



**DESERT HEALTHCARE DISTRICT  
SPECIAL MEETING OF THE BOARD OF DIRECTORS  
Board of Directors  
September 18, 2023  
6:00 P.M.**

University of California Riverside  
75080 Frank Sinatra Drive  
Building B – Rooms B114 & B117  
Palm Desert, CA 92211

***This meeting is handicapped-accessible***

In lieu of attending the meeting in person, members of the public can participate by webinar using the following link:

<https://us02web.zoom.us/j/84413033109?pwd=MWUvemk4NmxDaTVGWmZXRSc2MDV4QT09>

**Webinar ID: 844 1303 3109**

**Passcode: 655214**

Members of the public can also participate by telephone, using the following dial in information:

**(669) 900-6833 or Toll Free (833) 548-0282**

**Webinar ID: 844 1303 3109**

**Passcode: 655214**

You may also email [ahayles@dhcd.org](mailto:ahayles@dhcd.org) with your public comment no later than 4 p.m., Monday, 09/18

**Pages**

**AGENDA**

**Item Type**

*Any item on the agenda may result in Board Action*

**A. CALL TO ORDER – President PerezGil**

Roll Call

Director Barraza\_\_\_\_Director De Lara\_\_\_\_

Director Zendle, MD\_\_\_\_Director Shorr\_\_\_\_

Secretary Rogers, RN\_\_\_\_ Vice-President Zavala, PsyD\_\_\_\_President PerezGil

**B. PLEDGE OF ALLEGIANCE**

**1-2**

**C. APPROVAL OF AGENDA**

**Action**

**D. PUBLIC COMMENT**

At this time, comments from the audience may be made on items not listed on the agenda that are of public interest and within the subject-matter jurisdiction of the District. **The Board has a policy of limiting speakers to no more than three minutes.**

The Board cannot take action on items not listed on the agenda. Public input may be offered on agenda items when they come up for discussion and/or action.



**E. TENET PROPOSAL FOR FUTURE OPERATION OF DESERT REGIONAL MEDICAL CENTER** Discussion

3-17

1. Introduction by Steve Hollis, Consultant, and Tenet Presentation of the Proposal
2. Public Comments
3. Board Member Comments, Discussion, and Direction

**F. ADJOURNMENT**

The undersigned certifies that a copy of this agenda was posted in the Front entrance to the Desert Healthcare District offices located at 1140 North Indian Canyon Drive, Palm Springs, California, and the front entrance of the Desert Healthcare District office located at the Regional Access Project Foundation, 41550 Eclectic Street, Suite G 100, Palm Desert California at least 24 hours prior to the meeting.

If you have a disability which requires an accommodation to enable you to participate in this meeting, please email Andrea S. Hayles, Special Assistant to the CEO and Board Relations Officer, at [ahayles@dhcd.org](mailto:ahayles@dhcd.org) or call (760) 567-0298 at least 24 hours prior to the meeting.

*Andrea S. Hayles*

---

Andrea S. Hayles, Board Relations Officer



# Proposal for New Lease of Desert Regional Medical Center

---

August 29, 2023

# Tenet is Deeply Committed to the Coachella Valley

---

**Tenet Health has been part of the Desert community for over 43 years,** starting with its purchase of JFK Memorial Hospital in 1979 and expanding in 1997 with a long-term 30-year lease of Desert Regional Medical Center (“DRMC”)

- In 1996, Desert Healthcare District (“the District”) engaged in a process to find a long-term solution for DRMC, which yielded multiple bids including several non-tax paying operators
- After a thoroughly reviewed proposal process, Tenet was selected by the District and the community as the partner of choice to stabilize and grow a struggling DRMC
- In 1997, Tenet paid the District over \$100M for a 30-year lease that included pre-payment of the lease, cash, inventory, and pay-off of the District’s outstanding debt to allow the District to continue investing in the community

# Tenet is Ingrained as a Vital Part of the Economy

During this time, Tenet has:

- Become one of the biggest components of the local economy with **an economic impact of approx. \$1.4B annually** <sup>(1)</sup>
- Contributed **over \$43M in state and local taxes annually** <sup>(1)</sup>
- Supported approx. **7,000 jobs** - over 1.7x increase compared to when the lease commenced.
- Delivered over **\$117M of annual community benefit** <sup>(1)</sup>
- **Partnered on the District's expansion** by amending the current lease to remove the non-compete clause to help support the mission in the East Valley; helped fund and successfully pass the ballot initiative with the District
- And will be the only Coachella Valley health system **supporting a living wage** under SB525

