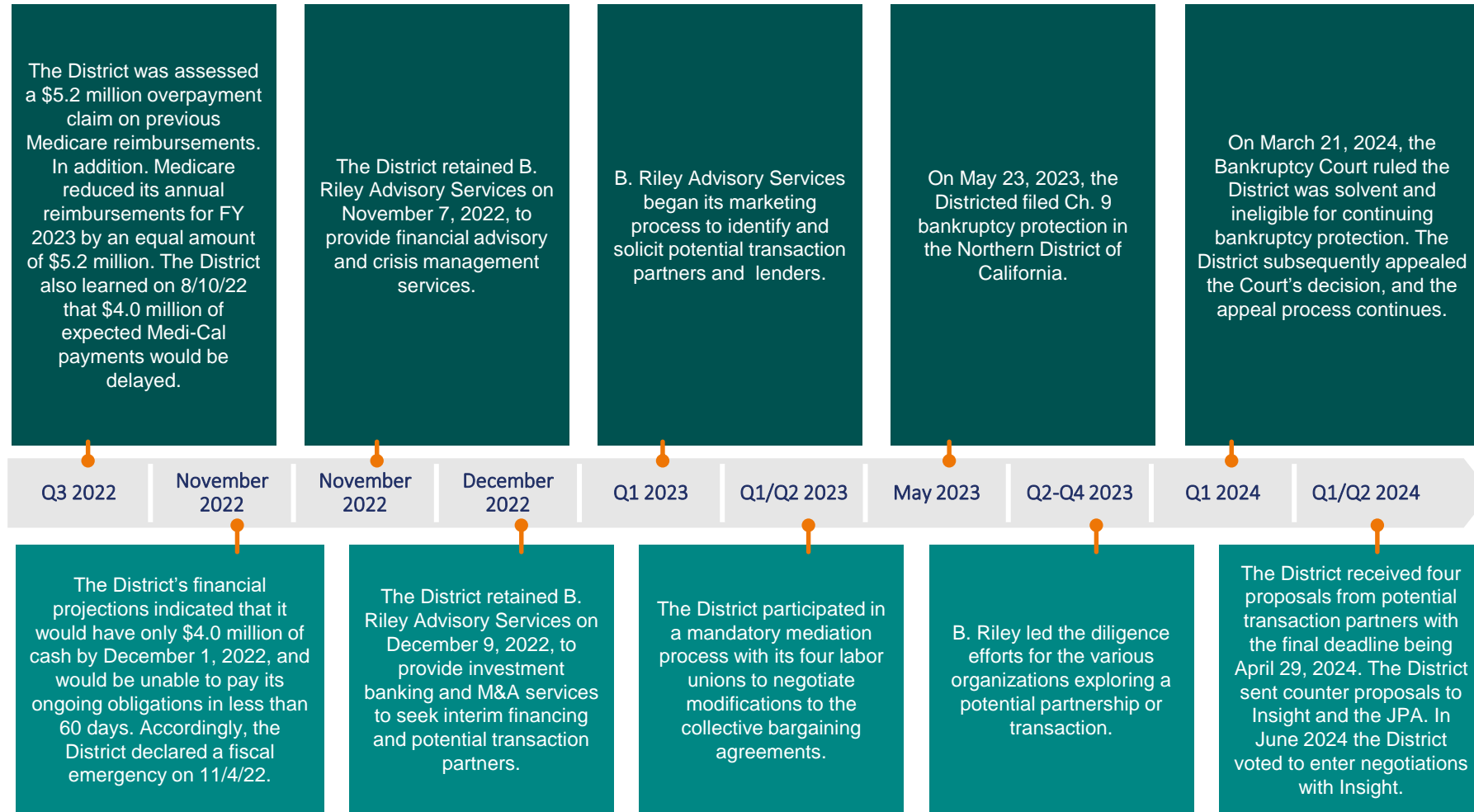
Hazel Hawkins

MEMORIAL HOSPITAL



Staff Report July 25, 2024

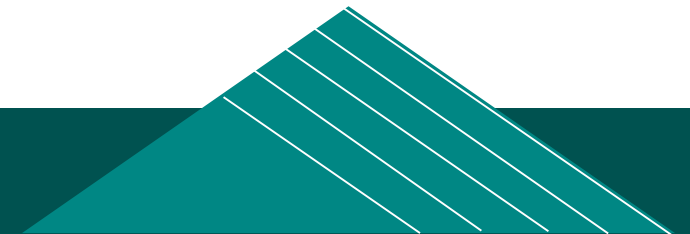
Timeline



Selection Criteria

The District's Board of Directors established certain criteria that would be used to assess the viability and quality of offers submitted by potential transaction partners. The Board's direction points were as follows:

