MARK TWAIN
HEALTH CARE DISTRICT

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Meeting of the Board of Directors
Wednesday January 24, 2018
7:30 am
Mark Twain Medical Center Classroom 2
768 Mountain Ranch Rd,
San Andreas, CA

Agenda

Mark Twain Health Care District Mission Statement
"Through community collaboration, we serve as the stewards of a community health system that ensures our residents have the dignity of access to care that provides high quality, professional and compassionate health care".

Updated Attachments Distributed on Jan. 23, 2018

Resolution 2018-01 to Approve Terms for New Lease

Wind up Term Sheet of Prior Lease

Term Sheet for New Lease and Other Deal Points

Resolution 2018-02 Call for 6-5-2018 Ballot Measure

VMG Health - Fair Market Value Report

BEFORE THE BOARD OF DIRECTORS OF THE
MARK TWAIN HEALTH CARE DISTRICT

RESOLUTION 2018 - 01____

RESOLUTION TO APPROVE TERMS FOR A NEW LEASE AND RELATED AGREEMENTS WITH DIGNITY HEALTH

The Board of Directors of the Mark Twain Health Care District ("District Board") does hereby resolve as follows:

WHEREAS, in 1989 the Mark Twain Health Care District (the "District") entered into a joint venture with St. Joseph's Regional Health System of Stockton ("St. Joseph's") to manage and make continuing improvements to Mark Twain Hospital, which later was renamed the Mark Twain Medical Center (the "Medical Center"); and

WHEREAS, as part of the joint venture, the District and St. Joseph's formed the Mark Twain Medical Center corporation (the "Corporation") and the District then entered into an agreement with the Corporation to lease the Medical Center to the Corporation (the "1989 Lease"), which lease will expire on December 31, 2019; and

WHEREAS, St. Joseph's later merged into Catholic Healthcare West, which was later renamed as Dignity Health, a California nonprofit corporation; and

WHEREAS, in order to prepare for the expiration of the 1989 Lease and in light of the District Board's desire to continue and improve operations of the Medical Center and the District, the District Board undertook a multi-year planning process to identify an approach to best meet the District's objectives of enhancing the economic viability of the Medical Center and promoting a broad range of healthcare services to the residents of Calaveras County; and

WHEREAS, the District Board's planning process included numerous public study and input sessions, medical community input, provision for necessary financing, and ongoing strategic planning; and

WHEREAS, the District Board considered a wide range of potential operational models for the Medical Center, both free-standing and with non-Dignity Health affiliations, including the evaluation of feasible and desirable changes to the operation of the Medical Center; and

WHEREAS, the District Board ultimately determined that a new long-term lease to the Corporation for 10 years with 20 years of renewal options (the "New Lease") and other terms of the proposed deal with Dignity Health would provide the optimal choice for meeting the above described objectives and more particularly to:

➢ improve the health and quality of life of the communities served by the District and Medical Center

➢ improve the County-based healthcare system in order to maintain the full continuum of services provided by the Medical Center and the District

➢ provide a stronger opportunity for developing and expanding hospital and physician services needed in the local community

➢ provide superior quality healthcare at a competitive price, while being better equipped to control health care costs; and

➢ position the Medical Center and its affiliated physicians to best meet national and state health reform initiatives impacting healthcare delivery and reimbursement; and

WHEREAS, as a result of negotiations and opportunities for public input, the District and Dignity Health have agreed to terms for the New Lease and the termination of the 1989 Lease as specified in the "*Term Sheet for Wind-up of Prior Lease*" dated January 18, 2018 attached hereto as Exhibit A and the "*Term Sheet*" dated January 18, 2018 attached hereto as Exhibit B (the two term sheets together, the "Term Sheets"). The Term Sheets describe a process whereby the parties will terminate the 1989 Lease, commence the New Lease, agree to the amendment of the articles and bylaws of the Corporation, and agree to certain financial obligations including a transfer of most of the District's 50% ownership interest in the Corporation, a mechanism for the future allocation of Corporation assets, and contributions by Dignity Health, subject to voter approval for the transfer of assets as described below; and

WHEREAS, to satisfy Section 32121(p)(1) of the Health & Safety Code of the State of California which requires the District to determine if it is obtaining fair and reasonable value for the assets being transferred, the District retained VMG Health, an independent expert on appraisal and valuation of healthcare-related facilities and assets, in order to determine the value of the assets being leased or transferred by the District and the value being obtained by the District under the proposed transactions, whose report dated January 18, 2018 (the "Valuation Report") was prepared in compliance with and to address the requirements of Section 32121(p)(1); and

WHEREAS, pursuant to Section 32121(p)(1), the Valuation Report determined that the consideration being received by the District from the Corporation and from Dignity Health satisfies the "fair and reasonable consideration" requirement of Section 32121(p)(1), even recognizing the District's utility and other obligations under the Term Sheets, which consideration consists of, among other things, the following:

- The form of operations that will produce the optimal chance for long term successful provision of nonprofit, community based, hospital and related healthcare services for Calaveras County is continued operation of the Medical Center by a nonprofit corporation under the New Lease with specified adjustments and tradeoffs regarding rent, utilities and other expenses, as opposed to a sale or lease at maximum potential value to an outside entity without District oversight.

- Dignity Health will pay the District $14.5 Million at closing as compensation for the right to 49 percent of the Corporation's assets. After deducting the District's payment for early termination of the current lease, which includes the District's obligation to pay for the undepreciated portion of certain property, plant and equipment, the District estimates that the arrangement will provide approximately $6 Million upfront that it may use in part to support community-based health care services.

- The District will receive a minimum $100,000 per month rent for the Medical Center. The first five years' rent will be prepaid at closing (i.e., at least $6 Million), that the District may use in part to support community-based health care services,

- Dignity Health will match any grant by the District to the Mark Twain Medical Center Foundation to support programs and projects at the Medical Center that the District makes in the first year of the New Lease, up to $1 Million.

- The Corporation will provide office space and furniture for the District to conduct its affairs and a room for Board meetings.

- The New Lease will ensure continued operation of the general acute care hospital and emergency room for at least 10 years – and up to 30 years – versus less than two years remaining under the 1989 Lease. As an incentive to continue leasing and operating the Medical Center, if the lease is not renewed for the full 30 years an early termination fee will be paid to the District equal to $10,000 for each month of the remaining 30 years (e.g., $2.4 Million if terminated after 10 years), which the District can use to help fund alternative arrangements for the Medical Center.

- The New Lease will give the District authority to preserve at least 25 acute care beds, telemedicine services, and other licensed services in the Medical Center for at least five years.

- The District will have added ability and support to develop new clinic facilities and upgrade healthcare services in Valley Springs and other Calaveras County communities; and

WHEREAS, the District Board finds that the transactions contemplated by the Term Sheets are the best alternative to other arrangements it considered, especially by maintaining healthcare facilities and services in a nonprofit setting; and

WHEREAS, the District Board finds that the transactions contemplated by the Term Sheets are necessary to provide for the continued maintenance and operation of the District's healthcare facilities, services and programs, thereby assuring availability to residents of the District of local emergency and hospital services, and has determined it to be in the public interest, in the best interests of the District, and in the best interests of the communities served by the District, and in furtherance of the purposes of the District, that the District consummate the transactions contemplated by the Term Sheets, including the New Lease.

NOW, THEREFORE, the Board of Directors of the Mark Twain Health Care District hereby resolve:

1. That all the determinations, findings, and conclusions of the District Board described above are hereby severally ratified, confirmed, approved and adopted in all respects.

2. That the form, terms and provisions of the Term Sheets are hereby approved in all respects.

3. That the District shall hereby submit to the voters of the District a measure proposing to approve the transfer of assets as contemplated by the Term Sheets.