# Tenet has Built a True Desert Care Network

---

- Tenet has expanded its presence in the broader Coachella Valley, **creating the Desert Care Network (“DCN”)**, which includes 3 hospitals and 25 sites of care
- DCN has strategically distributed access points ranging from **community-based primary care to high-end acute care services** across the valley
- Comprehensive nature of DCN **allows patients to access the full spectrum of care and transition seamlessly** across the continuum regardless of point of entry
- Expanded medical education for future physicians to address the local shortage, by **providing training opportunities for 100 medical residents annually**
- Since the lease began in 1997, **DCN has invested \$339M in capital improvements at DRMC** alone and **\$117M at JFK Memorial Hospital** <sup>(1)</sup>

# Tenet's DCN is the Most Accessible Care for Underserved Residents

---

- DCN is the **largest provider of medical services to lower-income, underserved** populations in the Valley - **~60% of Medicaid patients in the Coachella and East Valley** receive their hospital care through DCN
- In 2022, **DCN delivered over \$117M of community benefit** through charity care, discounts to the uninsured and debt forgiveness
- From 2019 to 2022, **DCN trained over 1,000 non-physician clinical staff**, a critical factor to increasing access to services across the valley
- **Actively enrolled over 25,000 residents in Medi-Cal** through dedicated staff resources to ensure coverage and access to care
- **Partnered with the District to extend community health access across** the East Valley through initiatives including the “mobile medical clinics” program

# Tenet's National Scale Enables DCN to Provide Affordable Care

- Tenet's national service center and regional presence allows DCN to **deliver care for patients in an efficient and low-cost manner**
- Support capabilities across **revenue cycle, information technology, supply chain, human resources, physician recruitment** and other areas provide for expertise and efficiencies
- Tenet's operating platform **allows DCN to deliver care for less than other local providers**
- These **cost savings transfer directly to patients, employers and the broader community**

## Tenet at a Glance

8.5M patient encounters

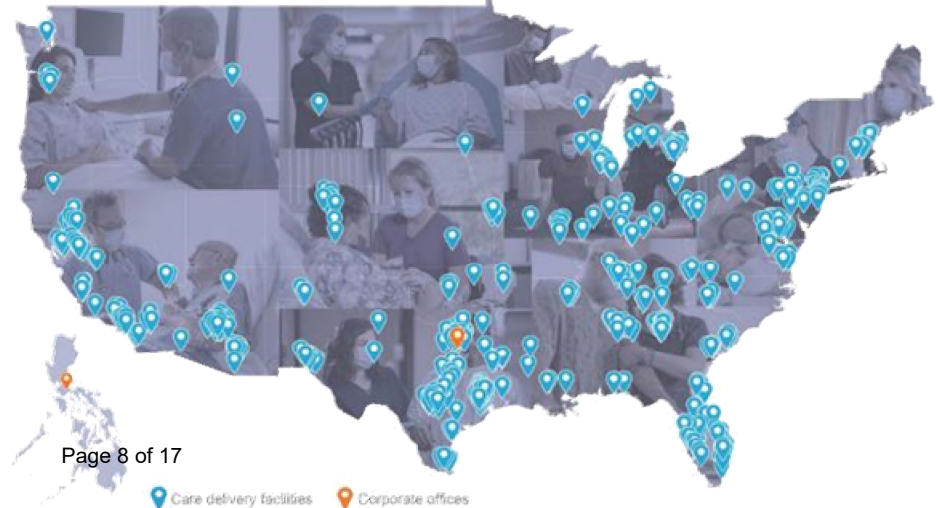
>100K employees

~\$7B in uncompensated care

520+ US locations

67 California facilities

50+ years of operating experience





# Securing the Future of DRMC Now Provides Mutual Benefits

---

**DRMC is a critical piece of the Desert Care Network.** As the termination of the current lease nears (2027), programs and investments throughout the area are stalled awaiting a determination of DRMC's future

- We believe it is time to clarify DRMC's future and **secure DCN's long-term presence in the area**, which we believe will mutually benefit the District, DCN, and most importantly, the residents of this area that we both serve
- Mutual agreement on a long-term solution will:
  - Provide **long-term financial security and stability to the District**, allowing a significant expansion of services across the District
  - Provide a clear path to ensure DRMC continues to comply **with California's seismic compliance and safety** requirements
  - With certainty around a long-term presence, DCN can pursue **additional investments in facilities and enhanced services** throughout the area
  - Create additional opportunities for partnership between DCN and the District, **ensuring that high-quality equitable access to services and care** are available to all residents of the area

