MINUTES OF THE MAY 21, 2019 MEETING OF THE
PETALUMA HEALTH CARE DISTRICT BOARD OF DIRECTORS

CALL TO ORDER
President Hempel called the meeting to order at 12:00 PM in the lobby conference room at
1425 N. McDowell Blvd.

PRESENT
Elece Hempel, President
Fran Adams, RN, BSN, Secretary
Gabriella Ambrosi, Director-at-Large
Crista (Chelememos) Nelson, Director-at-Large
Jeffrey Tobias, MD, Acting Treasurer

ALSO PRESENT
Ramona Faith, CEO, PHCD
Andrew Koblick, Controller, PHCD
Ruth Wells, Board Clerk, PHCD
Jim Goerlich, RN, Petaluma Staff Nurse Partnership
David Southerland, St. Joseph Health
Lucinda Williams, RN, Petaluma Valley Hospital

CALL FOR CONFLICT
President Hempel called for conflict. There was none.

MISSION AND VISION
CEO Ramona Faith read the mission and vision of the Petaluma Health Care District.

The mission of the Petaluma Health Care District is to improve the health and well-being of our community through leadership, advocacy, support, partnerships and education.

Petaluma Health Care District envisions: A healthier community; a thriving hospital; local access to comprehensive health and wellness services for all.

CONSENT CALENDAR
A MOTION was made by Director Adams and seconded by Director Ambrosi to approve the following Consent Agenda items:
Agenda for May 21, 2019
Minutes of the PHCD Special Board meeting of April 15, 2019
Minutes of the PHCD Board meeting of April 16, 2019
Financial Statements for March 2019

This motion was PASSED by a vote of 5 ayes (Directors: Adams, Ambrosi, Hempel, Tobias) and 0 noes.

PUBLIC COMMENTS ON NON-AGENDIZED ITEMS

Jim Goerlich reported on an unfolding nursing shortage at Petaluma Valley Hospital due to the significant pay disparity between PVH and other regional facilities as well as a challenging work environment. The Petaluma Staff Nurse Partnership (PSNP) perceives the enduring wage stagnation as an issue of willful intent on the part of the employer, and the union has increasing concerns for patient safety as nursing attrition continues.

There has been a marked increase in Assignment Despite Objection (ADO) reports. Mr. Goerlich shared anecdotal examples of instances when staffing was inadequate to the patient load and acuity. Nurses worked without breaks and were called away to triage in addition to their patient assignments. Staff are also put in a position of caring for increasingly dangerous patients.

The nurses union is frustrated that management is focused on the patient satisfaction-oriented Cultural Compass program while the workplace environment continues to deteriorate. The staffing issues seem to be fixable problems, but they feel that management is not a willing partner in finding a solution.

Contract negotiations are dragging. At the last two negotiation sessions SJH showed up with nothing to offer; all proposals are being made by the union. While progress on issues is being made, it is dragging and contributing to dangerous situations. PSNP feels the public has a right to know. The union is not trying to shame SJH, but is frustrated with the lack of response.

Mr. Goerlich submitted several graphs for the public record illustrating service decreases and a trend in cash flow away from PVH to the SJH system. Those graphs are appended to these minutes beginning at Page 9.

Mr. Goerlich promised to share these same concerns in public comment at the SRM Alliance Board meeting next week. The Board thanked Mr. Goerlich for his comments.

Lucinda Williams concurred with Mr. Goerlich’s comments that patient acuity has been extremely high, resulting in compromised quality of care. The Board thanked Ms. Williams for her comments.

BOARD COMMENTS

Director Tobias stated that as the District’s representative on the SRM Alliance board, he tries to raise the nurses’ issues at SRM Alliance board meetings. He asked whether the PHCD Board would consider in the future facilitating a public discussion at a PHCD Board meeting between the nurses’ union and management to respond to the questions raised by the union.

Director Adams cautioned that the PHCD board be aware of its limitations in responding to operational issues. While it is not okay that the nursing staff feels abused, the District may not have any direct influence on their issues. She agreed that the Board should invite both union and management representatives to discuss the nurses’ patient safety concerns and pay disparity.
CEO Faith noted that the hospital has a process for addressing ADOs where staff submit ADOs and management responds to the ADOs. What Mr. Goerlich presented was what was submitted. It does not include management’s response. If District is to hear issues raised by staff, it also needs to learn what management’s response has been.