4. That the President of the District Board or the Executive Director with assistance by District staff, its general counsel and other consultants as may be required are hereby authorized and directed to negotiate and prepare or cause to be prepared the New Lease, amendments to the Corporation articles and bylaws, and other documents required to implement the Term Sheets, as contemplated by or as consistent with the terms of the Term Sheets and this Resolution, including without limitation any exhibits, schedules, certificates, letters, agreements, papers and instruments (collectively, the “Transaction Documents”).

5. That contingent on and following approval of the Term Sheets by the voters, and following completion of the Transaction Documents, the Transaction Documents shall be presented to the District Board at a public meeting for approval and execution.

PASSED AND ADOPTED on January ____, 2018, by the following votes:

AYES: ______________________________

NOES: ______________________________

ABSENT: ______________________________

ABSTAIN: ______________________________

___________________________________, Secretary,
Board of Directors of the
Mark Twain Health Care District

___________________________________, President,
Board of Directors of the
Mark Twain Health Care District

CERTIFICATE OF SECRETARY
Mark Twain Health Care District,
a California Special District

The undersigned, ______________________, being the Secretary of Mark Twain Health Care District (the "District"), hereby certifies for and on behalf of the District that the foregoing and attached Resolution is a true and correct copy of this Resolution of the District, as adopted by the Board of Directors at a properly noticed meeting at which a quorum was present, and that the same is in full force and effect.

DATED January ____, 2018.

____________________________________, Secretary, Board of Directors

M0449001/4829-4177-2122-1

EXHIBIT A

Term Sheet for Wind-up of Prior Lease
January 18, 2018

I. Parties

A. Mark Twain Health Care District (District)
B. Mark Twain Medical Center (MTMC)

II. Background

The parties are negotiating terms by which to terminate the existing 1989 Lease Agreement ("Prior Lease") between District and MTMC no later than 09/30/2018 (which is prior to the Prior Lease's 12/31/2019 expiration). This "Term Sheet for Wind-up of Prior Lease" addresses the termination and wind-up of the Prior Lease. A separate Term Sheet sets forth the terms the parties and Dignity Health are negotiating with regard to a potential New Lease.

III. Consideration

Pursuant to the termination provisions of the Prior Lease, at Closing District will purchase MTMC's unamortized Tenant Improvements (including but not limited to buildings, building services equipment, renovations and fixed and moveable equipment) from MTMC. "District's Acquisition Cost" shall be the net book value of MTMC's property, plant & equipment including construction-in-progress (i.e. MTMC's acquisition cost less accumulated depreciation) as of the termination date, less $4,699,000. "District's Acquisition Cost" shall be paid to MTMC no later than the termination date, and shall consist of cash and a Note Payable (if any).

Pursuant to paragraph V. of the aforementioned Term Sheet, Dignity Health will contribute Consideration to the Closing in cash. Should "District's Acquisition Cost" exceed such Consideration, District may contribute cash and/or a Note Payable as required to meet its Closing obligations. Such Note (if any) shall be payable to MTMC, and shall have terms no less favorable to MTMC than: (a) a five year term, (b) interest at Wall Street Journal Prime rate + 1%, adjusted monthly, and (c) annual payments comprising the accrued interest and at least 20% of the principal.

The parties acknowledge that (i) under the existing lease, MTMC needs the District's approval for the Angels Camp project, (ii) the District cannot afford to approve any substantial portion of, or expenditure on, the Angels Camp project prior to the termination of the Prior Lease, as that would increase the "District Acquisition Cost" under the Prior Lease to an amount that could exceed the Consideration and thus would require that the District assume debt in order to complete the early termination of the Prior Lease, which – other than as set forth in the immediately preceding paragraph – the District has very limited means of accomplishing, and (iii) that MTMC cannot make substantial expenditures to build the Angels Camp project without assurance that either (a) the New Lease is in place, or (b) that the District will purchase the Angels Camp project upon termination of the Prior Lease. Accordingly, the parties agree that substantial expenditures on the Angels Camp project will be delayed until the effective date of the New Lease, and that – provided the election result is favorable – the parties will use best efforts to accomplish an early termination of the Prior Lease and a Closing, as of the last day of a month occurring as soon as practicable following a favorable election result.

EXHIBIT B

Term Sheet for New Lease and Other Deal Points

Term Sheet
January 18, 2018

I. Parties

A. Mark Twain Health Care District (District)
B. Dignity Health (Dignity)

II. The parties are negotiating terms by which:

A. To revise the Articles and Bylaws of Mark Twain Medical Center (MTMC).

B. Pursuant to "Term Sheet for Wind-up of Prior Lease", to terminate the existing 1989 Lease Agreement (Prior Lease) between District and MTMC, no later than 09/30/2018 (which is prior to Prior Lease's 12/31/2019 expiration).

C. To execute a new Lease Agreement (New Lease) between District and MTMC.

D. To seek a simple majority vote of the District Electorate, authorizing the District to consummate the contemplated transactions.

III. MTMC Articles and Bylaws

The parties agree to modify the MTMC Articles and Bylaws such that:

A. Upon the dissolution or winding up of the corporation, 99% of its assets remaining after payment, or provision for payment, of all debts and liabilities of the corporation shall be distributed to Dignity, and 1% shall be distributed to District.

B. The Board of Trustees shall have 5 voting trustees, all of whom shall be appointed by Dignity. Four shall be Dignity executives. One shall be a District Board member nominated by District, whose appointment by Dignity shall not be unreasonably withheld. Terms shall be 3 years, to a maximum of 3 consecutive full-3-year terms on the Board.

C. The Board of Trustees shall delegate the following responsibilities to a 7 member Community Board: approval of Medical Staff bylaws, Medical Staff privileging and credentialing, and quality oversight. The Board of Trustees shall also seek the advice of the Community Board regarding: (i) the MTMC mission, vision, and strategic direction, (ii) priorities for MTMC's community benefits, (iii) proposals for material changes in clinical services, and (iv) strategic plans. The 7 member Community Board shall be constituted as follows:

	Term / Term Limit	*Initial Appointments*	*Subsequent*	
			Nomination	*Appointment*
MTMC CEO	Ex-officio			
MTMC Chief of Staff	Ex-officio			
MTMC Board Member who is not also a District Board Member	Two years / Maximum of 3 consecutive full-2-year terms on Community Board	Two years. Chosen and appointed by Dignity Health		Chosen and appointed by MTMC Board
District Board Member	Two years / Maximum of 3 consecutive full-2-year terms on Community Board	As agreed between District and Dignity Health, and appointed by Dignity Health, per Closing documents.	Nominated by District Board	Appointment by MTMC Board, which shall not be unreasonably withheld
Three at large Calaveras County residents	Two years / Maximum of 3 consecutive full-2-year terms on Community Board	After consultation with a committee comprising the MTMC CEO, MTMC Chief of Staff, a District Board Member and a Dignity Health executive, District and Dignity Health will specify the 3 individuals in the Closing documents. One shall be appointed to a one year initial term; two shall be appointed to two year initial terms.	Nominated by a Nominating Committee comprising: MTMC CEO, MTMC Chief of Staff, the District Board Member who sits on the Community Board, and the MTMC Board Member who is not also a District Board Member and sits on the Community Board	Appointed by MTMC Board, which shall not be unreasonably withheld

D. Values Based Discernment process –

a. The Community Board shall ensure that MTMC utilizes a Values Based Discernment process if MTMC is considering taking an action – other than one caused by the suspension or termination of privileges resulting from a peer review process – that: (i) would eliminate or relocate beyond 5 miles, any medical service line, department or rural health clinic; and/or (ii) could reasonably be expected to result in the exodus from Calaveras County of a recognized medical specialty previously available therein.

b. At minimum, the Values Based Discernment process shall include participation of the District Board member who sits on the MTMC Community Board, one additional District Board member, and the MTMC Medical Executive Committee.

c. The purposes of – and processes for – a Values Based Discernment process are as outlined in the attached. The MTMC Board must receive and consider the final report-out from the Values Based Discernment process, prior to taking the action for which the Values Based Discernment process was conducted.