# Tenet's Proposal Overview: Enter into New Long-Term Lease

- Tenet is prepared to make a financial commitment of almost **\$1B** directly to the District or related healthcare facilities, plus the broader continued economic impact of DCN in the community
- Tenet understands the District's preference is to enter into a new lease rather than consider a sale of DRMC at this time. Accordingly, Tenet / DCN proposes a 30-year lease of DRMC commencing in 2027 with operating and other covenants generally consistent with the existing lease, structured as follows:
  - An initial payment by Tenet of **\$75M** in 2024 to help support District community priorities in the near-term, followed by annual lease payments beginning in 2027
  - As more fully described on the following pages, the total economics would be based on the District's recent 3<sup>rd</sup>-party assessment of Fair Market Value for DRMC, which results in **\$677M of total payments** to the District over the term of the proposal
  - Tenet would be responsible for maintaining DRMC's compliance with the State's seismic readiness requirements which relieves the District from an estimated **\$222M in state required investments**
  - Tenet to continue to make strategic investments across DCN

**With this proposal, Tenet / DCN's financial commitment to the Valley exceeds **\$1.5B** since the commencement of the initial lease**

# Determining Fair Market Value Lease Terms

- The District’s recent engagement of VMG resulted in a “**Fair Market Value of the Business Enterprise**”, which establishes an appropriate starting point for discussions of a new lease between the District and Tenet
- In addition to the base valuation, there are several factors that must be considered as part of any discussion involving a new lease:
  - The value of the Business Enterprise includes not only District assets, but also items owned by Tenet essential to the operation of the business, specifically:
    - Net Working Capital
    - Assets used in the operation of the business, such as equipment, business records, recent capital improvements, and real estate or businesses related to the operation of DRMC not owned by the District (collectively referred to as “Termination Assets” in the current lease)
  - The cost of the work required to comply with current State of California regulations mandating hospitals’ compliance with seismic readiness standards by 2030, as well as the question of who pays for the work
- Adjusting for these items results in a calculation of the **Fair Market Value Sale Price**

# Determining Fair Market Value Lease Terms (continued)

<ul style="list-style-type: none"> <li>▪ We began with the mid-point of the range of <b>Fair Market Value of the Business Enterprise</b> (“FMV”) as determined by VMG.....</li> </ul>	<b>\$590,000,000</b>
<ul style="list-style-type: none"> <li>▪ We then adjust for the value of assets owned by Tenet which are included in the valuation</li> </ul>	
<ul style="list-style-type: none"> <li>Normalized Working Capital<sup>(1)</sup>.....</li> </ul>	(90,600,000)
<ul style="list-style-type: none"> <li>“Termination Assets”<sup>(2)</sup>.....</li> </ul>	(36,983,501)
<ul style="list-style-type: none"> <li>▪ This is the fair value Tenet would pay to the District to purchase a seismically-compliant DRMC today.....</li> </ul>	<b>\$462,416,499</b>
<ul style="list-style-type: none"> <li>▪ If Tenet assumes the obligations to make DRMC a seismically-compliant hospital, we deduct the present value of this remediation from the fair value.....</li> </ul>	(183,763,049)
<hr/>	
<ul style="list-style-type: none"> <li>▪ The <b>Fair Market Value Sale Price</b>, or the value at which Tenet would be willing to purchase DRMC today, and the basis for our lease proposal.....</li> </ul>	<b>\$278,653,451</b>

Notes:

- 1) Normalized level of working capital as determined by VMG
- 2) Tenet’s calculation of the Termination Assets as defined in the current lease is \$61,587,010. Valuation indication adjusts for present value

# Proposed Lease Terms

- In order to provide the District a lease equivalent to a **Fair Market Value Sale Price**, we propose the following:
  - Effective Date (assumed): June 1, 2027
  - Term: 30 years
  - Pre-payment: \$75M (prepaid in 2024)
  - First lease payment in 2027 = \$11.9M and escalates annually
  - The lease would be structured as a triple net lease, meaning Tenet is responsible for all rent & utilities, plus all insurance, maintenance and taxes
- **Seismic Compliance:** Tenet would assume all seismic upgrade responsibility, including funding for all construction (estimated to be \$222M) plus the incremental costs to oversee and manage the project
- At the end of the lease, Tenet will have the right to purchase DRMC by making a final payment of \$75M to the District
- **Lease payments to the District total \$602M.** Adjusted for the time value of money<sup>1</sup>, this equals approx. \$279M, equivalent to the **Fair Market Value Sale Price**
- If Tenet exercises its purchase option, total payments = \$677M

