

# Summary of Lease Purchase Agreement and Discussion

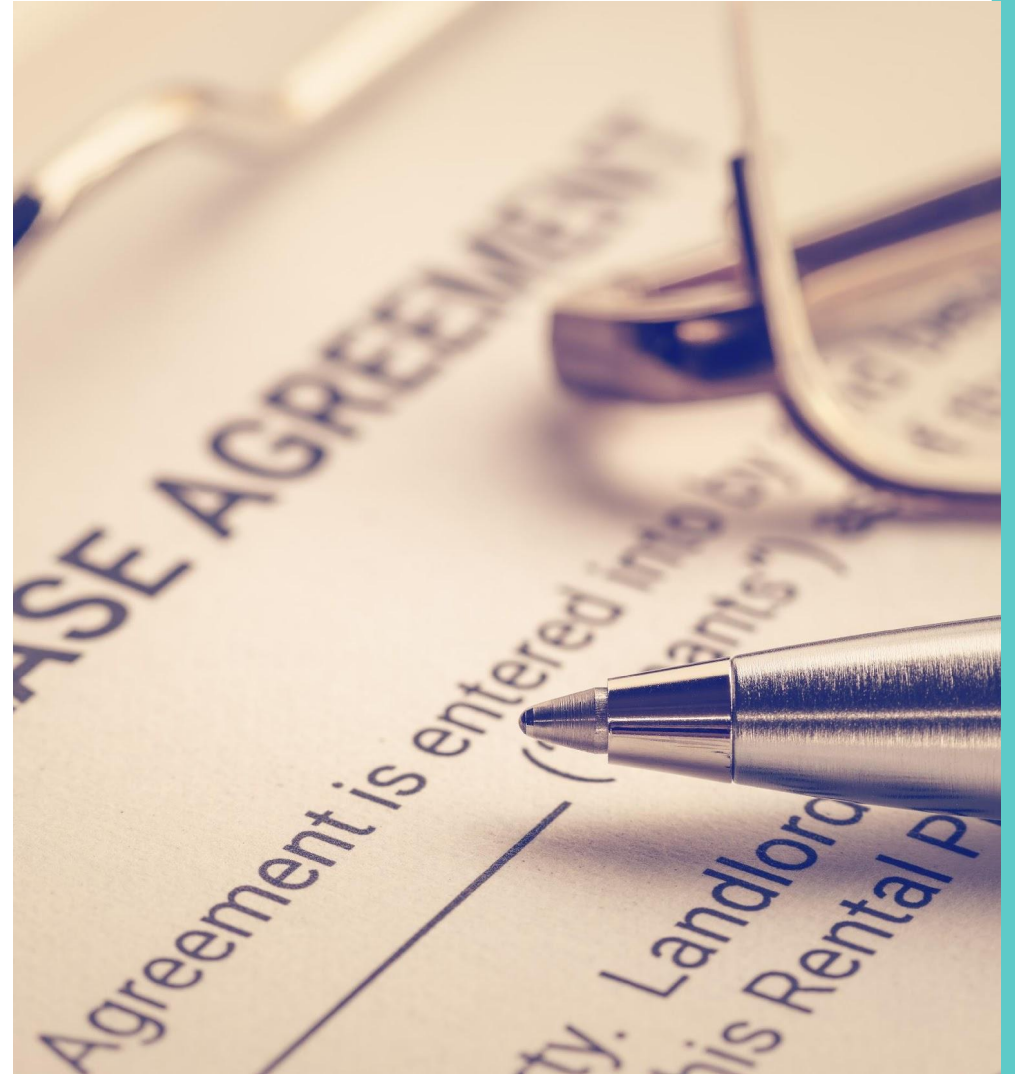
July 2024



**DESERT HEALTHCARE**  
DISTRICT & FOUNDATION

# Transaction Overview

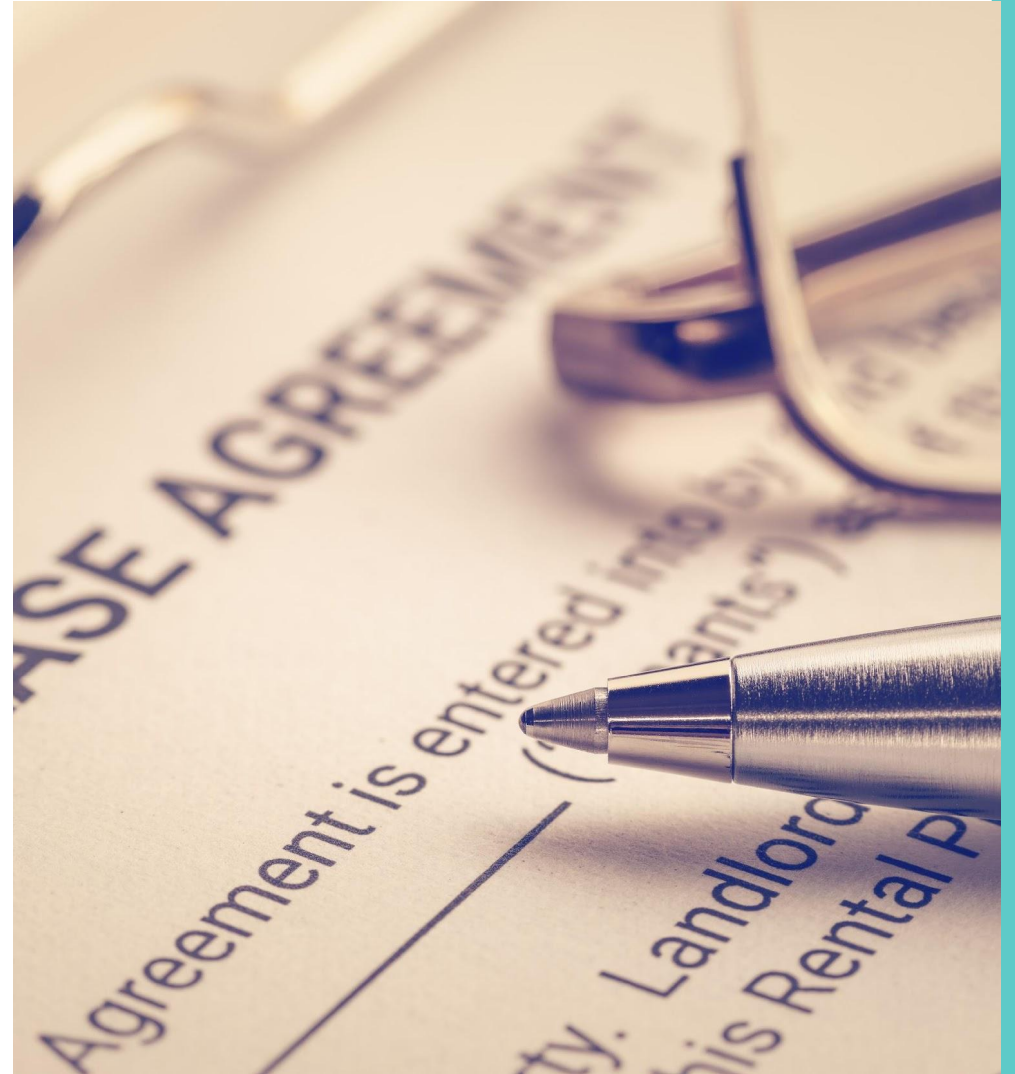
The District Board has been preparing for this transaction for over 6 years. In early 2018, the Board commissioned SGH to conduct a seismic evaluation of Desert Regional Medical Center (DRMC) and VMG to provide a FMV analysis. Both the seismic evaluation and the analysis were updated in 2023. In the last 8 months the Board has conducted numerous public meetings to discuss the Tenet proposal and hear public input.





