



Board Members

- John Friel (Chair)
- Dr. Katherine (Katie) Gabriel-Cox
- Dr. Joe Gallagher
- Jose A. (Tony) Nuñez
- Marcus Pimentel

Regular Meeting Agenda

Wednesday, November 29, 2023 - 5:30 pm

(Regular meeting immediately follows the PVHCDHC regular meeting.)

Zoom: <https://zoom.us/j/93443061917>

Phone: +1 669 900 9128 WEBINAR ID: 934 4306 1917

Kathleen King Community Room - 85 Nielson Street Watsonville

TRANSLATION SERVICES/SERVICIOS DE TRADUCCIÓN

Spanish language translation is available on an as needed basis. Please make advance arrangements at least three business days before the meeting at by calling at (831) 763.6040 or by emailing at info@pvhcd.org

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The Pajaro Valley Health Care District Hospital Corporation does not discriminate on the basis of disability, and no person shall, by reason of a disability, be denied the benefits of its services, programs, or activities. If you are a person with a disability and wish to participate in the meeting and require special assistance in order to participate, please call (831)763-6040 or email info@pvhcd.org at least three business days in advance of the meeting to make arrangements. Persons with disabilities may request a copy of the agenda in an alternative format.

Agenda documents are available for review in person at Watsonville Community Hospital, 75 Nielson Street, Hospital Executive Administration office; and electronically on the Pajaro Valley Healthcare District's website, at: PVHCD.ORG. To view online, visit the Board's website at: PVHCD.ORG and select the meeting date to view the agenda and supporting documents. Written comments on agenda items may also be submitted to the Board by email or US Mail. Comments received after 4 p.m. the day of the meeting and before the end of the meeting will be included with the minutes record.

Email: info@pvhcd.org

- Emailed documents may take up to 24 hours to be posted

- Please include the agenda item number

U.S. Mail:

PVHCD Board of Directors
75 Nielson Street
Watsonville, CA 95076

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**Pajaro Valley Health Care District
Meeting Agenda - Wednesday, November 29, 2023**

Call to Order

Roll Call

Closed Session Report

Agenda Modification Consideration

Public Comment on Matters Not on the Agenda

Time is set aside for members of the public to address the Board on any item not on the Board Agenda (not to exceed two minutes), which is within the subject matter jurisdiction of the Board.

Comments regarding items included on the Agenda will be heard before the item is discussed by the Board.

No action or discussion shall be taken on any item presented except that any Board Member may respond to statements made or questions asked or may ask questions for clarification. All matters of an administrative nature will be referred to staff. All matters relating to the Board will be noted in the minutes and may be scheduled for discussion at a future meeting or referred to staff for clarification and report.

Comments from Board Members

Consent

All items listed under the Consent Calendar are considered and acted upon by one Motion. Members of the public must request that a Board Member pull an item from the Consent Agenda for discussion prior to the start of the meeting.

1. Minute Approval: October 25, 2023

Recommendation: Pass a **Motion** approving the minutes of October 25, 2023.

Contact: Rosie Brown, Clerk of the Board

2. Pajaro Valley Health Care District Chief Executive Officer

Recommendation: Pass a **Motion** appointing Stephen Gray as the Chief Executive Officer for the Pajaro Valley Health Care District effective immediately.

Contact: Allyson Hauck, Chief Human Resources Officer

Discussion

3. 2024 Pajaro Valley Health Care District Bond Measure

Recommendation: Pass a **Resolution** 1) ordering an election to authorize the Issuance of General Obligation Bonds in an amount not to exceed \$105,000,000 setting forth the specification thereof; 2) requesting consolidation with other elections occurring on March 5, 2024; and 3) authorizing certain actions and accountability measures with respect thereto.

Contact: Stephen Gray, Chief Executive Officer

4. South County Triage Group Update

Recommendation: Receive and file the report.

Contact: June Ponce, Executive Director, Pajaro Valley Healthcare District Project

5. Co-Tenancy Agreement between Pajaro Valley Health Care District (District) and Pajaro Valley Health Care District Hospital Corporation (Hospital Corporation)

Recommendation: Pass a **Resolution:** 1) consenting to the District entering into the Co-Tenancy Agreement with the Hospital Corporation as a co-tenant under the MPT Lease; and (2) authorizing the Board Chair, John Friel, to execute and deliver the Co-Tenancy Agreement on behalf of the District.