**Annual Lease Payment Schedule**

Period	Year	Lease Payment
Pre-Payment	2024	\$ 75,000,000
	2025	\$ -
	2026	\$ -
1	2027	\$ 11,932,742
2	2028	\$ 12,171,396
3	2029	\$ 12,414,824
4	2030	\$ 12,663,121
5	2031	\$ 12,916,383
6	2032	\$ 13,174,711
7	2033	\$ 13,438,205
8	2034	\$ 13,706,969
9	2035	\$ 13,981,109
10	2036	\$ 14,260,731
11	2037	\$ 14,545,945
12	2038	\$ 14,836,864
13	2039	\$ 15,133,602
14	2040	\$ 15,436,274
15	2041	\$ 15,744,999
16	2042	\$ 16,059,896
17	2043	\$ 16,380,974
18	2044	\$ 16,708,342
19	2045	\$ 17,042,109
20	2046	\$ 17,382,286
21	2047	\$ 17,728,874
22	2048	\$ 18,081,882
23	2049	\$ 18,441,310
24	2050	\$ 18,807,168
25	2051	\$ 19,179,456
26	2052	\$ 19,558,184
27	2053	\$ 19,943,362
28	2054	\$ 20,335,000
29	2055	\$ 20,733,108
30	2056	\$ 21,137,696
Final Payment <sup>(2)</sup>	2056	\$ 75,000,000
<b>Total</b>		<b>\$ 676,699,337</b>

Note: (1) Assumes an 8.0% Discount Rate  
 (2) Assumes Tenet exercises final payment at the end of lease

## Other Key Lease Terms

---

- The new lease would document the District's and Tenet / DCN's commitment to work together to expand access to care in the East Valley
- The new lease would contain operational covenants generally in line with those in the existing lease between the District and Tenet
- The new lease would contain a non-compete clause similar to what exists in the current lease, but with an expanded territory aligned with the District's current boundaries
- The new lease will contain a provision to ensure a portion of the annual District / Foundation spend, in collaboration with the hospitals, aligns with and benefits the hospitals and communities served

# Tenet / DCN is Prepared to Continue Investing in the Valley

Substantial capital would be deployed across the community

1

## A Vision for Desert Regional

- DCN has engaged an engineering and consulting firm to help support planning for DRMC's near-term needs and contemplates future capabilities
- Current plans if DCN continues to operate include expanding service capabilities and increase capacity for patient care areas
- Preliminary renderings are available as design and capital outlay projections are underway

2

## Investing in JFK Memorial

- DCN has engaged an engineering and consulting firm for facility upgrades should it remain in the valley
- Increasing capacity will allow for greater access to emergency and trauma care in the Eastern Coachella Valley

3

## Investing in the East Valley

- DCN is prepared to partner with the District for future access points in the East Valley
- Investing in outreach in the East Valley could include: physician offices, mobile clinics, GME residents, transportation, street & backpack medicine, health screenings, and physician recruitment

# Tenet's Operation of DRMC Helps the District Achieve its Priorities

## District Priorities:



Expand community access to primary, specialty, and behavioral health care services, particularly in the Eastern Coachella Valley

- ✓ DCN continues to invest and expand services and programs in the East Valley
- ✓ DCN continues recruitment of high-quality, local physicians
- ✓ DCN continues to expand and tailor services to the entire community
- ✓ DCN continues providing a high-level of charity care to residents



Secure the financial resources necessary to support community health needs

- ✓ District receives significant economics
- ✓ DCN will commit to maintaining DRMC seismic compliance
- ✓ DCN plans to continue to invest across the community; contingent upon our continued presence in the Valley



Contribute to the economic stability, environment and education of the community

- ✓ No disruptions at DRMC or any DCN-operated locations, including to over 3,000 employees and their families, and more broadly 7,000 jobs <sup>(1)</sup> across the community
- ✓ DCN maintains and enhances quality of care and service
- ✓ DCN willing to expand healthcare education opportunities
- ✓ DCN continues to pay local property taxes and sales taxes



# Tenet is the Right Long-Term Operator of DRMC for the District

---

## Why our continued partnership makes sense

- Tenet / DCN has operated DRMC successfully in partnership with the District for over 25 years and has a long history of understanding how to best serve the needs of this community
- There will be no disruptions to healthcare services in the market from an operator transition
- Tenet / DCN is well-equipped to complete the seismic upgrades at DRMC with minimal delays and disruptions to care during construction; our sister hospitals can assist with continuity of care
- District will receive substantial cash proceeds to build upon its existing foundation and continue to enhance the healthcare needs of the community
- Tenet / DCN is not subject to state legislature funding allocations and can support both employed and independent physician models in the community
- Tenet will continue to support DCN across revenue cycle, information technology, supply chain, human resources, physician integration and other areas

## Why both parties want to move forward now

- Necessary seismic upgrades are on hold until there is a decision on a long-term agreement
- Reaching an agreement on the certainty of DRMC / DCN's long-term position in the community will allow for us to move forward with planned capital projects

**An agreement will allow for Tenet / DCN and the District to collaborate, openly discuss, and initiate long-term strategies resulting in improved access to care across the Coachella Valley**