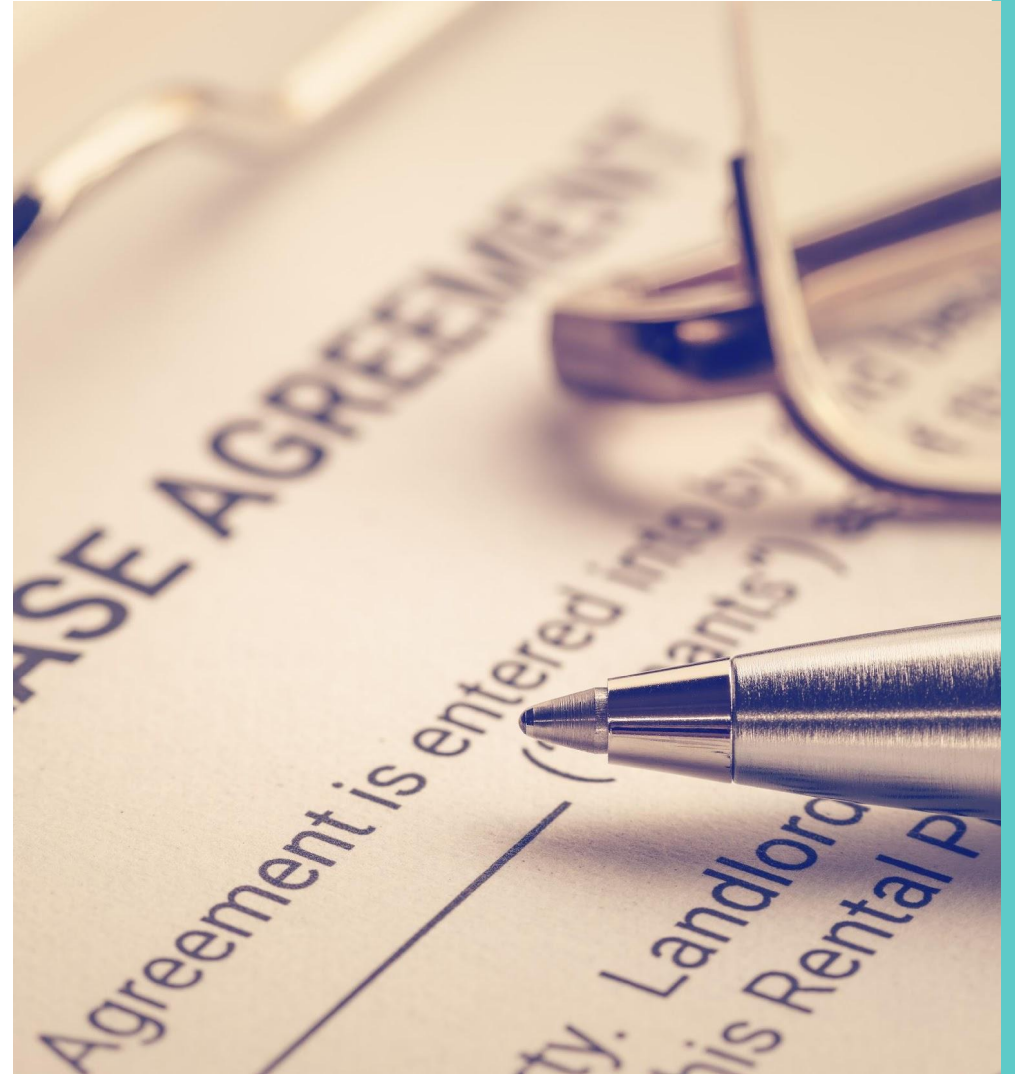
# Transaction Overview

The public/private partnership of the Desert Healthcare District is unique in California. It combines the public resources of a state-of-the-art community hospital with a nationally recognized for-profit healthcare system. The proposed Lease Purchase Agreement (LPA) is the culmination of an extensive negotiation process.



# Transaction Overview (Continued)

At a public meeting on May 28<sup>th</sup> the Board heard the final proposal from Tenet and directed staff to negotiate a definitive Lease Purchase Agreement for review and public input. A copy of the draft definitive LPA is available on the District website at [www.dhcd.org](http://www.dhcd.org). If the Board approves the LPA, it will be placed on the ballot and will be subject to voter approval during the November 5, 2024, election. A summary of the LPA follows:



# Parties, Property, Term and Legal Authority (Recitals & Art. I)

**PARTIES:** The parties are the Desert Healthcare District (“District”) and Desert Regional Medical Center, Inc., a California corporation formerly known as Tenet HealthSystems Desert Inc., (“Lessee” or “Tenet”) and is a wholly owned subsidiary corporation of Tenet Healthcare Corporation.

**PROPERTY:** Tenet will lease all of the real property and improvements of the District, which includes the Desert Regional Medical Center (“Hospital”) and all related Desert businesses supporting the Hospital, and will become the Owner of the real property and improvements at the end of the lease term. The real property and improvements do not include the Las Palmas Medical Plaza or the Wellness Park.