Director Tobias proposed that an agenda item be scheduled to discuss ways PHCD can facilitate moving the parties forward in their contract negotiation.

President Hempel reviewed two chapters 52 Ways to Make a Better Board, which the board is reading together. Chapter 30 discusses keeping egos in check. Public board members should make decisions on behalf of all constituents, not just those who elected them. Chapter 31 likewise reminds directors that their actions should be in serving their community, not themselves. Director Ambrosi will review the next two chapters in June.

STAFF REPORT REGARDING COMMENTS/ISSUES RAISED IN PUBLIC COMMENTS AT THE MARCH 19, 2019 BOARD MEETING

President Hempel noted that staff were asked to gather and present facts in response to the issues raised in Public Comments at the March 19 board meeting.

CEO Ramon Faith recalled that several nurses shared their experience at PVH, and Jeff Adams raised financial questions. Ms. Faith shared the concerns raised with hospital management. She subsequently also discussed the issues with SRM Alliance board chair Scott Pritchard. Both SJH management and the SRM Alliance board would like the nurses to address their concerns to the SRM Alliance board.

Ms. Faith reiterated that the PHCD board has no authority over operational issues nor finances at PVH. However, employee satisfaction is important to the PHCD board as it affects the quality of care. She has asked Mr. Southerland to present the results of a recent employment engagement survey for Petaluma Valley Hospital.

Ms. Faith noted that one of the PVH nurses attended the March 26 SRM Alliance board meeting to listen. She anticipates that several more will attend the May 28 meeting. She continued to encourage staff to raise issues of concern with hospital administration and the SRM Alliance board.

Ms. Faith later checked with PSNP on the status of contract negotiations with SJH. She was informed by staff that negotiations are proceeding slowly and the union is concerned about the outbound migration of nursing talent. SJH feels that there has been some progress made in negotiations. Ms. Faith felt she cannot address some of the financial questions raised by Mr. Adams as they would require extensive changes in SJH’s accounting procedures and reporting. However, a seven-figure discrepancy over a 12-month period does warrant answers. This was addressed by the financial officer at the SRM Alliance board meeting. She has raised the question with SJH’s Director of Financial Operations for an explanation as to how the change in the reporting year might have produced such an uncharacteristic result.

PETALUMA VALLEY HOSPITAL

SRM Alliance Board Update

The Board welcomed David Southerland (Interim PVH VP of Operations) to the meeting. He provided the following operational update.
A “table-top” disaster drill was run at the hospital this morning. It was a very intense and valuable experience.

SJH management has been advised that the County Health Department has a significant budget deficit due to a reduction in tax revenues following the 2017 fires. They anticipate $11M in cuts that will severely affect board and care facilities across the county. 250 individuals are at risk of losing housing and services. The crisis stabilization unit will be reduced from 16 to 12 beds. Any reduction in psych capacity will impact all other health care facilities, as people turn to emergency departments in crisis situations. A 16-bed psychiatric hospital in Sebastopol is in development with 14 beds dedicated to Sonoma County residents, but will not ready for service until March 2020.

SJH Medical Network, a new network of providers, is being introduced in Sonoma County through the insurance products offered through Western Health Advantage. The network enhances the medical insurance options for Petaluma Valley residents. The alliance also helps spread risk management across the SJH network.

Mr. Southerland stated that general surgical staffing to support the Emergency Dept. is improving. SJH is recruiting two surgeons who will soon be on board. Ms. Faith questioned whether a meeting Dr. Cho requested between surgeons and management has occurred. Mr. Southerland reported on progress in that dialog. Management is working to keep call pay competitive with the marketplace.

Mr. Southerland reported that PVH scored well on the recent General Acute Care (GAC) hospital relicensing survey, similar to Joint Commission. The results are being summarized to be incorporated into action plans. Director Tobias asked whether any new issues had surfaced through the survey. Most areas for improvement were anticipated.