Contact: Stephen Gray, Chief Executive Officer

Adjournment

This agenda was posted in accordance with the California Brown Act. Any materials related to an item on this Agenda submitted to the Board after distribution of the agenda packet will be made available to the public in accordance with Government Section 54957.5.



Board Report

Meeting Dates: November 29, 2023

Report Type: Consent

Title: Minutes Approval

Recommendation: Pass a **Motion** approving the Pajaro Valley Health Care District minutes of October 25, 2023.

Contact: Rosie Brown, Clerk of the Board

Analysis

After each Board meeting, the Board Clerk composes the DRAFT minutes noting the action taken by the board. Those DRAFT minutes are presented to the Board Members for their approval as a permanent record of the meeting actions.

Financial Impact: None

Attachments:

- A: October 25, 2023 – Closed Meeting
- B: October 25, 2023 – Regular Session

**Pajaro Valley Health Care District
Closed Meeting Minutes - Wednesday, October 25, 2023**

Call to Order 7:30 pm.

Roll Call

Present - Directors Cox, Gallagher, Nunez, Pimentel and Chair Friel

Public Comment on Matters on the Agenda Only - None

Adjourned to Closed Session at 7:32 pm.

Discussion

1. Conference with Legal Counsel Anticipated Litigation

Government Code 54956.9(d)(4)

One (1) Case

Contact: Matko Vranjes, Interim Chief Executive Officer

**Pajaro Valley Health Care District
Meeting Minutes - Wednesday, October 25, 2023**

Call to Order 8:10 pm.

Roll Call

Present - Directors Cox, Gallagher, Nunez, Pimentel and Chair Friel

Closed Session Report - None

Agenda Modification Consideration - Hear Morehouse item #5 at the beginning of the agenda.

Moved/Seconded: Friel/Pimentel

Yes: Directors Cox, Gallagher, Nunez, Pimentel and Chair Friel

Public Comment on Matters on the Agenda Only - None

Comments from Board Members

- a. Dr. Gallagher: Morehouse Residency is the best thing we have seen happen here in years. It would be a missed opportunity if we passed it up. Recruitment is a huge challenge, and this is a good solution.

Consent

All items listed under the Consent Calendar are considered and acted upon by one Motion unless otherwise noted.

Moved/Seconded: Nunez/Pimentel

Yes: Directors Cox, Gallagher, Nunez, Pimentel and Chair Friel

1. Minute Approval: July 26, 2023, August 30, 2023, September 27, 2023

Action: Passed **Motion 022-2023** approving the minutes of July 26, 2023, as amended, August 30, 2023, September 27, 2023.

Contact: Rosie Brown, Clerk of the Board

2. PVHCD Board and Committee Meeting Calendar Approval: 2024

Action: Passed **Motion 023-2023** approving the PVHCD board meeting calendar for 2024 as regular meetings.

Contact: Rosie Brown, Clerk of the Board

Discussion

3. 2024 Bond Measure Status

Action: Received and filed the Bond Measure and Use AdHoc Committee's report.

Contact: Matko Vranjes, Interim Chief Executive Officer

4. Pajaro Valley Healthcare District Project (PVHDP) Update

Action: Received and filed quarter three updates on foundation priorities and initiatives.

Contact: June Ponce, Executive Director, Pajaro Valley Healthcare District Project

5. Morehouse Common Spirit Residency Program

Action: Received and filed introduction on new Morehouse School of Medicine Family Medicine Residency Program by Walt Mills, MD, MMM, CPE, Program Director, Morehouse School of Medicine.

Contact: Matko Vranjes, Interim Chief Executive Officer

6. Pajaro Valley Health Care District and Pajaro Valley Health Care District Hospital Corporation Consolidated Audit Report

Moved/Seconded: Pimental/Cox

Yes: Directors Cox, Gallagher, Nunez, Pimentel and Chair Friel

Action: Passed **Motion 024-2023** approving the Pajaro Valley Health Care District Hospital Corporation and the Pajaro Valley Healthcare District audit findings for the period of September 01, 2022, through December 31, 2022.

Contact: Julie Peterson, Chief Financial Officer

Adjourn at 9:40 pm.



Board Report

Meeting Date: November 29, 2023

Report Type: Consent

Title: Appointment Stephen Gray as Pajaro Valley Health Care District Chief Executive Officer

Recommendation: Pass a **Motion** appointing Stephen Gray as the Chief Executive Officer for the Pajaro Valley Health Care District effective immediately.