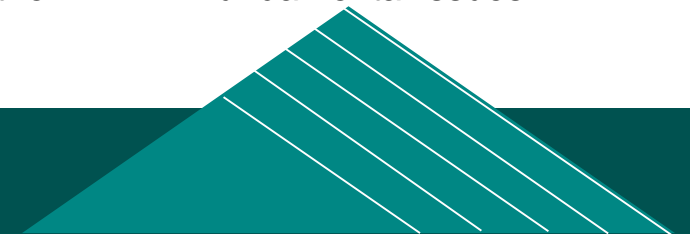
- ✓ Demonstrate a longstanding history and experience of hospital administration
- ✓ A proven track record of maintaining quality of care
- ✓ Able to mitigate risks and liabilities, while furthering the development the District's assets and expansion of care
- ✓ Proven record for turning around distressed rural hospitals
- ✓ No track record of rapid asset liquidations
- ✓ Understand the terms and conditions of the general obligation and revenue bonds, including their payoff
- ✓ Provide a proof of funds and/or sufficient financing to meet a buyer's proposed transaction
- ✓ In addition to the seven criteria points established by the Board of Directors, California law also requires any transfer of assets occur at a sale price commensurate with an independent appraisal of Fair Market Value



Marketing Process

B. Riley Advisory, under the direction of the District’s Board of Directors and Executive Team, conducted a comprehensive marketing process to solicit and identify potential transaction partners. A summary of what transpired is as follows:

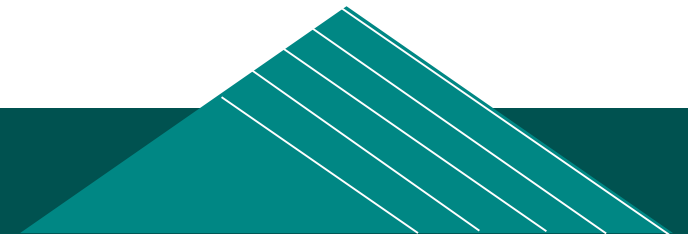
- ✓ Obtained the selection criteria from the Board of Directors
- ✓ Prepared marketing materials, including a Teaser and Confidential Information Memorandum (“CIM”)
- ✓ Approximately 150 organizations were contacted, including small and large hospital systems, skilled nursing facility operators, real estate investment trusts (“REITS”) that acquire healthcare facilities, private equity firms that own and sponsor hospital systems and other healthcare services and transaction attorneys who perform healthcare transactions
- ✓ Of the approximately 150 contacted organizations, 22 organizations executed non-disclosure agreements (“NDAs”) with the District, which allowed these organizations to perform due diligence. Some of these organizations performed a cursory amount of diligence, while others performed very extensive diligence
- ✓ Early in the process, there were some informal “offers” presented by a few organizations that were immediately considered non-starters from both a financial and viability perspective. These included sale/leaseback transactions that would have furthered increased the District’s financial risk over an extended period and did not solve the District’s fundamental issues



Marketing Process

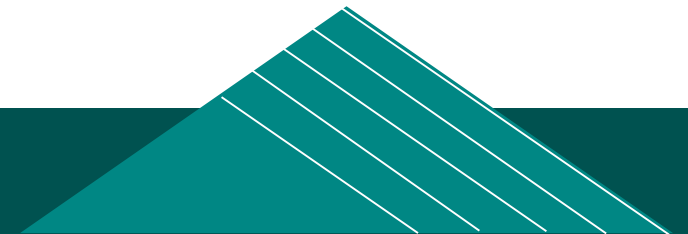
Ultimately, four proposals were submitted to the District

- ❖ San Benito Healthcare Alliance
 - ❖ San Benito County
 - ❖ American Advanced Management (AAM)
 - ❖ Insight Health
- ✓ In addition to potential transaction partners conducting diligence on the District's operations, we also performed "reverse" diligence on the potential transaction partners. For example, B. Riley, some Board Members and certain members of the District's executive team toured multiple hospital facilities owned and operated by AAM and Insight Health.