Mr. Southerland reviewed why and how the Cultural Compass employee engagement program was developed. SJH’s goal is to improve patient satisfaction scores by improving employee engagement. Ritz Carlton was selected as the vendor because of their emphasis on improving customer satisfaction. SJH is trying to use that model to improve employee engagement. To date approximately 5,500 employees in Northern CA have been trained through the Cultural Compass.

In response to the earlier Public Comments about staffing shortages, Mr. Southerland acknowledged the staffing challenges and noted that unanticipated absences can take weeks to cover. Ms. Faith noted that SJH Interim CEO Tyler Hedden has acknowledged pay disparity as an issue for recruiting and retention and he hopes negotiations move forward.

Director Tobias observed that while negotiations are always difficult for all parties, the protracted length of the nurses’ contract negotiation is compounding existing problems. Mr. Southerland responded that federal labor law constrains the employer’s ability to make pay adjustments in the midst of an existing agreement. The next contract negotiation meeting will be May 24. The Board continued to encourage SJH to reach resolution quickly.

Mr. Southerland stated that SJH is now also in negotiation with the facility engineer union and has just began negotiations with the service employees union. Installation of the new surgical washer is anticipated to take two months to complete. In the meantime, instruments are being shuttled to Santa Rosa Memorial Hospital for cleaning.

**2018 Employee Engagement Survey Results**

As Ms. Faith requested, Mr. Southerland provided a high-level summary of the recent caregiver experience survey. The results combine PVH and SRM responses. 35% of respondents indicate they are highly engaged. Strengths are compassion and collaboration. Opportunities include
staffing, communication and work load. 35% of respondents believe in the goal/objectives of the organization. Comments added by participants focused on staffing, manager visibility, leadership training, computer training, patient acuity related to behavioral health needs, safety/security and more communication around changes.

Management is working on plans to address areas:
1) Provide regular communication so that caregivers have information to do their jobs, using the Success Vectors evaluation tool
2) Daily communication with caregivers regarding work load and resource support. SJH uses daily huddles (described at the April board meeting) to stay on top of developing issues
3) Review department-specific action plans quarterly
4) Psych/behavioral health support is being developed with County Behavioral Health for ER referrals to an appropriate setting
5) Seeking a locum tenens psychiatrist to improve safety, patient care and quality
6) Shared governance, primarily in nursing, focusing on shared decision making
7) Cultural Compass was created by care givers to retain focus on the ministry’s mission of compassion

Ms. Faith clarified that the Board would like to see data that is specific to PVH, and have historically received PVH-specific information. She also questioned if 35% of employees are highly engaged, what is the percentage who are somewhat engaged or disengaged?

Director Adams said suggested that 10-year trends are important to look at. Director Tobias noted that the context of other changes in health care overall also need to be considered. Ms. Faith stated that historically SJH had provided the PVH-specific data, and only in recent years has reported SRM/PVH results in combination.

Director Hempel noted her exception to the County Health Department’s explanation of the current budget being a result of the 2017 fires, when prior mismanagement was a far greater and more detrimental contributing factor.

Director Nelson asked how close the parties are to reaching agreement on the nursing contract. Mr. Southerland does not participate directly in the negotiations, but acknowledged that they have been in the negotiation process for more than a year. While both parties are eager to find common ground to move forward, they also have to operate within the legal advice they receive.

The Board thanked Mr. Southerland for his presentation.

**ADMINISTRATIVE REPORTS**

**PRESIDENT’S REPORT**

President Hempel acknowledged Directors Adams’ birthday.

**CEO REPORT**

CEO Ramona Faith distributed a press release on the grant making decisions approved at the May 7 Board meeting. One of the recipients – Buckelew – has given PHCD notice that if the County’s proposed budget cuts to mental health are implemented, Buckelew will not be able to expand to Petaluma. PHCD is proceeding with the grant until the final decision on budget cuts is made.
Ms. Faith acknowledged and thanked Director Adams for her participation in the grants review committee process. All awardees have been notified and will be present and acknowledged at the May 23rd Community Partnership Appreciation Breakfast. Other awards also being made that day are to Paul Marini and Leslie Hart as Golden Heart recipients, and Karla Lounibos as the 2019 Health Hero award recipient.