Contact: Allyson Hauck, Chief Human Resources Officer

Analysis:

On September 27, 2023, Stephen Gray was appointed Chief Executive Officer for the Pajaro Valley Health Care District Hospital Corporation (the "Corporation") starting November 1, 2023, replacing Interim CEO Matko Vranjes. Pursuant to the Support Agreement (the "Agreement") between the Pajaro Valley Health Care District (the "District") and the Corporation, at the request of the District the Corporation shall provide the services of a Chief Executive Officer for the District as part of its administrative support service obligations.

Financial Impact: None



Board Report

Meeting Date: November 29, 2023

Report Type: Discussion

Title: 2024 Pajaro Valley Health Care District Bond Measure

Recommendation: Pass a **Resolution:** 1) ordering an election to authorize the Issuance of General Obligation Bonds in an amount not to exceed \$105,000,000 setting forth the specification thereof; 2) requesting consolidation with other elections occurring on March 5, 2024; and 3) authorizing certain actions and accountability measures with respect thereto.

Contact: Stephen Gray, Chief Executive Officer

Analysis:

This Resolution calls for the placement of a hospital improvement General Obligation Bond measure in the amount of \$105 million on the March 5, 2024, ballot in order to finance the improvement of hospital and healthcare facilities at Watsonville Community Hospital included within the bond resolution provisions.

Adoption of the resolution requires a majority vote of the entire board. This election requires a supermajority (66.67%) vote of votes cast on the measure to be approved. The hospital improvement measure includes accountability measures such as formation of a Citizens' Oversight Committee.

For several months, the District has been engaged in a process to determine and prioritize facility needs, including a voter survey as well as significant community and stakeholder outreach. The process has now concluded, and a local hospital improvement measure, if approved by voters, will provide necessary funding to make needed hospital and healthcare improvements at Watsonville Community Hospital.

Financial Impact: Costs to the County Elections Department to conduct the election on behalf of the District.

Attachments

A: Resolution



To Be Delivered

Item 3.

2024 Pajaro Valley Health Care District Bond Measure

Exhibit A: Resolution

The resolution will be delivered as soon as it is available.

Contact: Stephen Gray, Chief Executive Officer



Board Report

Meeting Date: November 29, 2023

Report Type: Discussion

Title: South County Triage Group Update

Recommendation: Receive and file the report.

Contact: June Ponce, Executive Director, Pajaro Valley Healthcare District Project

Analysis

Jasmine Najera, CEO of Pajaro Valley Prevention & Student Assistance, and Erica Padilla-Chavez, CEO of Second Harvest Food Bank will provide a presentation of a collective impact effort underway in the Pajaro Valley to help advance health & wellness and economic mobility. The objective of the presentation is to bring awareness of a partnership underway that may align with current and future initiatives of the health care district.

Financial Impact: None



Board Report

Meeting Date: November 29, 2023

Report Type: Discussion

Title: Co-Tenancy Agreement between Pajaro Valley Health Care District (District) and Pajaro Valley Health Care District Hospital Corporation (Hospital Corporation)

Recommendation: Pass a **Resolution:** 1) consenting to the District entering into the Co-Tenancy Agreement with the Hospital Corporation as a co-tenant under the MPT Lease; and (2) authorizing the Board Chair, John Friel, to execute and deliver the Co-Tenancy Agreement on behalf of the District.

Contact: Stephen Gray, Chief Executive Officer

Analysis:

In order to consummate the purchase of Watsonville Community Hospital, as contemplated and approved by the District and Hospital Corporation boards in August of 2022, the District and the Hospital Corporation were required to enter into an Amendment to the MPT Lease Agreement with MPT of Watsonville, LLC, the landlord for the leased property described below, pursuant to which certain changes were to be made to the MPT Lease Agreement to reflect purchase of the hospital. The landlord required, as a condition to entering into Amendment to the MPT Lease Agreement, that both the District and the Hospital Corporation agree to be the lessees under the MPT Lease Agreement, jointly and severally as co-tenants.

In connection therewith, the District and the Hospital Corporation wish to enter into the attached Co-Tenancy Agreement, to set forth their respective roles and responsibilities as co-tenants under the MPT Lease Agreement. Under the Co-Tenancy Agreement, the Hospital Corporation has agreed to fund the payment of all rental expenses which may be due and owing under the MPT Lease Agreement. In addition, each of the District and the Hospital Corporation have agreed to regularly consult with one another to manage the sharing of their occupancy and use of the leased property.