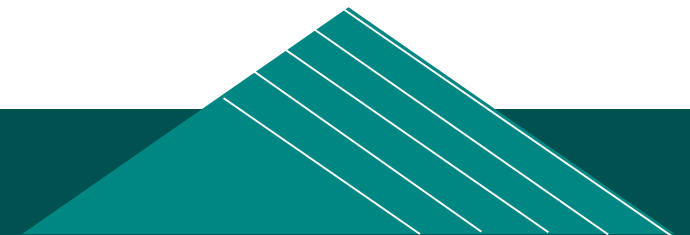
San Benito Healthcare Alliance Proposal

- ✓ The San Benito Healthcare Alliance (“SBHA”) submitted a letter to the District’s Board of Directors on January 25, 2024 (“Letter”)
- ✓ There were no substantive details in the Letter describing the nature of their proposal, so B. Riley was unable to offer a meaningful assessment of what type of transaction or economic arrangement that SBHA had in mind
- ✓ B. Riley and members of the District’s Executive Team met multiple times with a representative of SBHA, J.P. Smith, along with executives from Ovation Health, with the last such meeting on Tuesday, March 12th. Over the course of those meetings, no additional clarity was obtained from the SBHA regarding the nature of a transaction or partnership with the District. We did learn that Ovation Health was not a source of financing for the SBHA, and their only role was to provide operating consulting services and advice. In addition, no details regarding SBHA’s funding was ever provided
- ✓ On April 25, 2024, B. Riley was informed that the SBHA would be withdrawing from any future consideration as a potential transaction partner



San Benito County JPA Proposal

- ✓ San Benito County (the “County”) initially submitted a proposal to the District’s Board of Directors on February 7, 2024 (the “Proposal”) and a final Proposal was submitted on April 29, 2024
- ✓ The Proposal outlines an offer to establish a Joint Powers Authority (“JPA”) agreement between the County and the District.
- ✓ The JPA would establish a new operating board to govern and supervise the Hospital’s operations. The District’s current Board would have to subordinate many of its governance powers to this new operating board
- ✓ The Proposal calls for the County to contribute \$5.0 million to the JPA and perhaps guarantee a \$7.0 million loan to the JPA. However, no loan details, including a term sheet and/or a commitment letter was provided by a lender
- ✓ The Proposal recommends a financial plan that would assist the District by growing the service offerings through the recruitment and hiring of additional physicians over the next ten years, with the intent of capturing and retaining more of the local population’s healthcare needs
- ✓ A large majority of the proposed investment dollars in new physicians and services is predicated on the District generating significant future earnings increases that would be “reinvested” into the recruitment and funding of these new-hires