Director Nelson asked if any grant awardees were repeat recipients. Ms. Faith indicated there are a few, but there are several new recipients this year. A convening of recipient program managers as a mid-year reporting step has been added to the reporting process this year. Director Tobias asked if there is a process for the grant recipients to provide a grant report highlighting how the funds were used based on the application. Ms. Faith confirmed there is a mid-year check in and an end of the year report requested from all parties funded.

Ms. Faith referenced the development of CA Assembly Bill 890 (Wood; expanding the scope of practice for nurse practitioners). The Association of California Healthcare Districts (ACHD) had asked for a letter of support as the bill was being introduced, but Ms. Faith was unable to obtain Board input and direction within the requested time frame because the Board has been cautious in taking advocacy positions in the past. President Hempel requested that the advocacy policy draft (part of the CHIPA Charter) be brought back to the Board for discussion so that a clear process can be developed.

The District has received a request for Census data for the district from the Fair Political Practices Commission. The Commission adopted new regulations for their Enforcement Division in 2019 that are applied based on the population of an entity under investigation. It is incumbent upon each special district to supply their U.S. Census population information. Staff will research and respond with the requested data.

The Sonoma County LAFCO proposed budget was noted.

Ms. Faith observed that the California Special Districts Association (CSDA) offers a broad range of education webinars for board members and suggested that the board may want to consider membership in CSDA in the future. She reminded directors that sexual harassment prevention training is required. Qualified courses are offered by CSDA, the California Chamber of Commerce as well as at the ACHD annual meeting this fall. Staff is researching which agency to use to meet the sexual harassment prevention training.

**BOARD CONTINUING EDUCATION REPORTS**

Director Ambrosi summarized her experience at the ACHD Leadership Academy in January. ACHD provided a wealth of information for new directors about good governance and encouraged district directors to advocate for health policies at the state level. Director Nelson also attended the Academy where both took advantage of the ethic training offered, which included role playing to demonstrate how the law (AB1234) applies. Additionally, Director Ambrosi found it enlightening to see that different districts have differing issues and how they have developed different community programs in response.

Director Tobias reported from his experience at ACHD’s Legislative Day this past April. 2020 will likely be the last year that this program is offered. Director Tobias met with Sen. Bill Dodd to update him on the SJH and District lease negotiations. He also discussed health care policy
and offered his perspective on patients’ experience. He emphasized that some larger issues are more effectively addressed by state government than by local agencies.

Director Tobias also met with the new health affairs officer for Assembly Member Marc Levine. The change from the Brown administration to the Newsom administration has changed the flow of legislation as the new Governor’s willingness to use his veto power is tested. Gov. Newsom is more focused on health care issues.

Assembly Member Cecelia Aguiar-Curry addressed the ACHD conferees. She is more aware of special districts issues and engaged in legislation that helps districts. Among legislative initiatives she has introduced is Assembly Constitutional Amendment 1 (ACA 1), which proposed a constitutional amendment to allow local jurisdictions to enact tax measures with a 55% majority (rather than the current 2/3rds). She anticipates it will take at least a year for the Newsom administration to get established and set their priorities.

Strategic Planning occurred next, but is minuted in the order of the agenda.

**FORGING A NEW PATH FOR PETALUMA VALLEY HOSPITAL**

CEO Ramona Faith reported that SJH has been advised that the Attorney General’s decision on the formation of ST Network is now anticipated by late July.

**FINANCIAL SUSTAINABILITY**

The FY 2019-2020 budget draft was not ready to be presented today because the Finance and Business Development Committee had not yet met to review it. The budget will be largely similar to FY 2018-19, but will include a small net staffing increase to expand the Healthquest program and CHIPA community outreach. Current fiscal performance is running approximately $300,000 better than budget due to cost savings on legal expenses while the ST Network approval process is completed.

Ms. Faith is scheduled to meet with an attorney to move forward the process of creating a 501(c)3 District entity.

**INFORMATIONAL ITEMS**

There were no comments on the informational items in the agenda packet.