E. After consultation with the MTMC Board, Dignity shall appoint the CEO of MTMC. CEO shall serve as the full-time MTMC administrator.

F. MTMC will provide District access to operational and financial information necessary to complete all regulatory, compliance, auditing, and legal reports as well as reports or metrics specified in the New Lease.

IV. Facility Lease

The parties agree:

A. Pursuant to "Term Sheet for Wind-up of Prior Lease", to terminate the Prior Lease between District and MTMC.

B. To execute a New Lease between District (Landlord) and MTMC (Tenant), with the following terms:

a. Initial Term – 10 years, commencing the first of the month following Closing. Closing is the termination and wind-up of the Prior Lease as set forth in "Term Sheet for Wind-up of Prior Lease".

b. Automatic Renewals – Lease shall automatically renew for four consecutive 5 year terms (for a total of 30 years), unless Tenant: (i) gives notice to prevent such automatic renewal from occurring no later than 36 months in advance of such automatic renewal, and (ii) pays the Termination Fee. Termination Fee equals *[$10,000]* times *[360 minus the number of months (during New Lease term) the Tenant occupied the leased premises]*, and is due and payable within 60 days of Tenant's notice. By way of example, if Tenant gives notice to prevent the automatic renewal as of the beginning of year 21, then the Termination Fee calculated as of the end-of-year 20 termination shall be $1,200,000 [i.e. $10,000 * (360-240)]. Should the actual termination date differ from the date used to compute and pay (within 60 days of Tenant's notice) the Termination Fee, such Termination Fee shall be trued-up (without interest) by refund to Tenant or additional payment to Landlord.

c. Tenant obligations

i. Fixed (for 30 years) payments of a minimum $100,000 per month determined in accordance with the following formula. The first 60 months of rent shall be prepaid (with no discount for such prepayment) to the Landlord at Closing. Beginning in month 61, such monthly rent shall be paid the first of each month. The amount of such monthly payment shall be the sum of: (a) $100,000, plus (b) the excess (if any) of the "District's Acquisition Cost" over $8,000,000, divided into 360 monthly payments, at an interest rate of 8.00%. “District’s Acquisition Cost” is defined in the “Term Sheet for Wind-up of Prior Lease”. As set forth in paragraph IV.B.d.ii. regarding electric utilities, in certain circumstances such monthly rent amount may decrease.

ii. Maintain and operate a General Acute Care hospital (as defined by Title 22), including a 24x7 emergency room, in the leased premises.

iii. During the initial 5 year period, Tenant must obtain Landlord’s written approval prior to: (a) reducing available General Acute Care beds below 25, (b) eliminating a service listed on the MTMC license as of the Closing date, or (c) eliminating telemedicine services. The parties acknowledge and agree that Tenant’s maintenance of 24x7 telemedicine services can, from time-to-time, be beyond Tenant’s control because of physician contracts, available physician coverage, technology and other changes which impact how such services can be reasonably provided.

iv. Other than the items for which Landlord assumes financial responsibilities pursuant to IV. B. d. ii and iii below, Tenant to pay all costs of the leased property, including but not limited to: hazardous and medical waste removal; insurance; maintenance; repair; painting; tenant improvements; County assessments; janitorial; building services equipment maintenance, repair and replacement; hospital equipment maintenance, repair and replacement; etc.

v. To seek Landlord’s written approval prior to:
   1. Committing to alterations, additions or improvements (e.g. equipment acquisition and installation, building on leased premises, renovations, etc) that – as of the potential non-lease renewal dates – would have a ***cumulative*** net book value (i.e. unamortized cost) in excess of:
      a. End of Year 10 $12.0 million
      b. End of Year 15 $14.5 million
      c. End of Year 20 $17.0 million
      d. End of Year 25 $19.5 million
      e. End of Year 30 $22.0 million
   2. Incurring debt which would cause MTMC’s debt-to-capital ratio to exceed 75%.

vi. [paragraph not used]

vii. To limit its use of the name ‘Mark Twain’ to healthcare operations owned and operated by MTMC.

viii. Tenant currently operates certain clinics located in various Calaveras County locations. One of those clinics – Valley Springs – is aged and undersized. Landlord and Tenant have been collaborating on plans to construct a replacement Valley Springs clinic. Landlord has secured financing which would enable it to develop, construct and own a Valley Springs clinic building. Tenant and Landlord intend to continue collaborating with the intent that: (a) a primary care clinic (such as a Federally Qualified Healthcare Clinic, or a clinic defined under California Health & Safety Code sections 1204a, 1206b or 1206d) will be operated (by Landlord or by Tenant or in collaboration with one another or by a Landlord facilitated partner) in the Landlord-developed and owned Valley Springs clinic building, (b) upon the opening of the clinic operation in the new Valley Springs clinic building, Tenant would on a reasonably timely basis cease to operate its existing Valley Springs Rural Health Clinic location, (c) thereafter such services and those operated by Tenant elsewhere in Calaveras County shall be operated as components of a single clinically integrated network of healthcare services, and (d) thereafter such services shall not be aligned with a competing healthcare system in Calaveras or an immediately adjacent county.

ix. Tenant will continue to provide Landlord with approximately 520 square feet of administrative space, as set forth in Section 5.12 of the 1989 Lease (as amended). However, clause 'd' of that Section 5.12 regarding the provision by Tenant of certain administrative services to Landlord shall not be carried forward into the New Lease.

d. Landlord obligations

i. As of the Effective Date, to provide Tenant full access and occupancy to the leased premises, which shall comprise a fully equipped, fully functioning, general acute care hospital consistent with those premises leased to Tenant pursuant to the Prior Lease. As of the Effective Date, Tenant and Landlord shall stipulate that the leased premises meet this standard.

ii. To pay electric utilities of the leased premises. Landlord shall pay such electric utilities for the entire term of the lease unless through no fault of its own, Landlord becomes ineligible to purchase discounted electricity. Should that occur, then at any time after such occurrence, Landlord may in its sole discretion via 60 days prior written notice to Tenant, terminate its obligation to pay such electric utilities and monthly rent shall decrease by an amount equal to the Landlord's average monthly electricity utility costs. Such average shall be computed from the most recent prior 12 month period during which the Landlord was able to purchase discounted electricity.

iii. To pay the following utilities associated with the leased premises: natural gas, water/sewer, telephone other than the main AT&T telephone bill, and waste removal other than hazardous or medical waste. Landlord may upon 90 day prior written notice to Tenant, require that Tenant make an "Annual Reimbursement" to Landlord for Landlord's prospectively incurred costs for the utilities specified in this paragraph 'iii'. Such "Annual Reimbursement" shall be determined annually on a calendar year basis (the first such period of which may be a prorated partial period ending December 31). Such "Annual Reimbursement" shall be the amount by which Landlord's costs of such utilities exceeds "Threshold". "Threshold" shall be: (a) $300,000 per calendar year during the initial 5 year period, and (b) thereafter, such annual amount (not less than zero) as established (no more frequently than annually) by the Landlord in its sole discretion. Landlord may require Tenant to make monthly or quarterly progress payments toward such "Annual Reimbursement" based on good faith estimates of the "Annual Reimbursement", provided that a final reconciliation and true-up shall be completed no later than March 31 following the close of each calendar year.

