

# FAQs

## Tulare hospital lease agreement

*The lease agreement between the Tulare Local Healthcare District and Adventist Health was designed to re-open the Tulare hospital as quickly as possible, stabilize hospital services and restore community confidence. Adventist Health's proposal was the only offer the district received to re-open the hospital quickly. The lease agreement was thoroughly reviewed by attorneys and leaders for the district and Adventist Health as well as an ad hoc committee of community experts, including an attorney, accountant, real estate professional and finance officer, before the board gave unanimous approval. The lease is now in the hands of Tulare district voters, who will decide on November 6 whether to approve or deny the agreement with a Yes or No vote on Measure H.*

### Why do we need to lease the hospital to an outside organization?

The hospital was closed in October 2017 due to severe financial problems related to improper prior management. The district is now in bankruptcy and is struggling to pay its overdue bills. Without a partner such as Adventist Health, the district wouldn't have the resources to re-open the hospital. Even without these issues, having a larger partner makes sense in this day of hospital care. Many hospitals our size are struggling or have failed. In addition, a lease will protect us from the disaster that hit us with unwise board decisions and incompetent management in the last few years.

### What are the agreement terms?

The agreement includes three phases.

#### Phase 1: Support toward re-opening in October

- Credit line of up to \$10 million
- Coordination with regulatory agencies
- Staffing plans
- Equipment replacement and repairs
- Facility repairs

#### Phase 2: Interim hospital management

- Adventist Health manages Tulare Regional Medical Center as a public acute-care hospital from the time of reopening until the lease begins.

#### Phase 3: Hospital lease

- Subject to voter approval on November 6
- 5-year terms, renewable by Adventist Health 5 times, up to 30 years
- Option to buy, subject to voter approval in separate, future election

### Will the hospital re-open in October?

The district, with support from Adventist Health, is pushing hard toward an October 15 opening. Adventist Health has deployed a large workforce at their expense to get our hospital ready to reopen. While there is no 100% guarantee that state and federal agencies will give approval, we have every confidence, based on our continued dialogue with these agencies and AH's expertise in managing hospitals, that we will re-open on that date. We are onboarding more than 100 employees on September 10 and have announced an October 15 ribbon-cutting. The work that has been accomplished since the June 27 board approval is nothing short of remarkable.

## **Why did the board choose Adventist Health for this partnership?**

Adventist Health's proposal was the only one that offered to re-open the hospital quickly and without requiring a bond. The organization also has a proven track record of turning around struggling hospitals. Examples include hospitals in Reedley, Selma, Marysville and Tehachapi. It also has the support of a large healthcare system, with 20 hospitals in the Western U.S. and is ranked among the largest 5 nonprofit healthcare systems in California.

## **Why was Adventist Health interested in Tulare?**

Adventist Health's mission to live God's love by inspiring health, wholeness and hope leads the organization to look for ways to expand access to care. With hospitals in Hanford, Selma, Reedley and Bakersfield and dozens of medical offices across the Valley, the Tulare hospital provides an opportunity to build synergy among the services and expand access to care.

## **What services will be offered when the hospital re-opens?**

The hospital will reopen with nine basic services – emergency, medical surgical nursing, intensive care, emergency surgery, anesthesia, pharmacy, nutritional services, medical imaging and lab. Additional services, such as obstetrics (childbirth), pediatrics, elective surgery and outpatient imaging, will be re-opened as soon as staffing and additional repairs are complete and AH can ensure quality programs.

## **Is it true that Adventist Health won't have to make any lease payments for 18 months, and all hospital revenue will go to them?**

During the first six months after the license transfer, which is expected in the first quarter of 2019, the district will not be required to make any payments to Adventist Health on the \$10 million loan, and Adventist Health will not be required to make any payments on the lease. This enables both parties to stabilize their respective financial situations immediately following the transfer.

After six months, the district will begin making payments on the loan in the same amount as the lease payments due to the district from AH.

After those 18 months, the district will begin receiving half of the lease payments due, with the remaining half continuing to be used to repay the \$10 million loan. After the loan is fully repaid, Adventist Health will make full lease payments to the district.

After Adventist Health assumes management of the hospital at the re-opening on October 15, all revenue and all expenses are their responsibility. In the first year of operations, Adventist Health projects a business loss of nearly \$1 million, which will be covered 100% by them.