Financial Impact:

The rental expenses for the leased premises are already a joint and several obligation of the District and the Hospital Corporation under the Amendment to the MPT Lease Agreement. No additional costs will be incurred by the parties in connection with the Co-Tenancy Agreement (with the exception of the Hospital Corporation's agreement to fund the payment of all rental expenses under the MPT Lease Agreement).

Leased Property:

The Leased Property consists of the land and the leased improvements located at the addresses below:

- 45 Nielson Street, Watsonville, California, 95076
- 65 Nielson Street, Watsonville, California, 95076
- 75 Nielson Street, Watsonville, California, 95076
- 85 Nielson Street, Watsonville, California, 95076

The District currently occupies the following portion of the Leased Property for the operation of the District's Clinics:

- 65 Nielson Street, Suite 125, Watsonville, California, 95076. The District has engaged Coastal Health Partners, PC ("CHP"), to provide general, vascular and thoracic surgery services at this location.
- 65 Nielson Street, Suite 102, Watsonville, California, 95076. The District has engaged CHP to provide nephrology and cardiology services at this location.

The Hospital Corporation currently occupies the following portion of the Leased Property for the operation of the Hospital:

- 75 Nielson Street, Watsonville, California, 95076

The District also currently occupies a portion of the premises located at 1820 Main Street, Watsonville, California, 95076 for the operation of the District's 1206(b) clinics. The District has engaged CHP to provide urology, orthopaedics and spine services at this location. Such premises are not part of the leased property.

**BEFORE THE BOARD OF DIRECTORS
OF THE PAJARO VALLEY HEALTHCARE DISTRICT**

RESOLUTION NO. ____

On the motion of Director
Duly seconded by Director
The following resolution is adopted.

RESOLUTION APPROVING THE CO-TENANCY AGREEMENT

The Board of Directors (the “**Board**”) of the **PAJARO VALLEY HEALTH CARE DISTRICT** (the “**District**”), required to approve the matters set forth herein, does hereby consent to the adoption of the following resolutions.

I. Background

WHEREAS, the District was formed pursuant to the California Local Health Care District Law and California Senate Bill No. 418, approved by the Governor of California on February 4, 2022, for purposes that include without limitation the acquisition of the Watsonville Community Hospital (the “**Hospital**”); and

WHEREAS, the District caused the formation of the Pajaro Valley Health Care District Hospital Corporation, a California nonprofit public benefit corporation (the “**Corporation**”) on April 29, 2022, for purposes that include without limitation the operation of the Hospital.

II. Co-Tenancy Agreement

WHEREAS, on August 31, 2022, the Corporation acquired Watsonville Community Hospital (the “**Hospital**”);

WHEREAS, the acquired assets included, among other things, that certain Lease Agreement, dated as of September 30, 2019, by and between MPT of Watsonville, LLC (“**MPT Lessor**”), as lessor, and Watsonville Hospital Corporation, as lessee (as amended, the “**MPT Lease**”), as modified by that certain Lease Amendment, dated as of August 31, 2022, by and between MPT Lessor, as lessor, on the one hand, and the District and the Corporation, collectively, and jointly and severally, as lessees, on the other hand;

WHEREAS, in connection therewith, the Corporation and the District wish to enter into that certain Co-Tenancy Agreement, in substantially the form attached hereto as **Exhibit A** (the “**Co-Tenancy Agreement**”), to set forth their respective rights and obligations as joint and several lessees under the MPT Lease;

WHEREAS, the Board has reviewed and considered the terms of the Co-Tenancy Agreement, and such other agreements, instruments, or documents contemplated therein, in the forms previously submitted to the Board; and

WHEREAS, the Board deems it fair, advisable and in the best interest of the District to execute and deliver the Co-Tenancy Agreement and to complete the transactions contemplated thereby.

NOW, THEREFORE, BE IT RESOLVED, that the Board hereby authorizes, adopts and approves the form, terms and provisions and the execution and delivery by the District of the Co-Tenancy Agreement, including all of the exhibits attached thereto.

FURTHER RESOLVED, that the District be, and it hereby is, authorized to enter into the Co-Tenancy Agreement, and that any director or officer of the District and his or her designees be, and each of them hereby is, authorized in the name and on behalf of the District, to execute and deliver the Co-Tenancy Agreement, with such changes therein as may be deemed necessary, appropriate or advisable by the directors or officers executing the same, the execution thereof by such director or officer to be conclusive evidence of such approval; and that the District be, and it hereby is, authorized and empowered to perform its obligations under the Co-Tenancy Agreement.