iv. Upon New Lease termination, to purchase all alterations, additions or improvements (e.g. equipment acquisition and installation, building on leased premises, renovations, etc.), at their then fair market value. Twenty (20%) of the amount to be paid by Landlord shall be paid within one hundred and eighty (180) days after the termination or expiration of this Lease. Each year thereafter for four (4) years on the annual anniversary of the one hundred and eightieth (180th) day after the termination or expiration, another twenty (20%) of the amount to be paid shall be paid by Landlord. Provided, however, that Landlord may, without penalty prepay any amount owing. And further provided, that the amount due shall accrue interest at the Wall Street Journal Prime rate plus one (1 %) percent adjusted monthly. And further provided, that should Tenant seek to dissolve following termination or expiration of the Lease and Tenant determines that the provisions of this subsection (iv) permitting payment over time may become a constraining factor in the wind-up of Tenant's affairs, then the Landlord shall use its best efforts to obtain alternative financing to enable Landlord to pay the outstanding balance in full so as to permit Tenant to timely wind-up its affairs and dissolve.

v. To give MTMC a first-right-of-refusal to buy the leased premises.

vi. To give MTMC the right to participate in any healthcare programs of District, specifically including District's financial support for uninsured and under-insured patients.

vii. Non-compete

1. Landlord and Tenant share a common mission and vision for providing excellent healthcare services to the Calaveras County community.

Landlord intends to rebrand itself as a community-based healthcare district. As such Tenant and Landlord shall collaborate to develop and agree proactively on a community needs assessment and plan with the intent to establish coordinated investments to advance the health of the population of Calaveras County. As a community-based healthcare district, Landlord intends to initiate, develop and provide healthcare services to meet unmet community needs (such as senior living, child advocacy, and behavioral health) and develop partnerships to facilitate such services, in Calaveras County.

2. During the term of New Lease, no entity that is affiliated with Landlord shall, directly or indirectly, participate or engage in any healthcare or healthcare related program, transaction or activity in Calaveras County that competes with Tenant, unless: (a) the prior written approval of Tenant is obtained, which approval Tenant shall not unreasonably withhold, condition or delay (provided that it shall be reasonable for Tenant to withhold approval for any program, transaction or activity that would materially reduce or impair Tenant's financial condition), or (b) such program, transaction or activity is identified in the allowed services list below.

3. Allowed programs, transactions or activities which do not require any approval by MTMC:
    a. Valley Springs primary care community clinic, identified in paragraph IV.B.c.viii. above
    b. Ambulance services,
    c. Medical transportation,
    d. Non acute care hospital continuing care retirement community facilities
    e. Assisted living and residential care facilities for the elderly and poor
    f. Senior housing and services
    g. Adult day care
    h. Behavioral health outpatient or residential care
    i. Partnering with local governments to create opportunities for heathy lifestyles
    j. Homes and services for individuals with developmental disabilities, including group residences to serve individuals with disabilities
    k. Senior wellness
    l. Nutrition and fitness education
    m. Grief and support counseling services
    n. Youth counseling and child advocacy

o. Medical office development and/or leasing

4. The process by which Tenant's prior written approval shall be obtained in those circumstances where – pursuant to paragraph IV.B.d.vii.2. above – Landlord's contemplated healthcare related program, transaction or activity requires such prior written approval shall include:
    a. Approval or disapproval by MTMC within 90 days
    b. Language that defines "competes with Tenant" to be "any service which materially reduces or impairs the financial condition of the Tenant."

V. Consideration

A. In consideration of the Articles and bylaws changes – specifically including the change in the MTMC liquidation rights – at Closing, Dignity will pay District $14.5 million.

B. District has an established grant making process that provides financial support for selected Calaveras County community health purposes. If within one year after Close, District makes a cash grant to the Mark Twain Medical Center Foundation for the benefit of one or more Mark Twain Medical Center programs and/or projects, Dignity will match such cash grant up to $1,000,000.

M0449001/4850-7149-5514-1

BEFORE THE BOARD OF DIRECTORS OF THE

MARK TWAIN HEALTH CARE DISTRICT

RESOLUTION 2018 - 02___

CALL FOR JUNE 5, 2018 BALLOT MEASURE ELECTION AND CONSOLIDATION

The Board of Directors of the Mark Twain Health Care District does hereby resolve as follows:

RESOLVED, that pursuant to the authority contained in Section 32121(p) of the Health & Safety Code of the State of California, the Board of Directors of the Mark Twain Health Care District does hereby call for an election of the voters of the District to be held June 5, 2018, to approve a measure, by a majority of the voters voting on the measure, proposing (1) early termination of the current lease of Mark Twain Medical Center and its campus and operations (the “Medical Center”), (2) a new long-term lease of the Medical Center to the current tenant, the non-profit Mark Twain Medical Center Corporation (the “Corporation”), (3) revisions to the articles and bylaws of the Corporation regarding its management and operations, and (4) agreements for transfer of most of the District’s interest in the Corporation to Dignity Health and future allocation of assets of the Corporation (which together will transfer more than 50 percent of the District’s assets and thus require an election pursuant to Section 32121(p)), all pursuant to the terms approved by the Board by its Resolution 2018 - 01 adopted this same date and attached hereto as Exhibit A, and does hereby determine and fix the date of the election as of June 5, 2018, which date being the first Tuesday after the first Monday in June, 2018. "Full text" is not required to appear in the Sample Ballot Pamphlet.

The ballot measure shall read and appear on the ballot as follows:

Measure _____________

Shall the Mark Twain Health Care District sign a new lease with the nonprofit Mark Twain Medical Center Corporation and take other actions assuring 10-30 years of hospital operation with substantial investments by Dignity Health in the Mark Twain Medical Center and community services, continuing hospital care, emergency care and other services at the Medical Center, and supporting medical services provided by the District, per terms approved by Resolution 2018 - 01 adopted January 24, 2018?

YES __________ **NO** __________

BE IT FURTHER RESOLVED, that the consideration received by the District in exchange for the new 10-year lease with 20 years of renewal options and for future allocation of Corporation assets, consists of those considerations set forth in the Board's Resolution 2018 - 01 and the two term sheets attached thereto, all incorporated herein and attached hereto as Exhibit A.

BE IT FURTHER RESOLVED, that the requirements of Section 32121(p)(1) of the Health & Safety Code are satisfied in that the District will receive fair, reasonable and adequate consideration for its facilities and assets, based on the report dated January 18, 2018 by VMG Health, an independent consultant with expertise in methods of appraisal and valuation of such facilities and assets and in accordance with applicable governmental and industry standards for appraisal and valuation.

BE IT FURTHER RESOLVED, that pursuant to Section 1002 of the California Elections Code, and Section 32121(p) of the Health & Safety Code, this Board does hereby notify the Calaveras County Board of Supervisors, and the Calaveras County Elections Office, that this Board chooses to hold such election on the first Tuesday after the first Monday in June, 2018, and requests consolidation with any election that may be held on the same day, in the same territory or in territory that is in part the same.

BE IT FURTHER RESOLVED, that pursuant to Elections Code section 10002 and 10400, the Board of Directors of the Mark Twain Health Care District hereby requests the Board of Supervisors of the County of Calaveras to authorize the Calaveras County Elections Official to render all services otherwise required to be performed by the Secretary of the District for the election to be held on June 5, 2018. Said services include, but are not limited to:

- Publication of Notices calling the election
- Publication of Notices calling for ballot arguments
- Provision of voter lists
- Preparation and printing of ballots
- Conducting polling place election
- Counting of ballots
- Certification of election
- All aspects of election not specified above that may be agreed upon by the County Clerk or County Registrar of Voters and the Secretary of the District

BE IT FURTHER RESOLVED, that the Executive Director or President of the Board or his/her designee(s) are hereby authorized to execute any other document and to perform all acts necessary to place the measure on the ballot, and to comply with requirements of law and election officials.

