

Desert Healthcare District and Foundation

Hospital Negotiations
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DESERT HEALTHCARE
DISTRICT & FOUNDATION

INTRODUCTION

WHERE WE ARE

- Letter sent to *Tenet* per Board's direction at the December 6 meeting
 - Requested a response to the **District's** October communication on deal points
 - Repeated the **District's** request for release of data to seek alternative proposals
 - *Tenet* replied to the **District's** data request on December 18
- Review of the response and outline the next steps

REQUEST FOR DATA

- **Tenet** again declines to provide requested data necessary to seek alternative proposals
 - Cites confidentiality issues
- The lease calls for sharing of such data in May of 2026, but the 12-month window will not allow enough time to seek proposals, negotiate and document a deal, and get voter approval before 2027 – end of the lease.
- The **District** looking to understand the implications of assuming operating responsibility for the hospital in the event no agreement is reached with **Tenet**
 - Questions include: What cash reserves are needed? How do we source those? How do we pay for seismic? What are the operational issues (IT and employees)? Can the grant program continue?
- **District** is interviewing consultants to assist

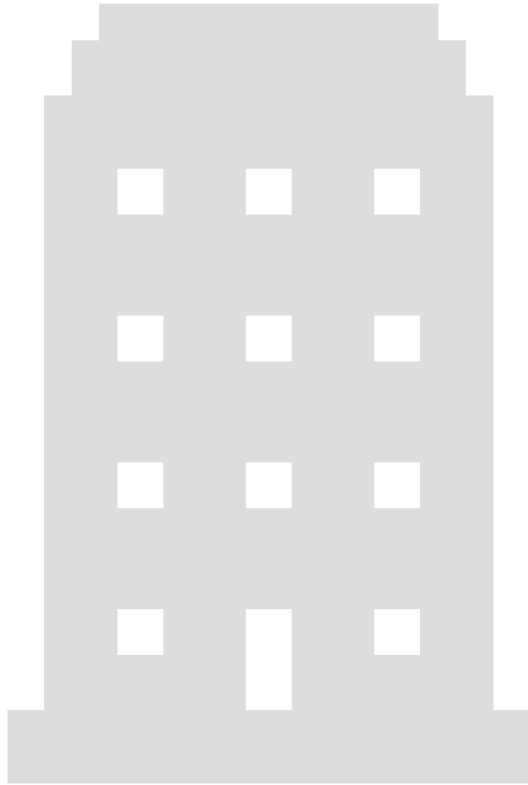
LEASE PAYMENT SCHEDULE

- Per the December 18 letter:
 - *Tenet* has offered to reduce the lease payment schedule from 30 to 15 years
 - *Tenet* has offered to increase the first payment installment from \$75 million to \$100 million
- Not an increase in payments, but a welcome acceleration of cash receipts

PAYING FAIR MARKET VALUE TO THE DISTRICT

- A requirement of the Health and Safety code
- The **District** has requested a payment at the high end of the appraisal range
- Per *Tenet's* December 18 letter, **Tenet** is sticking with original mid-range offer – \$45 Million lower than the **District's** request
 - *Tenet* points to the investments it plans outside of DRMC – welcome, but unable to count towards payment of value for DRMC
- Per their December 18 letter, *Tenet* has reduced its claim of reimbursement for “Termination Assets” from \$37 Million to \$22 Million
 - The **District** reads the lease provision differently
 - The **District** believes we owe nothing if the lease is extended

VALLEY-WIDE INVESTMENT PLANS



- The **District** continues to ask *Tenet* for a description of its planned investments in the Valley outside of DRMC
- Per their December 18 letter, *Tenet* has committed to a \$60 Million project, expanding ED and admitting at JFK
- No further information given
- **District** believes it will be important for voters to understand *Tenet's* vision for its investment in the community

SEISMIC – PUBLIC FUNDS?

- The **District** engineers have assessed the seismic compliance at \$222 Million. *Tenet* has not presented an estimate or scope of work
- *Tenet* proposes a reduction in lease payments to offset the cost of the seismic retrofit work.
- **District** counsel advises that this may result in the seismic project being treated as a public project under California law
 - Requires **District** input into the project, monitoring of actual expenditures and higher construction costs
- Lawyers on both sides are still researching this issue, with no conclusions to date
 - Outcome may impact other terms of the *Tenet* proposal
 - Complicated if seismic work is combined with other improvements to the hospital

SEISMIC – COSTS

- The **District** has proposed a savings-sharing arrangement with *Tenet* in the event the project can be completed for less than the estimated cost
- Per the December 18 letter, *Tenet* proposes instead to invest any saved dollars into its assets in the **District** by 2037 at their discretion...not necessarily DRMC.
- The **District** does not see this as an appropriate solution and discussions continue
- An important note on funding sources for seismic –
 - A tax-exempt general obligation bond (GO), payable via a District-wide property tax assessment, cannot be used to finance the seismic work if a for-profit company is operating the hospital.
 - A GO Bond could be used if the **District** assumes operating responsibility for the hospital



SEISMIC TIMING

- The **District** wants the seismic work completed by 2030, even if the state moves the deadline back again
- Per the December 18 letter, **Tenet** commits to meet the deadline, which may change
- Discussions continue

PURCHASE OPTION

- The **District** has proposed a straightforward lease to *Tenet*
- *Tenet* does not want to pay Fair Market Value again for the hospital when the new transaction expires in 30 years and proposes a purchase option in 2057
 - Per the December 18 letter, *Tenet* has increased the option payment from \$75 million to \$100 million (approx. \$10-\$11 million in today's dollars)
- The **District** has received a lot of feedback on this issue
 - Has concerns at voter reaction to a transaction involving a potential sale of the hospital
 - The Ad Hoc Committee will be proposing this evening a professional poll to seek input from the broader community, recognizing that it is a complicated issue to poll.

NEXT STEPS

- Retain consultants to report on the implications and cost of the **District** assuming operating responsibility for the hospital
- Research with *Tenet* the legal “public funds” question around the seismic project
- Conduct a poll regarding the purchase option
- Continue to negotiate with *Tenet*
- Continue to keep the Board updated in public meetings