III. General Authorization and Ratification

RESOLVED, that the directors and officers of the District be, and each of them hereby is, authorized and directed to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed and delivered, in the name and on behalf of the District, all such documents, instruments, and certificates (including, without limitation, all notices and certificates required or permitted to be given or made under the terms of the Co-Tenancy Agreement), as such director or officer may deem necessary or appropriate to carry out the purposes and intent of the foregoing resolutions and to perform the obligations of the District under the Co-Tenancy Agreement or otherwise referred to in the foregoing resolutions.

FURTHER RESOLVED, that all actions taken by the directors and officers on behalf of the District in connection with the matters described in the foregoing resolutions are hereby ratified and confirmed in all respects.

(Remainder of page intentionally left blank)

(Signature page follows)

PASSED AND ADOPTED by the Board of Directors of the Pajaro Valley Health Care District, this 29th day of November, 2023, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Chair, Board of Directors

ATTEST:

Rosalie Brown, Clerk of the Board

Exhibit A

Co-Tenancy Agreement

(Attached)

CO-TENANCY AGREEMENT

This Co-Tenancy Agreement (“**Agreement**”) is entered into as of September 1, 2023 (the “**Effective Date**”), by and between Pajaro Valley Health Care District, a political subdivision of the State of California (the “**District**”), and Pajaro Valley Health Care District Hospital Corporation, a California nonprofit public benefit corporation (the “**Corporation**”). The District and the Corporation are sometimes referred to in this Agreement as a “**Party**” or collectively, as the “**Parties**.” Capitalized terms are defined in this Agreement.

RECITALS

- A. MPT of Watsonville, LLC, a Delaware limited liability company (“**Lessor**”), and Watsonville Hospital Corporation (“**WHC**”) executed that certain Lease Agreement, dated as September 30, 2019 (as amended, the “**Lease**”), relating to certain land, improvements, and fixtures located in Watsonville, Santa Cruz County, California (including the improvements consisting of a healthcare facility), all as more particularly described in the Lease (the “**Leased Property**”).
- B. WHC was engaged in the business of providing healthcare services as a licensed general acute care hospital known as Watsonville Community Hospital (the “**Hospital**”), located at 75 Nielson, Watsonville, California.
- C. On December 5, 2021, WHC filed voluntary petitions for relief under title 11 of the United States Code (the “**Bankruptcy Code**”) in the United States Bankruptcy Court, Northern District of California, San Jose Division (the “**Bankruptcy Court**”), commencing cases under chapter 11 of the Bankruptcy Code on an administratively consolidated basis under Docket No. 21-51477 (the “**Bankruptcy Proceeding**”).
- D. Pajaro Valley Healthcare District Project (the “**Project**”) is a California nonprofit public benefit corporation organized for the specific purpose to raise funds for and take all necessary steps to acquire the Hospital out of bankruptcy directly or through a health care district formed for the benefit of the County of Santa Cruz pursuant to California Health and Safety Code (the “**H&S Code**”) sections 32000 through 32499.4 (the “**California Local Health Care District Law**”).
- E. The Project entered into that certain Asset Purchase Agreement, dated as of December 27, 2021, and amended by that certain First Amendment to Asset Purchase Agreement, dated as of February 18, 2022 (the “**Asset Purchase Agreement**”), as the “**Buyer**” described therein (the “**Buyer**”), with Halsen Healthcare LLC, Watsonville Hospital Holdings, Inc., Watsonville Healthcare Management, LLC, and Watsonville Hospital Corporation, as the “**Sellers**” described therein (each, a “**Seller**” and together the “**Sellers**”), pursuant to which the Project (or its assignee) was to purchase the Acquired Assets and assume the Assumed Liabilities described therein, which comprise and relate to the operation of the business of the Hospital and include the Lease (collectively, the “**Sale Transaction**”).