## **Will the district be able to pay its bills or debt without lease or operations revenue?**

The district is working on a financial plan that is satisfactory to the Bankruptcy Court. It is unclear at this point what must be done to meet creditors' needs and demands, but it is likely that the district will need to take additional loans to continue operating after the hospital re-opens, but hospital operating costs will fall to AH.

## **Why does Adventist Health have the option to leave our hospital after five years without penalty, while our district cannot get out of this contract for 30 years?**

The opt-out provision was designed to maximize the opportunity for the community to benefit from AH investment. If the district could terminate the lease every five years, AH would limit its investment to a five-year payback. The investment required to keep healthcare facilities, equipment and services updated far exceeds that time frame. The "triple net" lease terms require AH to cover routine maintenance and operational costs.

The district does have the ability to cancel the lease early if AH were to stop providing acute care hospital services or if state or federal agencies were to determine that the hospital should close due to unsafe care. If conditions in the health care industry drastically change and AH decides to exercise the opt-out clause, the hospital would be turned back over to the district to operate at it chooses, after a lengthy notice to the district.

### **Will taxpayers need to pay for another bond to complete construction requirements within 10 years under threat of defaulting on this agreement?**

The district will retain ownership of all real estate assets. Cost estimates to complete the tower range from \$40 million to \$60 million. It is unreasonable to expect a tenant to make that level of investment in a building it doesn't own.

AH would love to provide care from a brand-new building, and the community would undoubtedly love to receive care in a new building for which it is already paying property taxes. To do so, the district will need to complete construction. Once construction is complete, AH would enter into a new lease that would reflect the value of the new space.

The community clearly communicated through the failed bond measure in 2016 that it did not want to pay more for the tower. That rejection was largely due to a lack of confidence in hospital operations. The district and AH are committed to rebuilding that confidence through delivering the quality, compassionate healthcare services the community deserves.

The existing hospital will not comply with earthquake safety requirements after the year 2030. AH has the ability to exit the lease agreement if the building will no longer comply with the law.

### **If at any point in those 30 years the district fails to meet the financial and performance demands in this agreement, can Adventist take away Evolutions, clinics and all other assets put up as collateral on the AH loan?**

The collateral is secured by Evolutions and other real estate only until the time that the hospital is open and operating and the public votes in favor of the lease. If the public votes against the lease, AH will exercise its collateral rights to be repaid for its loan. If the public vote supports the lease, the collateral will be released as payments are made through the reduction of lease payments until fully paid, which is estimated to be in less than five years.

Adventist Health has also generously agreed to limit the level of encumbrance and subordinate its position on the collateral to allow the district to utilize the equity for other financial strategies. This means that the district can take another loan out against Evolutions and other property, and repayment to that lender is guaranteed before repayment to AH.

### **Which doctors will make decisions at the hospital? Will my personal physician have privileges? Will other 'problem' doctors be back to work at the hospital?**

The Tulare Medical Executive Committee (MEC) that was reinstated by the Tulare County Superior Court this summer retains the authority to approve or deny medical staff membership and privileges at the Tulare hospital. The court's action reinstated the Tulare medical staff membership, bylaws and leadership back to the date when it was dismissed in January 2016. Physician partnership is critical for re-opening and operating the hospital, and Tulare and Adventist Health physicians have been meeting to collaborate on those processes and requirements.

## **What types of cases will the Tulare hospital care for? Is it true that serious trauma and heart cases will bypass our local hospital and go to Kaweah?**

Because the Tulare hospital will provide medical/surgical nursing, ICU and emergency surgery services as well as supporting imaging, lab, pharmacy and nutritional services, many emergency patients will be admitted to the Tulare hospital. With medical staff approval, an experienced emergency group, Vituity, is expected to serve the emergency department and will stabilize and transfer patients who need a higher level of care.

## **What will happen if voters don't approve the lease agreement on November 6?**

A survey conducted in June showed 85% voter approval of the lease, and AH and the district are moving forward as if voters will give approval. They have hired more than 150 people to resume operations and invested several million dollars to repair and update the hospital and equipment.

If voters reject the lease, the district will be out of money and unable to pay for the newly restored jobs. The district's management firm, attorneys and other contracted services likely will exit due to non-payment. With no cash, little income, and much debt, it is expected the hospital will be quickly closed and fenced.