# Parties, Property, Term and Legal Authority (Continued)

**TERM:** The Term of the LPA begins on May 31, 2027, and ends on May 30, 2057, at which time the Hospital and the Desert Businesses will be owned and operated by the Lessee.

**LEGAL AUTHORITY:** The LPA is authorized pursuant to Health & Safety Code 32121(p)(1) & 32126 and, if the Board approves it, will be subject to the approval of a majority vote of the residents of the District voting in the November 5, 2024, election.

# Rent and Purchase Payments (Art. II)

- Tenet shall make an initial payment to the District of \$100 Million on May 31, 2027.
- Beginning May 31, 2028, Tenet will make the first of 19 annual rental payments of \$19,536,000 which shall increase each year subject to an annual escalator to \$27,903,000 on May 31, 2046.
- On May 31, 2057, Tenet shall make a final purchase payment of \$100 million at which time, all rights, title, and interest of the “Leased Premises” shall be transferred by District to Tenet.
- Tenet Healthcare Corporation (the parent corporation of Desert Regional Medical Center Inc.,) will guarantee all of the payments.
- The LPA is subject to a “Fairness Opinion.”

# Use, Maintenance, and Improvements (Art. III)

During the LPA ending 2057:

- Tenet will covenant to operate and maintain DRMC as an acute care hospital with a comprehensive range of health care-related services for the benefit of the community.
- Tenet is required to comply with all laws and regulations related to operating the Hospital (including state regulations related to patient care, building codes, and all environmental and seismic safety upgrades).



# Use, Maintenance, and Improvements (Continued)

- All major Improvements shall be designed by Tenet such that the Hospital shall maintain at least **360** acute care beds, **9** operating suites, and **29** emergency department bays.
- In the event that any law does not permit Tenet to design major improvements in such a manner as to maintain the minimum capacity described above, then Tenet will be obligated to construct the hospital to accommodate as many acute care beds, operating suites, and emergency bays is permitted by law.
- In the event that Tenet breaches this covenant, the District shall be entitled to exercise all remedies available in law or in equity to enforce compliance including specific performance.

# Operating Covenants (Art. XIII)

- During the lease period ending 2057, there are a series of operating covenants in Article XIII of the LPA which apply:
- **Non-Discrimination in Operations:** All major decisions at DRMC must be made without discrimination against the District residents. No Core Services at DRMC may be relocated to High Desert Medical Center for example, or to John F. Kennedy Memorial Hospital (JFK) in order to close or materially reduce the services at DRMC (except for temporary relocations that may be necessary during construction).
- **Expansion of Care and JFK Commitments:** During the term of the LPA, Tenet shall continue to partner with the District to expand care throughout the Valley. Tenet has committed to pursue a major expansion of the Emergency Department and the admitting area at JFK.

# Operating Covenants (Art. XIII) (Continued)

**Termination of Core Services:** During the term of the LPA and after consultation with the Medical Staff and the Local Governing Board, Tenet shall provide written notice of any proposed termination or material reduction of a core program or service at DRMC. The District Board shall have the right to hold public meetings and have an opportunity for the public to comment on any material reductions or termination of a core service and provide Tenet with its input and decision on the proposed reduction or termination.

# Operating Covenants (Art. XIII) (Continued)

**Core Services include:** (i) General Medical Services; (ii) Acute Care General Surgical Services; (iii) Intensive/Critical Care Services; (iv) Neonatal Intensive Care Services; (v) Perinatal Services; (vi) Pediatric Services; (vii) Acute Rehabilitation Services; (viii) Cardiac Services (includes Cardiovascular Surgery and Cardiac Catheterization Lab); (ix) Comprehensive Emergency Medical Services (including Trauma, Stroke and Orthopedics); and (x) Comprehensive Cancer Center Services.



# Operating Covenants (Art. XIII) (Continued)

## Restriction on Subletting, Assignment and Transfers During the Term of the LPA:

- Tenet may not sublet any space in the Hospital where patient care is provided without the District's consent except to an "Affiliate" of Tenet. An Affiliate of Tenet means any entity that is directly or indirectly under the control of Tenet Health Care Corporation. However, Tenet may sublet other portions of the Hospital not related to patient care including other medical office buildings on the Hospital campus.
- Tenet may also sublease, assign or transfer the "entirety" of the LPA to an Affiliate of Tenet without the District's consent.