**STRATEGIC PLANNING: REVIEW DRAFT STRATEGIC PLAN 2019-2024**

Planning consultant B J Bischoff joined the meeting to present the draft strategic plan. The draft strategic plan confirms the board’s direction for the coming five years, responds proactively to community health needs, and aims to preserve the long-term viability of the District and the availability of acute-care and emergency services at Petaluma Valley Hospital (PVH).

Following approval of the plan by the board, CEO Faith and senior staff will develop a more granular plan with actionable steps and deadlines for the next 12-18 months. The mission and vision statements for the District are reaffirmed, as well as core values. The plan will include a footnote about the prospect of dropping the word “care” from the District’s name at a future time, reflecting the change in philosophy among districts statewide to move beyond focusing on treatment to addressing the social determinants of health.
The Board had hoped the local triennial Community Health Needs Assessment would be complete to incorporate into the District’s review, but the final report hasn’t been released. A draft copy shows that priorities countywide remain largely unchanged, so the final report will not likely change the District’s priorities, but will help identify where opportunities for partnership exist.

The plan acknowledges the District’s strengths as well as challenges in the social and political environment. It also clarifies the Title 22 requirements (California Code of Regulations) that define the desired level of acute and emergency services to be maintained at PVH.

The new plan’s priorities are largely the same as the previous plan:

1) Ensure the continued presence of a community-based acute care hospital
2) Serve as a leader and resource for community health, wellness and prevention
3) Serve as a leader in fostering and expanding community partnerships to address the social determinants of health to create improved, equitable health outcomes
4) Build a firm financial foundation for the District, with long-term revenue streams to promote community health and to protect the presence of necessary health facilities in the community
5) Strengthen the overall leadership and performance of the District board and staff; enhancing public awareness of the District’s role, including a public convening to increase awareness of health and wellness opportunities and challenges

It was noted that the draft plan may not sufficiently recognize age-friendly issues, which will increase as the population ages. The Board should discuss whether to join existing efforts for Petaluma to attain the World Health Organization’s Age Friendly designation, or simply to work with local agencies and organizations to keep senior population issues in the conversation at all levels of planning and services. President Hempel offered to prepare a presentation on the issues of an aging community for a future board meeting discussion.

Ms. Bischoff will incorporate the feedback from this discussion into a final draft of the plan for the Board’s approval and adoption at the June meeting.

The Board thanked Ms. Bischoff for her presentation and work in guiding the strategic planning process.

**PUBLIC COMMENT ON CLOSED SESSION ITEMS**

There were no public comments.

**ADJOURN TO CLOSED SESSION**

President Hempel adjourned the meeting into Closed Session at 2:45PM for a

- **Government Code §54956.8** Closed Session; real property transaction; meeting with negotiator – (400 North McDowell Blvd.); Bouey & Black, LLP

**ADJOURN TO OPEN SESSION**

President Hempel adjourned the meeting to open session at 2:59PM.

A MOTION was made by Director Tobias and seconded by Director Ambrosi to approve a proposal from VMG Health to perform a fair market valuation of Petaluma Valley Hospital for the purposes of completing a new hospital lease.
This motion was PASSED by a vote of 5 ayes (Directors: Adams, Ambrosi, Nelson, Hempel, Tobias) and 0 noes.

A copy of the valuation engagement agreement is appended to these minutes beginning at Page 14.

**PLUS / DELTA**

No comments were offered.

**ADJOURN**

The next regular Board meeting is scheduled for June 19 at 5:30PM. Since that is the opening day of the Sonoma-Marin Fair, President Hempel requested that the Board Clerk poll the directors to find another day and time for the June regular business meeting.

President Hempel adjourned the meeting at 3:03PM.

Submitted by Fran Adams, Board Secretary
Recorded by Ruth Wells, Board Clerk

Appendices – graphs offered in Public Comments

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<tr>
<th>Description</th>
<th>Total Combined Change</th>
<th>PVH</th>
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<tr>
<td>Salaries &amp; Wages</td>
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Operating Expense cont’d.