BE IT FURTHER RESOLVED, that the Board of Supervisors is hereby authorized and directed to canvass the returns of the election and to certify the results of the election to the District as required by law.

BE IT FURTHER RESOLVED, that the Mark Twain Health Care District shall reimburse the County of Calaveras for all proportional costs and expenses incurred by the County in conducting said election upon presentation of a bill to the District.

BE IT FURTHER RESOLVED, that the District Secretary is hereby authorized and directed to file a copy of this Resolution with the Board of Supervisors and the County Clerk upon its adoption by the Board of Directors of the Mark Twain Health Care District.

PASSED AND ADOPTED on January __, 2018, by the following votes:

AYES: ____

NOES: ____

ABSENT: ____

ABSTAIN: ____

_________________________________, Secretary,
Board of Directors of the
Mark Twain Health Care District

_________________________________, President,
Board of Directors of the
Mark Twain Health Care District

CERTIFICATE OF SECRETARY

Mark Twain Health Care District,

a California Special District

The undersigned, _______________, being the Secretary of Mark Twain Health Care District (the "District"), hereby certifies for and on behalf of the District that the foregoing and attached Resolution is a true and correct copy of this Resolution of the District, as adopted by the Board of Directors at a properly noticed meeting at which a quorum was present, and that the same is in full force and effect.

DATED January _____, 2018.

____, Secretary, Board of Directors

M0449001/4822-1148-6554-1

EXHIBIT A

Resolution 2018 – 01 Approving New Arrangements (with Term Sheets)

FINAL REPORT

MARK TWAIN MEDICAL CENTER

VALUATION DATE: JANUARY 18, 2018
DISTRIBUTION DATE: JANUARY 22, 2018

STRICTLY PRIVATE & CONFIDENTIAL

VMG HEALTH
WE VALUE HEALTHCARE

BUSINESS VALUATION • PROFESSIONAL SERVICES VALUATIONS • ASSET APPRAISALS • REAL ESTATE • TRANSACTION ADVISORY • CONSULTING
DALLAS • NASHVILLE • DENVER

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MARK TWAIN MEDICAL CENTER

SECTION I – ENGAGEMENT & TRANSACTION OVERVIEW

MARK TWAIN MEDICAL CENTER

ENGAGEMENT OVERVIEW

Engagement Overview

Value Management Group, LLC d/b/a VMG Health ("VMG") has been engaged by Archer Norris, PLC ("Archer Norris") in connection with its representation of Mark Twain Health Care District (the "District" or the "Landlord") to provide a third party, independent fair market value ("FMV") analysis pertaining to certain terms of a potential transaction involving the District.

Specifically, the California Health and Safety Code specifies certain powers afforded to Hospital Districts (and thus these powers are applicable to Mark Twain Medical District). Specifically, Power 32121 establishes that "Each local district shall have and may exercise the following powers":

Section (p) (1):

- *To transfer, at fair market value, any part of its assets to one or more corporations to operate and maintain the assets. A transfer pursuant to this paragraph shall be deemed to be at fair market value if an independent consultant, with expertise in methods of appraisal and valuation and in accordance with applicable governmental and industry standards for appraisal and valuation, determines that fair and reasonable consideration is to be received by the district for the transferred district assets. Before the district transfers, pursuant to this paragraph, 50 percent or more of the district's assets to one or more corporations, in sum or by increment, the elected board shall, by resolution, submit to the voters of the district a measure proposing the transfer. The measure shall be placed on the ballot of a special election held upon the request of the district or the ballot of the next regularly scheduled election occurring at least 88 days after the resolution of the board. If a majority of the voters voting on the measure vote in its favor, the transfer shall be approved. The campaign disclosure requirements applicable to local measures provided under Chapter 4 (commencing with Section 84100) of Title 9 of the Government Code shall apply to this election.*

In accordance with the requirements stated in Section (p) (1) above, and the terms and consideration amounts specified in the final draft term Sheet dated January 18, 2018 (the "Draft Term Sheet"), VMG has been asked to provide the following to the District:

I. Determination of the Fair Market Value of a 49.0% interest in MTMC to be purchased from the District.

II. Determination of Fair Market Value Rent associated with the Real Property and Personal Property to be leased to Mark Twain Medical Center ("MTMC", or the "Hospital", or the "Tenant") by the District; &

III. Review of the rate of return utilized to calculate the lease payment on District Acquisition Cost in excess of $8.0 million.

Summary of Conclusions by Engagement Objective and Overall Conclusion

Summarized below are the engagement objectives outlined previously as well as VMG's conclusions regarding each objective. The supporting detail for each item is provided further in this report on the specified pages.

I. Determination of the Fair Market Value of the 49.0% interest in MTMC purchased from the District. **The consideration for a 49.0% interest in MTMC falls within the Fair Market Value range determined by VMG.** Please refer to page 14-15 for additional supporting detail regarding this conclusion.

II. Determination of Fair Market Value Rent associated with the Real Property and Personal Property to be leased to MTMC by the District. **Based upon the selected Fair Market Value Rent values for the real estate and personal property, as estimated by VMG, the terms as outlined in the Draft Term Sheet are consistent with Fair Market Value.** Please refer to page 17-19 for additional supporting detail regarding this conclusion.

III. Review of the rate of return utilized to calculate the lease payment on District Acquisition Cost in excess of $8.0 million. **Based on a review of publicly available survey data, VMG determined the rate of return stated in the Draft Term Sheet is consistent with Fair Market Value.** Please see page 19 for additional supporting detail regarding this conclusion.

Each objective listed above compares items reflected in the Draft Term Sheet, and VMG has concluded that these terms collectively are consistent with Fair Market Value. Therefore, in accordance with the requirements of Section (p) (1), it is our opinion that the proposed transaction terms outlined in the Draft Term Sheet are consistent with Fair Market Value.

Engagement Overview

VMG's report is intended for use solely by Archer Norris and the District and only for the indicated purpose. Furthermore, the result of our analysis should not be construed as a fairness opinion or investment recommendation. The term FMV means the price at which property would change hands between a willing buyer and willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell and both parties having reasonable knowledge of the relevant facts.

VMG has not taken any steps in auditing the financials statements provided. We have relied upon the representation that the latest financial statements are accurate and represent the financial and operational assets of MTMC in a reasonable manner. The obligation of VMG is solely a corporate obligation, and no officer, principal, director, employee, agent, shareholder, or controlling person shall be subjected to any personal liability whatsoever to any person or entity, nor will any such claim be asserted by or on behalf of any other party to this agreement or any person relying on the opinion. In reaching our final conclusion with respect to the FMV, we considered the factors set forth in Revenue Ruling 59-60, 1959-1, C.b. 237, including:

- The nature of the business and the history of the enterprise from its inception;
- The economic outlook in general and the condition and outlook of the specific industry in particular;
- The book value of the stock and the financial condition of the enterprise;
- The earning capacity of the enterprise;
- The dividend-paying capacity of the enterprise;
- Whether or not the enterprise has goodwill or other intangible value;
- Prior sales of the stock and the size of the block of stock to be valued; and
- The market price of stock of corporations engaged in the same or a similar line of business, having their stocks actively traded on an exchange or over-the-counter market.

MARK TWAIN MEDICAL CENTER

TRANSACTION OVERVIEW

History of Mark Twain Medical Center

Establishment of the District & MTMC

Mark Twain Health Care District was formed by a vote of the people of Calaveras County in a special election held August 27th, 1946. The political boundaries of the Mark Twain Health Care District are comprised of the entire County of Calaveras. Mark Twain District Hospital was built in 1951 with funding from the Hill-Burton Act.