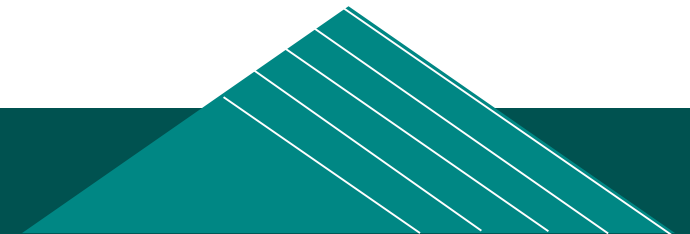
American Advanced Management Proposal

- ✓ American Advanced Management (“AAM”) submitted their Letter of Intent (“LOI”) to the District’s Board on January 17, 2024.
- ✓ The general terms of the LOI called for AAM to acquire all the District’s assets (excluding cash), but including, non-cash working capital, real estate, equipment, licenses and other intangible assets.
- ✓ The LOI indicates the consideration to be paid includes the following:
 - ✓ AAM would pay **\$15.9 million of cash at closing** and assume approximately **\$21.0 million** of current liabilities.
 - ✓ AAM would pay the District future cash amounts of **\$4.0 million per year** for a **period of ten (10) years**, or a **total of \$40.0 million of future consideration**.
 - ✓ Total consideration paid = **\$55.9 million**.
- ✓ The LOI also calls for AAM to receive a \$1-for-\$1 credit from the District for all future capital improvements and costs incurred to increase the Hospital’s capacity above 25 acute-care beds. This credit would be treated as a reduction to AAM’s annual \$4.0 million payments to the District. For example, if AAM acquired a new MRI for \$1.0 million during 2025, their 2025 annual payment to the District would be reduced by \$1.0 million to an adjusted payment amount of \$3.0 million.
- ✓ Although AAM’s total paid consideration was approximately **\$55.9 million**, since most of AAM’s consideration would be paid over a 10-year period, the actual “economic” purchase price amount on a “present value” basis was no greater than **\$46.0 million**. Accordingly, AAM’s current purchase price offer was below the appraised Fair Market Value of the District’s assets and would not meet California’s law requiring transferred assets to be sold at a price equal to, or greater than, Fair Market Value. When informed the LOI did not meet the FMV requirement, AAM chose not to modify or improve its LOI terms.



Insight Proposal

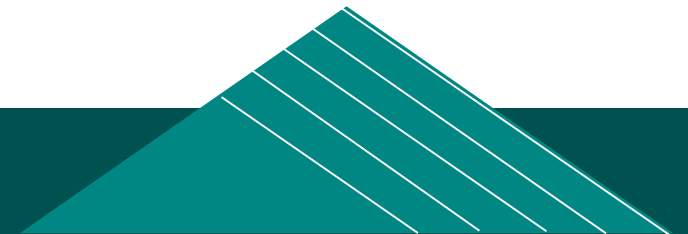
- ✓ Insight submitted their fully executed Letter of Intent (“LOI”) to the District’s Board on or about January 10, 2024
- ✓ The general terms of the LOI call for Insight to acquire all the District’s assets (excluding cash), but including, non-cash working capital, real estate, equipment, licenses and other intangible assets. The purchasing entity would be a California not-for-profit public benefit corporation established by Insight’s parent organization
- ✓ We understand the not-for-profit entity would be governed by a new board comprised of local San Benito County residents and representatives of Insight Health. This is consistent with Insight’s other hospital operations
- ✓ The LOI indicates the consideration to be paid to the District includes a combination of cash paid at closing, along with the assumption of certain liabilities:
 - ✓ Insight would purchase District assets (excluding the existing cash balances) for a cash purchase price between **\$59.0 - \$65.0 million at closing.**
 - ✓ Insight would also assume approximately **\$6.0 million** of current liabilities (this amount is subject to change)
- ✓ Insight’s proposed purchase price will provide sufficient cash proceeds to repay the District’s outstanding revenue bonds of **\$8.5 million**, and if necessary, the District’ current pension fund liability of **\$34.0 million**
- ✓ In addition, the District would retain a cash balance that is currently estimated to be approximately **\$15.0-to-\$20 million** that could be used for future healthcare needs of the County’s residents



Selection Process

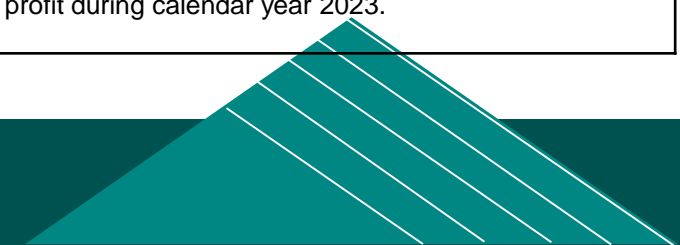
In May of 2024 the District Board of Directors decided to counter both the County of San Benito JPA proposal and the Insight proposal with covenants and requirements. Ultimately, Insight agreed to all covenants presented by the District. They are as follows;

- ❖ Five year least to purchase option with services to remain at same level
 - ❖ Five additional years of services lines remaining at same level for 10 years total
 - ❖ Retain at least 90% of current employees
 - ❖ Hazel Hawkins Memorial Hospital name to remain
 - ❖ District has right of first refusal if Insight decides to sell assets in the future
- ✓ In June of 2024 the District Board of Directors voted unanimously to direct staff to continue negotiations with Insight to come to definitive terms.