**Operating Expense**

Total Change (2018 less 2008) by Category & Entity
As a $ and %
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*continued*
The FACTS

- 2008 thru 2017 Total Combined Productive Hours (PVH and Hospice) decreased by 89,442 hours representative of approximately 41.6 Full-Time Equivalents (FTEs)
  - PVH lost 35,999 productive hours representing 17.4 FTEs
  - PVH lost 52,443 productive hours representing 34.2 FTEs
- In 2018, PPVH gained an additional 3.5 FTEs or 1.7 FTEs (Hospice Data not available)
  - PVH lost a total of 11,872 productive hours between 2008 and 2018 representing a loss of 57.1 FTEs.

Productive Hours

RN Specific

- Since 2008, thru 2018 PVH Registered Nurses have lost 44,645 productive hours equivalent to 22.3 FTEs.
- Since 2008 thru 2018 Registry RN’s have gained 26,836 productive hours equivalent to 12.9 FTEs.
- In the last year, between 2017 and 2018, PVH Employee RN’s lost 19,709 productive hours equivalent to 9.2 FTEs.
- In the last year, between 2017 and 2018 Registry RN’s have gained 18,274 productive hours equivalent to 9.0 FTEs.
- By the end of 2018, Registry RN’s represented almost one quarter (23.1%) of RN productive hours.

The FACTS... continued

- Clinical & Other Administrative and Registered Nursing lost the most hours from 2008 thru 2018, equivalent to 24.6 and 21.6 FTE, respectively.
- PVH Employees lost a total of 180,505 productive hours equivalent to 77.2 FTE between 2008 and 2018.
- However, Registry RN and Other Contracted Employee gained 52 FTE in 2018.
- Since 2017, PVH Productive Hours increased by 2,562 hours or 1.7 FTE.
  - Contracted Hours RN and Others gained 22,888 equivalent to 10.8 FTE.
  - PVH Employee’s loss 18,927 productive hours equivalent to 9.1 FTE.
Intercompany Payables

Definition
An intercompany payable is an accounting transaction occurring between two departments, regions, or subsidiaries owned by the same company. It is a transaction in which one of the agencies owes the other agency money for a transferred asset or rendered service.

The FACTS
- 2011 was 52.8 M
- 2012 was 56.2 M
- 2013 was 57.8 M
- 2014 was 54.4 M
- If you add 2007 (54.7 M) with 2011 (52.8 M), 2012 (56.2 M), 2013 (57.8 M), & 2014 (54.4 M) then these five years represent 83% of the total debited to PVH or $27.5 M
- PVH has been credited six of the twenty-one years as follows:
  - 3 M in 2009
  - 2 M in 2010
  - 4 M in 2014
  - 5 M in 2015
  - 5 M in 2016
Petaluma Valley Hospital

Valuation Engagement Agreement

June 1, 2019

Ramona Faith, MSN, RN
Chief Executive Officer
Petaluma Health Care District
1425 N McDowell Blvd., Suite 103
Petaluma, CA 94954
Valuation Engagement Agreement

VMG Holdings LLC d/b/a VMG Health ("VMG") is pleased to offer the valuation or other transaction advisory services outlined in this agreement ("Agreement") to the Petaluma Health Care District ("PHCD" or the "Client").

Background and Description
St. Joseph Health (the "System") currently leases the facility and operations of Petaluma Valley Hospital (the "Hospital") from the Client. We understand the System and Client are currently re-negotiating this lease arrangement. An affiliate of the System is also leasing another building from the District to use in connection with its hospice operations (the "Hospice Building").

As such, the Client has requested a third-party independent fair market value ("FMV") analysis of the leases of the Hospital and the Hospice Building as of a current date (the "Valuation Date") to assist the Client in discussions with the System. VMG will conduct scope of work deemed necessary to determine an FMV opinion. Analysis may include specific valuation of underlying real and personal property of the Hospital along with all other relevant terms and conditions of the contemplated lease agreement.

Purpose of the Engagement
The purpose of this engagement is to assist Client with internal planning and in fulfilling its obligation to provide an independent valuation pursuant to California Health & Safety Code Section 32121(p).

Use and Disclosure of the Report
VMG’s valuation report ("Report") may only be used for the purposes stated above and within the Report. VMG understands the Client will disclose our work product to the public domain; however, VMG will be under no obligation to discuss our analysis with anyone other than the Client and the System.