The District shifted management and operation of Mark Twain District Hospital to Dignity Health ("Dignity") through the establishment of Mark Twain Medical Center (the "Hospital" or "MTMC"), which was organized as a California non-profit corporation and had operations managed by Dignity under the terms of a management services agreement between Dignity and MTMC. Real Property and Personal Property was leased from the District to MTMC under the terms of a Lease Agreement established in 1990 (the "Prior Lease") between the District and MTMC. Unless terminated, the Prior Lease is set to expire after a 30-year term on December 31, 2019. Upon termination of the Prior Lease, the District would be required to purchase MTMC's fixed assets at a defined "District Acquisition Cost" per the Prior Lease.

Draft Term Sheet Overview

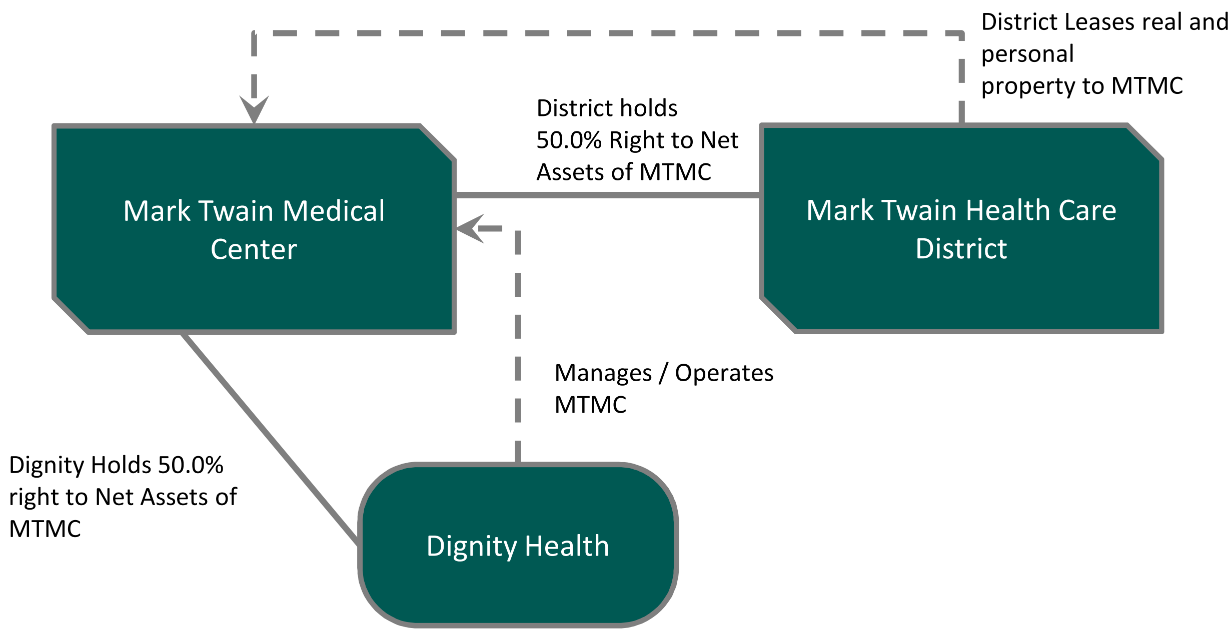
Prior to expiration of the Prior Lease, the District began a process to evaluate future opportunities for the hospital. Ultimately, the Draft Term Sheet currently under consideration was arrived at first through attrition of potential interested investors during the RFP process, and then through negotiations with Dignity to establish the new lease (the "New Lease"). VMG was provided the final Draft Term Sheet which outlines the following terms associated with the New Lease:

- The up-front lease prepayment, the on-going annual lease payment following the prepayment period, the additional lease payment adjustments for certain utilities expenses, and the termination fee payable to the District if Dignity does not renew the lease. Additional detail and lease payment calculations are provided later in this report.

- Consideration to be paid to the District by Dignity in association with modification to the MTMC Articles of Incorporation ("Articles") and Bylaws such that, upon dissolution of MTMC, Dignity would have the right to 99.0% of MTMC's assets remaining after payment of all MTMC debts and liabilities. The current Articles specify Dignity's right to 50.0% of MTMC's assets upon dissolution and the remaining 50.0% is held by the District. Therefore, the consideration proposed in the Draft Term Sheet is for the payment for an additional 49.0% interest in the net assets in MTMC and the change in liquidation rights to Dignity upon termination of the New Lease.

Prior Lease & Current Organizational Structure

In September of 1989 the District agreed to a 30-year lease with St. Joseph's Healthcare Corporation ("St. Joseph's"). St. Joseph's joined Catholic Health Care West during the initial lease term, and Catholic Health Care West later became Dignity. Dignity continues to manage the operations of the Hospital under the terms of a separate management services agreement. The Prior Lease's effective date was January 1, 1990 and was set to expire December 31, 2019. An overview of the current organizational structure is presented in the chart below.



Request For Proposal Process

In August of 2016, the District hired Quorum Health to assess whether the District should operate MTMC as an independent hospital, continue with Dignity as manager, or consider other options. After the report was issued, the District began the Request For Proposal ("RFP") process. It is VMG's understanding that the District openly solicited bids for MTMC under various scenarios. Based on discussions with Management, the four parties that participated in the RFP process were Kaiser Permanente ("Kaiser"), Sutter Health ("Sutter"), Adventist Health System ("Adventist"), and Dignity. Although non-disclosure agreements precluded District Management from sharing additional details, VMG reviewed public press release information to assist with an understanding of the RFP process.

Key Events

- January 1, 1990 Original Lease's Effective Date
- March 24, 2016- "Partnership with Dignity Health evaluated"- *Calveras Enterprise*
- August 25, 2016- Mark Twain Health Care District directors hire Quorum Health to assess whether the district should operate Mark Twain Medical Center as an independent hospital, continue with Dignity as manager, or considered other options- *Calveras Enterprise*
- June 5, 2017- *Quorum report issued*
- July 2017- District Issues Request For Proposal ("RFP")
- July-December 2017- The RFP was communicated to various health systems which included discussions with executive leadership.
- December 8, 2017- Adventist Health decided not to move forward with the RFP process - *Calveras Enterprise*.
- December 11, 2017 Mark Twain hospital district director indicated Dignity Health option is the best – The Union Democrat
- December 13, 2017- District considers independent operation vs. new Dignity Health agreement- *Calveras Enterprise*
- December 20, 2017- VMG engaged by Archer Norris in connection with its representation of the District to provide valuation services.
- December – January 18, 2017 – District and Dignity continue to negotiate terms of New Lease Agreement
- No later than September 30, 2018- Expected Date for Early Termination of the Lease

Although no publicly available information is available regarding any proposed offers by the interested parties discussed above, the above process provided an opportunity for the District's consideration of alternatives to the current organizational structure. Ultimately, the Draft Term Sheet currently under consideration was arrived at first through attrition of potential interested investors during the RFP process, and then through continued negotiations with Dignity to establish the New Lease. It is important to consider that the process to establish the current Draft Term Sheet included consideration from outside parties other than Dignity and was an informed process by the District.

Summary of New Lease Terms

Below is a summary of the Draft Term Sheet provisions associated with the New Lease Agreement between the District (the "Landlord") and MTMC (the "Tenant"). As mentioned previously, VMG was provided a final Draft Term Sheet dated January 18, 2018.

New Lease Summary of Terms

Term

- Initial Term – 10 Years following Closing of the Prior Lease
- Renewal Provisions – Lease shall automatically renew for four (4) consecutive five (5) year terms for a total of 30 years, unless Tenant: (i) gives notice to prevent such automatic renewal from occurring no later than 36 months in advance of such automatic renewal, and (ii) pays the Termination Fee.
- Termination Fee – Termination Fee equals $10,000 times 360 minus the number of months during the New Lease which the Tenant occupied the lease premises. Termination fee is due and payable within 60 days of Tenant's notice.