# **Operating Covenants (Art. XIII) (Continued)**

**The rest of the provision on a sublease, assignment or transfer of all the direct or indirect ownership or equity of the entirety of the LPA is still under negotiation.**

# Operating Covenants (Art. XIII) (Continued)

- **Licensing, Accreditation and Payors:** During the term of the LPA, Tenet must use its best efforts to maintain Hospital licensure and accreditation with the Joint Commission and must use commercially reasonable efforts to participate in the Medicare, Medi-Cal and other third-party payment programs. However, similar to the provisions in the current Lease which have been in force for the last 27 years, Tenet is not required to contract with Medi-Cal managed care plans or comply with new laws which substantially modify disproportionate share payments.

# Operating Covenants (Art. XIII) (Continued)

**Governance:** During the term of the LPA, Tenet will maintain the current “Local Governing Board” to provide for community participation regarding the medical aspects of DRMC’s operation and the delivery of healthcare to the community. A majority of the 13 Board members will continue to be members of the Medical Staff and 2 of the Board members will continue to be members of the District Board. The Local Board will have authority to (i) appoint and reappoint the medical staff; (ii) review the quality of Hospital services; (iii) maintain licensure and accreditation; and (iv) provide input on operating budgets and physician contracts. The Rules and Regulations of the Local Governing Board may not be amended without mutual consent.



# Operating Covenants (Art. XII) (Continued)

- **Other Obligations:** During the term of the LPA, Tenet will (i) provide the District with an annual report on the operations of the Hospital; (ii) will maintain existing donor identification on the various buildings and rooms; (iii) will be required to obtain District consent before materially changing the Hospital's mission statement of charity care policy; and (iv) will be required to indemnify and hold the District harmless from any claims or suits related to the operation of DRMC.

# Insurance (Art. IV)

During the term of the LPA, Tenet at its sole cost must maintain insurance coverages which are commonly maintained by hospitals, including insurance against loss or damage by fire, comprehensive general liability, and professional liability and malpractice. Tenet must maintain earthquake insurance on the Hospital, if it maintains similar coverage for its other Southern California hospitals. All insurance policies must name the District as an additional insured and must be reviewed by Tenet periodically after making major capital improvements.

# **Non-Competition Clause (Art. XII)**

**The District has been subject to a non-compete clause since the commencement of the original lease transaction in 1997.**

**The parties are working together in order to streamline the language, to provide greater clarity to the agreement as well as afford the District more flexibility in the administration of its grant program**

# Default (Art. VIII)

Subject to Notice and Opportunity to Cure, the following events shall be considered a default by Tenet:

- (a) The failure to pay when due any sums required to be paid.
- (b) The subjection of any material right or interest of Tenet to attachment execution, or other levy.
- (c) The appointment of a receiver to take possession of the leased premises or improvements or Tenet's interest in the leasehold estate.
- (d) An Assignment by Tenet for the benefit of creditors or the filing of any type of bankruptcy.



# Default (Art. VIII) (Continued)

(e) The failure to perform any other covenant or condition in the LPA which directly causes Tenet to be unable to operate the Hospital as an acute care hospital and related health care institutions.

(f) The failure to perform any other material covenant or condition of the LPA.

If any default by Tenet continues uncured for items (a) through (e) following notice of default under the terms of the LPA, the District has the right to terminate the LPA and take back the Hospital.

If any default by Tenet continues uncured for item (f) following notice of default, the District has the right to exercise all remedies available by law or equity including specific performance and injunctive relief.

# Termination (Art. VIII)

- The LPA may be terminated at any time by mutual agreement by the District and Tenet.
- As noted in the previous slide, the LPA may be terminated for a number of reasons by the District if Tenet has defaulted and the default has not been cured.

# Miscellaneous Provisions (Art. XV)

At the end of the LPA there are a series of miscellaneous provisions. These provisions include a requirement that disputes under the LPA, after a required 30-day meet and confer period, may be submitted to binding arbitration at the option of either party.

# Public Comments

Visit [dhcd.org](https://dhcd.org) to learn more.



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