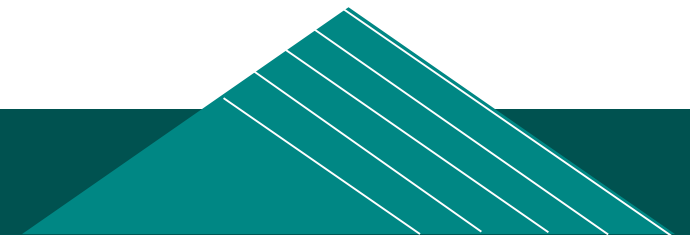
Selection Criteria vs. Insight Proposal

SBHD Criteria	Insight Health's Lease and Purchase Proposal
1. Demonstrate a long-standing history and experience of hospital administration.	<ul style="list-style-type: none"> Insight has owned and operated hospital facilities for approximately 14 years. The company owns and operates five acute care facilities in Michigan, Iowa and Illinois and manages three additional acute care hospitals in New Jersey.
2. A proven track record of maintaining quality of care	<ul style="list-style-type: none"> Insight has a strong record of demonstrating high quality care for its patients. For example, the Insight Chicago Hospital was recently rated "A" by Leapfrog for its quality of care. Insight Chicago was only one of 15 hospitals in the state of Illinois to achieve this rating.
3. Able to mitigate risks and liabilities, while furthering the development of the District's assets and expansion of care.	<ul style="list-style-type: none"> Insight's acute care facilities operate as 501(c)(3) not-for-profit public benefit corporations. Insight would also operate HHMH as a California public benefit corporation, which is its current status. Insight has a demonstrated record of operating profitable operations that are able to reinvest capital back into the expansion of services and to provide benevolent services to its local communities. As an example of Insight's commitment to local communities, look at the Sylvester Broome Empowerment Center that Insight started in Flint, MI. The Center provides services to more than 700 students every day that allow them to improve their proficiency in math, language arts, music, journalism programs, robotics, computers and many other disciplines.
4. Proven track record of turning around distressed rural hospitals	<ul style="list-style-type: none"> Insight has a demonstrated record of both successful turnarounds and creating profitable operations. For example, when it took control of Insight Chicago during June 2021, the previous owner has starved the hospital of capital and closed all services. There was one remaining patient with only a handful of remaining staff that had not left when the previous owner relinquished control to Insight. Over the course of less than two calendar years, Insight took an operation that was losing approximately \$1.0 million per month to one that earned a \$40.0 million operating profit during calendar year 2023.



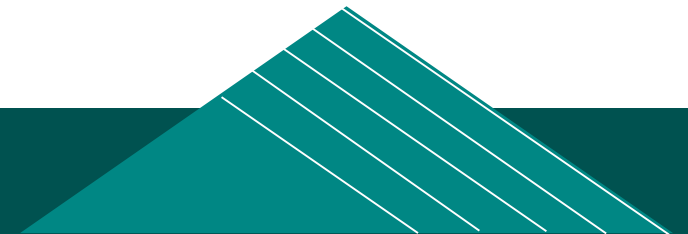
Selection Criteria vs. Insight Proposal

SBHD Criteria	Insight Health's Lease and Purchase Proposal
5. No track record of rapid asset liquidations.	<ul style="list-style-type: none">Insight has not sold or liquidated any of its acute care facilities in the 14 years of being in business.
6. Understand the terms and conditions of the general obligation and revenue bonds, including their payoff.	<ul style="list-style-type: none">Insight is fully aware of the District's capital stack. Furthermore, Insight's proposed purchase price for the working capital and equipment would provide sufficient cash proceeds to pay-off the revenue bonds and other existing liabilities.
7. Provide a proof of funds and/or sufficient financing to satisfy the proposed transaction	<ul style="list-style-type: none">Insight has provided evidence to the District's financial advisor that they have sufficient capital to satisfy both their original transaction terms and their amended proposal that calls for Insight to lease the District's real estate.Insight's lender has also provided a commitment letter indicating it can fund more than \$79.0 million, if needed.
8. Other Financial Information	<ul style="list-style-type: none">All of Insight's proposed lease and purchase price terms are commensurate with the appraised fair market value of the District's assets. This is required by California state law.



Next Steps

- Approval of Insight term sheet
- Approval of resolution to put forth a measure to the voters
- Voter approval
- Draft and finalize language with Insight for definitive terms that will come back to the Board for final approval in a public meeting





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www.hazelhawkins.com