Tenant Obligations

- Rent Payment – Fixed (for 30 years) at $100,000 per month.
- Rent Prepayment – The first 60 months (5 years) of rent shall be prepaid to the Landlord at Closing of the New Lease. Beginning in month 61, monthly rent shall be paid the first of each month.
- Additional Monthly Rent – The Monthly Rent Payment shall be the sum of $100,000, plus the excess (if any) of the "District's Acquisition Cost" over $8.0 million, divided into 360 monthly payments, at an interest rate of 8.00%.

Landlord Obligations

- Electric Utilities – Landlord obligation to pay electric utilities of the leased premises. Landlord shall pay such electric utilities for the entire term of the New Lease unless Landlord becomes ineligible to purchase discounted electricity. Should this occur, then at any time after, Landlord may terminate its obligation to pay such electric utilities and monthly rent shall decrease by an amount equal to the Landlord's average monthly electric utility costs at the discounted rate.
- Other Utilities – Landlord obligation to pay natural gas, water/sewer, telephone, other than the main AT&T bill, and non-hazardous non-medical waste removal for the leased premises. Landlord may require Annual Reimbursement from Tenant equal to the amount by which Landlord's cost of such utilities exceeds (a) $300,000 per year ($25,000 per month) during the first 5 years, or (b) at month 61 an annual amount not less than zero as established by the Landlord in its sole discretion.

**The list above is a summary of those terms most relevant to VMG's analysis and does not reflect the full Draft Term Sheet.*

MARK TWAIN MEDICAL CENTER

FAIR MARKET VALUE RECOMMENDATION

Comparison of Fair Market Value to Proposed Consideration for 49.0% Interest in MTMC

The Draft Term Sheet includes specified consideration of $14.5 million which will be paid to the District by Dignity in consideration of proposed changes to the Articles and Bylaws of MTMC. Specifically, this payment will provide Dignity with a right to 99.0% of the assets of MTMC upon dissolution. Given the current Articles specification that Dignity holds a 50.0% right to these assets, the payment covers the purchase of the right to an incremental 49.0% of the assets of MTMC upon dissolution. These asset values would be adjusted at dissolution for the then current liabilities of MTMC.

VMG performed a Fair Market Value analysis of MTMC at the business enterprise level ("BEV"), as though MTMC were to conduct a hypothetical sale of 100.0% of the equity of the Hospital. This analysis was utilized to determine if the payment of $14.5 million is consistent with Fair Market Value.

Therefore, the BEV was estimated at approximately **$15.8 million** and reflects the value of the operations of MTMC inclusive of all operating assets. Based on a December 31, 2017 balance sheet, adjustments have been applied to the BEV for certain balance sheet items not reflected in the BEV. These adjustments include a reduction for a negative balance of cash & cash equivalents of approximately $3.3 million, addition of a $5.2 million net working capital surplus, and addition of $12.1 million of non-operating assets. The net working capital surplus is calculated based on a normalized level of cash-free net working capital of 10.0% of normalized net operating revenue. The BEV is also reduced for current portion of long-term debt of approximately $699,000 and long-term liabilities of approximately $545,000. The resulting FMV of MTMC, adjusted for non-operating assets and liabilities is approximately $28.6 million and represents the value of 100% of the equity of MTMC.

Fair Market Value Recommendation	Value
Fair Market Value of the Hospital, Business Enterprise Level	$15,800,000
Plus: Cash and Cash Equivalents and Short term investments	(3,256,000)
Plus: Net Working Capital Surplus	5,229,302
Plus: Non-Operating Assets	12,112,000
Fair Market Value of the Hospital, BEV Adjusted for Non-Operating Assets	29,885,302
Less: Current Portion of Long Term Debt	(699,000)
Less: Long-Term Liabilities	(545,000)
Fair Market Value of the Hospital, BEV Adjusted for Non-Operating Assets and Liabilities	$28,600,000

Comparison of Fair Market Value to Proposed Consideration for 49.0% Interest in MTMC

We have adjusted the value of a 100.0% interest calculated on the previous page to reflect a pro-rata 49.0% interest midpoint value of approximately $14.0 million. The concluded Fair Market Value Range for a 49.0% interest in MTMC is estimated between **$13.2 million and $14.8 million.**

Fair Market Value Recommendation	Value
Fair Market Value of the Hospital, BEV Adjusted for Non-Operating Assets and Liabilities	$28,600,000
Percentage of Interest	49.0%
Fair Market Value of 49% Interest in MTMC (Rounded)	**$14,010,000**

Selected Fair Market Value Range for 49.0% Interest in MTMC (Rounded):		
Low	**Mid**	**High**
$13,200,000	**$14,000,000**	**$14,800,000**

Dignity's Payment to District for the 49% Interest	**14,500,000**

Conclusion – Comparison of Fair Market Value to Proposed Consideration for 49.0% Interest in MTMC

As mentioned above, Dignity is purchasing the 49% interest for $14.5 million as stated in the Draft Term Sheet. **As this consideration amount falls within the Fair Market Value range determined by VMG, it is our opinion that the consideration is consistent with Fair Market Value.**

VMG understands the District may grant $1.0 million from these proceeds to a foundation in support of the Hospital. A potential grant by the District, which is at the sole discretion of the District, is outside this FMV opinion.

Please refer to *Section II* of this report for detail regarding assumptions and methodology used to estimate the Fair Market Value of MTMC at the Business Enterprise Level.

Qualifying Assumptions

Fair Market Value of MTMC and Comparison to Proposed Consideration for a 49.0% Interest

- VMG relied upon data provided by Dignity and the District for historical operational and financial information utilized in the valuation of MTMC. VMG has not independently audited or confirmed the accuracy of the data provided. We are relying on the data as materially true and correct. To the extent that the information provided to VMG is inaccurate, we reserve the right to amend our analysis accordingly.

- VMG estimated the business enterprise value ("BEV") for MTMC by considering three approaches which include the Cost Approach, Market Approach, and Income Approach. Ultimately, we placed equal reliance (33.3%) on the concluded valuation under each of the three methods.

- BEV is inclusive of a normalized level of net working capital, which has been estimated at 10.0% of net operating revenue for MTMC, or $6.0 million. Based on the December 31, 2017 balance sheet, actual working capital was approximately $11.3 million, or 19.0%, resulting in a working capital surplus calculated at $5.2 million.

- VMG understands that MTMC's historical financial statements include allocated corporate overhead by Dignity. These costs are classified as "Purchased Services – Intercompany" and "Purchased Services – Other" in VMG's Restated Historical Income Statements. VMG has not opined as to the Fair Market Value payment for any services provided by Dignity to MTMC.

Proposed Lease Terms and Comparison to Fair Market Value Rent

Fair Market Value Rent Analysis

VMG determined the Fair Market Value Rent associated with the assets to be leased by the District within the following range: $88,646 to $100,884.

This compares to the monthly lease payment in the Draft Term Sheet of $100,000 including utilities (which is prepaid for the first five years). This fixed monthly lease payment is for District Acquisition Costs up to $8.0 million. Further for comparability purposes, this figure must be adjusted for the utility obligations of the District to allow comparison with the Fair Market Value Rent as determined by VMG. Therefore, the component of the monthly lease payment for the assets to be leased by the District is $45,000 during the first five years and $70,000 beginning in Year Six (as the District at its discretion may reduce its non-electrical utility obligation). These amounts are below VMG's determined Fair Market Value Rent. However, other terms by Dignity should be considered, including prepayment of the monthly rent payment and the potential early termination payment. To determine if the proposed lease terms are at Fair Market Value, VMG compared the Fair Market Value Rent to all lease related considerations by Dignity as outlined in the Draft Term Sheet during the first ten years of the lease term. This period was selected as Dignity may not renew the lease after Year 10 but is subject to an early termination payment.