Engagement Scope
This engagement is a Valuation Engagement as generally outlined below.

A "Valuation Engagement" is defined by the American Institute of Certified Public Accountants ("AICPA") Statement on Standards for Valuation Services ("SSVS") No. 1 in VS sec. 100, and establishes standards for the valuation of a business, business ownership interest, security, or intangible asset. This involves an estimate of value of a subject interest applying the valuation approaches and methods deemed appropriate in the circumstances. The Report expresses the valuation conclusion as either a single amount or a range.

Services Not Included Within Scope of This Engagement
- Formal real estate valuation
- Physical inventory of Hospital assets
- Assist in transaction advisory services
- Due diligence or quality of earnings analyses
- Financial reporting post transaction
- Formally presenting our analysis or addressing questions from the public

Standard of Value
The standard of value will be fair market value ("FMV"), generally defined by the International Glossary of Business Valuation Terms as the price, expressed in terms of cash equivalents, at which a property would change hands between a hypothetical willing and able buyer and a hypothetical willing and able seller, acting at arm’s length in an open and unrestricted market, when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts.
In a healthcare setting, FMV has additional limitations imposed by the anti-kickback statute and the Stark law. Under these limitations, healthcare FMV is generally defined as the value in arm’s-length transactions, consistent with the “general market value” as defined by 42 CFR §411.351. The general market value is the price that an asset or compensation arrangement would bring, from bona fide bargaining between well-informed buyers and sellers who are not in a position to generate business for the other party. The fair market price is usually the price at which bona fide sales have occurred for assets of like type, quality, and quantity in a particular market at the time of acquisition, where the price or compensation has not been determined in any manner that considers the volume or value of anticipated or actual referrals.

**Engagement Deliverables and Timing**
VMG will provide Client a draft of the Report and associated exhibits within six weeks of receipt of all requested data. VMG will finalize the opinion at the request of the Client.

**Fees**

Professional fees pertaining to this engagement are represented as follows:

<table>
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<tr>
<th>Valuation Service</th>
<th>Professional Fee Range</th>
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<tbody>
<tr>
<td>Fair Market Value Opinion of Lease Rate</td>
<td>$90,000 - $120,000</td>
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The fee for this engagement will be invoiced as follows:
- **$30,000** retainer to initiate the engagement;
- Reasonable out-of-pocket expenses, billed at cost; and
- One-time administrative fee of **$350**.

**Standard Hourly Rates:**
- Managing Director: **$490**
- Director: **$440**
- Manager: **$380**
- Senior Analyst: **$330**
- Analyst: **$275**
- Administrative: **$100**

**Additional Fee for Increase in Scope, Client Reviews, or Poor Data**
Fees include issuing the deliverables above and responding to customary questions from Client and its auditor, tax, or legal advisors. Additional fees will be required for an increase or change in engagement scope, poorly formatted or excessive Client data, significant delay in receiving required data, or involvement in subsequent reviews beyond the customary work effort. VMG will notify Client before any such additional fee is incurred due to any of these factors.

**Additional Fee for Subpoena or Testimony**
If VMG is required by law to produce information, prepare testimony, testify, or provide additional analysis based on receiving a subpoena, court order, summons, administrative request, or similar process, Client will pay for VMG’s consulting time and expenses to comply with such demand at then-current hourly rates, including copying costs, attorney’s fees, and document production costs. VMG will notify Client of any such demand before incurring costs. VMG must and will remain independent throughout any testimony or production.

**Late Fees and Independence**

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PHCD Board of Directors Meeting Minutes 05-21-19
Invoices are due upon receipt. Unpaid invoices outstanding more than 31 days will incur a 1% monthly fee. VMG may withhold services, testimony, and Report delivery if any issued invoices are unpaid. Credit card payments incur a 5% surcharge. If this agreement is canceled, Client will only be obligated for fees and expenses incurred to the date of termination. VMG’s fee is not contingent on VMG’s valuation conclusions or any subsequent event related to it.

Authorization

We appreciate the opportunity to service the District. To authorize, please sign below and return to Colin McDermott at Colin.McDermott@VMGHealth.com. Please call with any questions at (972) 616-7808.