- F. The District was formed pursuant to Chapter 9 of Division 23 of the H&S Code added by Senate Bill No. 418 on February 4, 2022 (H&S Code sections 32498.5 through 32498.8) for purposes that include without limitation the acquisition of the Hospital.
- G. Section 9.7 of the Asset Purchase Agreement provided that the Project was permitted to assign or otherwise transfer the Asset Purchase Agreement or any of its rights thereunder to the District or any “Affiliate” (as defined in the Asset Purchase Agreement) of the District (including without limitation a nonprofit corporation) with the demonstrated financial wherewithal to close the transactions contemplated by the Asset Purchase Agreement satisfactory to each of the Sellers and the Lessor.
- H. The District caused the formation of the Corporation on April 29, 2022, for purposes that include without limitation the operation of the Hospital. The District is the sole corporate member of the Corporation.
- I. On February 23, 2022, the Bankruptcy Court entered the Sale Order (as defined in the Asset Purchase Agreement) approving the Sale Transaction.
- J. On August 31, 2022, immediately prior to the consummation of the Sale Transaction, the Project and the Corporation entered into that certain Assignment and Assumption Agreement (the “**Assignment and Assumption Agreement**”), pursuant to which the Project assigned and transferred to the Corporation the Asset Purchase Agreement and all of the Project’s rights and obligations as the Buyer thereunder, including without limitation the right to receive an assignment of the Lease.
- K. In order to consummate the Sale Transaction as contemplated by the Assignment and Assumption Agreement, the Corporation was required to enter into that certain Amendment to Lease Agreement with the Lessor (the “**Lease Amendment**”), pursuant to which certain changes were to be made to the Lease to reflect the Sale Transaction. The Lessor required, as a condition to entering into the Lease Amendment, that both the District and the Corporation agree to be the lessees under the Lease, jointly and severally as co-tenants.
- L. On August 31, 2022, the Corporation and WHC consummated the Sale Transaction.
- M. On August 31, 2022, contemporaneously with the consummation of the Sale Transaction, the Parties entered into the Lease Amendment.
- N. On August 31, 2022, immediately subsequent to the consummation of the Sale Transaction, the District and the Corporation entered into that certain Conveyance (the “**Conveyance**”), pursuant to which the Corporation conveyed, transferred and assigned the Conveyed Assets described therein, including the Corporation’s interest in the Lease and any subleases entered into in connection with the Lease, to the District to accomplish the District’s acquisition of the Hospital, as contemplated by Chapter 9 of Division 23 of the H&S Code added by Senate Bill No. 418, 2022 (H&S Code sections 32498.5 through 32498.8), and pursuant to which the Corporation operates the Hospital pursuant to the Reserved Rights and Powers described therein (the “**Reserved Rights and Powers**”).

- O. On August 31, 2022, immediately subsequent to the consummation of the Sale Transaction, the District and the Corporation entered into that certain Support Agreement (the “**Support Agreement**”), pursuant to which the Corporation provides certain administrative and management services to the District, including, without limitation, non-physician staffing for the operation of the District’s outpatient clinics which are exempt from licensure pursuant to Section 1206(b) of the H&S Code (the “**Clinics**”).
- P. On September 1, 2021, the California Department of Public Health issued a license to the Corporation to operate the Hospital.
- Q. The Parties wish to enter into this Agreement to set forth their respective roles and responsibilities as co-tenants under the Lease.

In consideration of the foregoing recitals and the mutual covenants and agreements set forth in this Agreement, the Parties agree as follows:

AGREEMENT

1. **Incorporation of Recitals.** The Recitals to this Agreement are incorporated into and shall constitute a part of this Agreement.
2. **Capitalized Terms.** Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Lease.
3. **Co-Tenancy.** The Parties hereby acknowledge that each Party entered into the Lease Amendment, jointly and severally, as co-tenants, pursuant to which the Parties and the Lessor amended the Lease to make certain changes to reflect the Sale Transaction. The Parties hereby acknowledge that, as a condition to approving the assignment of the Lease to the District as part of the Sale Transaction, the Lessor required that the Corporation enter into the Lease with the District as a co-tenant, and that the Parties agreed to the co-tenancy arrangement for no other reason other than to satisfy the Lessor’s requirements.
4. **Conveyed Assets.** Under the Conveyance, the Corporation conveyed, transferred and assigned its interest in the Lease and any subleases of the Leased Property to the District to accomplish the District’s acquisition of the Hospital through the Bankruptcy Proceeding, as contemplated by Chapter 9 of Division 23 of the H&S Code added by Senate Bill No. 418, 2022 (H&S Code sections 32498.5 through 32498.8). The Parties hereby acknowledge and agree that, as between the District and the Corporation, the District shall be deemed to be the holder of the leasehold interest in the Leased Property, and that the Corporation shall occupy and use the Leased Property solely pursuant to the terms of the Reserved Rights and Powers.
5. **Payment of Rental Expenses under the Lease.**
 - (a) As part of its Administrative Support Obligations under the Support Agreement (and as described in Section 3 therein), the Corporation has agreed to fund the payment of all Base Rent, Additional Charges, Letter of Credit Obligations and Cash Deposits which may be due and owing under the Lease (collectively, the “**Rental Expenses**”). The Corporation hereby agrees to

pay on the District's behalf all Rental Expenses at its sole cost and expense. The District hereby agrees to waive any claim to any Cash Deposit remainder that the Lessor may refund.