The cash flows below represents the initial ten-year lease term at a Fair Market Value Rent within the range estimated by VMG. These rents are on a triple net basis (i.e. excluding utility costs to the landlord). These cash flows were discounted back to a present value using a 10.0% discount rate. This discount rate represents a blend of personal property and real estate concluded return rates. We have not escalated rent in the 10 year projection which is consistent with the Draft Term Sheet. On a present value basis, the sum of the discounted Fair Market Value lease payments is approximately $6.7 million.

Year	1 2019	2 2020	3 2021	4 2022	5 2023	6 2024	7 2025	8 2026	9 2027	10 2028
VMG FMV Lease Payment:										
FMV Monthly Lease Payment - Capital Assets	45,640	45,640	45,640	45,640	45,640	45,640	45,640	45,640	45,640	45,640
FMV Monthly Lease Payment - Real Estate	45,319	45,319	45,319	45,319	45,319	45,319	45,319	45,319	45,319	45,319
Monthly Estimated FMV Lease Payment	90,959	90,959	90,959	90,959	90,959	90,959	90,959	90,959	90,959	90,959
Annual Estimated FMV Lease Payment	1,091,507	1,091,507	1,091,507	1,091,507	1,091,507	1,091,507	1,091,507	1,091,507	1,091,507	1,091,507
Discount Rate / Present Value Factor	0.9091	0.8264	0.7513	0.6830	0.6209	0.5645	0.5132	0.4665	0.4241	0.3855
Present Value of the Discounted FMV Lease Payments	992,279	902,072	820,065	745,514	677,740	616,127	560,115	509,196	462,905	420,823
Sum of Discounted FMV Lease Payments (Rounded)	6,700,000									

Proposed Lease Terms and Comparison to Fair Market Value Rent

Proposed Lease Terms

The cash flows below represents the various lease payment streams as outlined in the Draft Term Sheet over the initial 10 year lease term. As stated earlier, this period was selected as Dignity may not renew the lease after Year 10.

During the first five years, the $100,000 per month of rent or $6,000,000 will be prepaid and immediately received by the District. However, the District will be responsible for $55,000 per month in electric and non-electric utility expenses ($660,000 per year). The utility obligation represents a cash outflow to the District. Beginning in year six, the Tenant is responsible for a reduced utility obligation of $30,000 per month ($360,000 per year). Thus, the District receives a net $70,000 per month or $840,000 per year. At the end of year seven, the landlord is assumed to receive a termination penalty of $2,400,000 (as the termination penalty is based upon the Tenant exiting the lease after year ten but must be paid in year seven). These cash flows were discounted back to a present value using a 10.0% discount rate. On a present value basis, the sum of the discounted lease payments per the DRAFT Term Sheet are approximately $6.7 million which is consistent with the present value of the Fair Market Value lease payments as stated in the prior page.

Year	1 2019	2 2020	3 2021	4 2022	5 2023	6 2024	7 2025	8 2026	9 2027	10 2028
Lease										
Total Monthly Lease Payment to District	-	-	-	-	-	100,000	100,000	100,000	100,000	100,000
- District Utility Obligation	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)
Net Lease Revenue to District (Monthly)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	70,000	70,000	70,000	70,000	70,000
Annual Net Lease Revenue to District	(660,000)	(660,000)	(660,000)	(660,000)	(660,000)	840,000	840,000	840,000	840,000	840,000
Termination Fee	-	-	-	-	-	-	2,400,000	-	-	-
Annual Net Lease Revenue to District	(660,000)	(660,000)	(660,000)	(660,000)	(660,000)	840,000	3,240,000	840,000	840,000	840,000
Discount Rate / Present Value Factor	0.9091	0.8264	0.7513	0.6830	0.6209	0.5645	0.5132	0.4665	0.4241	0.3855
Present Value Annual Net Lease Revenue to District	(600,000)	(545,455)	(495,868)	(450,789)	(409,808)	474,158	1,662,632	391,866	356,242	323,856
Present Value of Annual Net Lease Revenue to District	706,836									
Plus: Prepaid Rent for 5 years	6,000,000									
Value of Revenue to District (Rounded)	6,700,000									

Conclusion – Fair Market Value Rent Comparison to Proposed Lease Payments

Based upon the selected Fair Market Value Rent values for the real estate and personal property, as estimated by VMG, the terms as outlined in the Draft Term Sheet are consistent with Fair Market Value.

It should be noted, if Dignity elects to renew the lease after Year 10, it will be responsible for all seismic upgrade costs. Dignity estimates these costs at approximately $11.0 million. The responsibility of Dignity for seismic upgrades more than exceeds any potential lease rate shortfall beyond Year 10.

Proposed Rate of Return for New Purchases and Comparison to Fair Market Value

Archer Norris requested VMG to opine on the 8.0% rate of return utilized to calculate the lease payment for District Acquisition Costs in excess of $8.0 million. VMG understands if District Acquisition Costs are to exceed $8.0 million it would be due to new equipment purchases or additional construction in progress costs. A 10.0% discount rate was utilized in the return analyses on existing equipment and real estate. As mentioned, this discount rate represents a blend of concluded return rates appropriate for the asset classes being leased by Dignity. Any incremental lease payment over $100,000 will relate to new equipment or real estate construction and a lower return rate can be supported.

As mentioned in the Return on Depreciated Costs Analysis, within the acute care real estate sector, 94% of respondents to a CBRE survey indicated capitalization rates between 6.00% and 8.50%. Additionally, per a 4th Quarter 2017 Realty Rates Investor Survey, overall capitalization rates for acute-care facilities range from 5.77% to 16.43% and average 10.55%. It should be noted that overall capitalization rates are typically lower than discount rates.

We also surveyed medical office brokers concerning the interest rate utilized to amortize Tenant improvements. This survey indicated a range of 6.00% to 8.00%. However, the survey was conducted in an urban market and given the rural location of the subject, a higher discount rate would be required.

Based upon this information, we believe the 8% discount rate used to amortize District Amortization Costs in excess of $8.0 million into a lease rate is consistent at Fair Market Value.

Qualifying Assumptions

<u>Fair Market Value Rent Payment and Comparison to Proposed Lease Schedule</u>

- VMG is relying the Draft Term Sheet dated January 18, 2018 and on representations of the District or its representatives regarding interpretation of the Draft Term Sheet. To the extent the Draft Term Sheet changes, the results of our analysis will need to be updated.

- We have limited our analysis to the initial term of the lease (ten years). We have done this due to the uncertainty of the costs to make the subject property seismically compliant. However, we know that the costs will be significant (as much as $11,000,000). It is our understanding that if Dignity exercises the option to renew New Lease, they will be responsible for any seismic upgrades necessary for compliance. This cost incurred for seismic improvements would more than offset any lease payment below Fair Market Value after Year 10.

- In our comparison of Fair Market Value Rent to the proposed payment schedule outlined in the New Lease, we have not considered the value of consideration paid by the District which is associated with termination of the Prior Lease (i.e. District Acquisition Cost). VMG understands this is a required payment to be made by the District and represents a potential cash outflow to the District. Further, VMG understands the expected District Acquisition Cost is estimated to be approximately $8.0 million before any adjustments for new equipment purchases or construction in progress costs. The $8.0 million estimate was utilized to establish the base rent payment of $100,000 and is consistent with VMG's estimated fair market value for the real estate and personal property of MTMC.