Respectfully Submitted,

[Signature]

Colin McDermott, CFA, CPA/ABV
Managing Director

Client of Record: Petaluma Health Care District

Signature: [Signature]
Name: [Name]
Title: [Title]
Date: [Date]
Email: [Email]
Phone: [Phone]
Address: [Address]
City, ST Zip Code: [City, ST Zip Code]

Billing contact information (if different than Client of Record).

Name & Title: ____________________________
Company: ____________________________
Address: ____________________________
City, ST, Zip: ____________________________
Date: ____________________________
Phone #: ____________________________
Email: ____________________________
Attachment A: Terms and Conditions

Confidentiality: VMG shall maintain the confidentiality of Client’s information and will not disclose or use it for any purpose other than Client’s engagement. This excludes information (i) available to the public, (ii) already in VMG’s possession, or (iii) from a party having no confidentiality obligation to Client. VMG may use Client’s name and logo in its Client list, with proper reference.

Reliance on Data Provided by Client: VMG will not independently verify information provided by Client, its advisors, or third parties acting at Client’s direction. VMG assumes the accuracy of all such information.

Client of Record and no Third-Party Reliance: Only the Client is the Intended User of, and may rely on, VMG’s Report. Client may not substitute this reliance for its own due diligence. VMG understands the Client will disclose our work product to the public domain; however, VMG will be under no obligation to discuss our analysis with anyone other than the Client and the System. No third party shall have the right of reliance on the Report, and neither receipt nor possession of the Report by any third party shall create any express or implied third-party beneficiary rights.

No Different Use of Report: The Report may only be used for the purposes and premise of value stated in this Agreement and in the Report. Client may not generate different valuation scenarios or discount rates.

Mutual Indemnification and Limitation of Liability: VMG shall defend and indemnify Client, its directors, officers, and employees for any liability, claims, expenses, and reasonable attorneys’ fees associated with VMG’s breach of any third-party intellectual property rights, bodily injury or property damage caused by VMG’s personnel or representatives related to this engagement, except to the extent caused by Client negligence or misconduct.

Client shall defend and indemnify VMG, its directors, officers, and employees against any liability, claims, and expenses, and reasonable attorneys’ fees, resulting from VMG becoming part of, or named in, an administrative or legal dispute related to this engagement, except to the extent caused by VMG’s negligence or misconduct. VMG and Client shall not be liable to each other for any consequential, incidental, special or punitive damages. VMG’s liability to Client is limited to the fees received by VMG for that engagement.

Client Compliance with Laws: VMG assumes Client and related parties have complied with all federal, state, and local laws applicable to the healthcare industry and the transaction. These include the Stork Law, the Anti-Kickback Statute, the Medicare and Medicaid Patient and Program Protection Act, the False Claims Act, Civil Money Penalties Law, HIPAA, state laws, regulations by the U.S. Department of Health and Human Services, the Centers for Medicare and Medicaid Services, and the Inspector General.

No ADA or Environmental Compliance Review: VMG will not investigate if any assets are subject to or in compliance with the Americans with Disabilities Act of 1990, nor any environmental compliance matters.

HIPAA: Client acknowledges it is subject to the Health Insurance Portability and Accountability Act ("HIPAA") and shall de-identify all data it or its agents provide to VMG to remove all individually identifiable health information under the HIPAA Privacy Rule. VMG’s engagement does not require such data.

No Assurance of Forecasts: VMG does not assure any forecasted results. Events and circumstances may not occur as expected, actual results may be materially different, and achieving forecasted results depends on the actions and plans of others.

Response to Subpoena: If lawfully compelled to disclose any Client documents, VMG will provide Client written notice so that it may seek a protective remedy, if applicable.

Governing Law and Disputes: This Agreement is governed by the laws of Texas. Any dispute shall be resolved with binding arbitration under the Rules of Practice and Procedure of Judicial Arbitration & Mediation Services, Inc. The arbitrator’s judgment may be entered by any state or federal court having jurisdiction. The prevailing party shall be entitled to reasonable attorneys’ fees and costs, including appealing or enforcing any judgment.

VMG HEALTH
WE VALUE HEALTHCARE