(b) The Corporation and the District have exercised care and diligence in determining their respective roles and responsibilities under this Agreement. In consideration of the obligations of the District to acquire the Hospital and to provide for the healthcare needs of persons served by the District pursuant to the H&S Code sections 32000 et seq., the obligations of the Corporation to operate the Hospital for the benefit of the District pursuant to Section 32121(o) of the H&S Code, and the affiliation between the District and the Corporation in furtherance of the District's mission, the Parties have agreed that the Corporation shall be responsible for the payment on the District's behalf of all Rental Expenses as set forth above. In the event that the Corporation or the District reasonably concludes that this arrangement is likely to be in violation of any applicable law, the Corporation and the District shall use best efforts to develop an alternative arrangement that complies with law, which shall replace the current arrangement.

6. Occupancy; Subleasing Arrangements.

(a) The Parties hereby acknowledge that the District currently occupies those portions of the Leased Property set forth on Exhibit A for the operation of the District's Clinics, and the Hospital currently occupies certain portions of the Leased Property set forth on Exhibit A for the operation of the Hospital. In addition, one or both of the Parties currently sublease those portions of the Leased Property set forth on Exhibit A to third parties.

(b) The Parties hereby acknowledge that one or both of them may now or hereafter sublease or license the Leased Property as permitted under Article XXII of the Lease and in accordance with subsection (c) below.

(c) To the extent that the District now or hereafter subleases or licenses any portion of the Leased Property, the District hereby agrees to promptly remit to the Corporation all rental and related payments received by the District under such sublease or license. To the extent that any rental or related payments are received by the District under any sublease or license of a portion of the Leased Property (in the name of the District or the Corporation or both), the District shall promptly remit to the Corporation all such payments received.

(d) As the deemed holder of the leasehold interest in the Leased Property, and subject to the Corporation's Reserved Rights and Powers, the District may sublease or license its right to occupy or use a portion of the Leased Property to a third party as permitted under Article XXII of the Lease. The Corporation shall only sublease or license its right to occupy or use a portion of the Leased Property to a third party in accordance with its Reserved Rights and Powers and as permitted under Article XXII of the Lease.

(e) The Parties agree to meet and confer in accordance with Section 7 of this Agreement prior to requesting any approval from the Lessor to assign or sublease any portion of the Leased Property, or subleasing or licensing any portion of the Leased Property that do not require the Lessor's prior written consent.

(f) The Parties agree to amend or replace Exhibit A from time to time to reflect any changes to the leasing or subleasing arrangements set forth therein.

7. **Consultation; Meet and Confer.**

(a) The Parties shall regularly consult with one another to manage the sharing of their occupancy and use of the Leased Property. Any decisions made by either Party that will substantially affect the other Party's use of the Leased Property shall be subject to meet and confer provisions below.

(b) The Parties agree that they will meet and confer in good faith at reasonable times and places concerning this Agreement and its interpretation or any other matter of mutual concern relating to the Leased Property. The Parties further agree that any Party to this Agreement may request, in writing delivered to the other Party, that the Parties confer within fifteen (15) calendar days after the date of delivery of the request, which shall specify the matter to be discussed. District requests to meet and confer shall be directed to the Corporation's Board of Directors. Corporation requests to meet and confer shall be directed to the District's Board of Directors. The District and the Corporation may designate who their respective representatives shall be at the meet and confer sessions. The Parties recognize that the success of their co-tenancy arrangement depends upon mutual cooperation and frequent and effective communication between the Parties. The Parties shall employ their best efforts to resolve any dispute that may arise under or in connection with this Agreement.

8. **No Lease Modification; No Third Party Rights.** The Parties hereby acknowledge and agree that this Agreement in no way modifies the Lease, nor shall it have any effect upon the rights of any third parties arising under the Lease, including without limitation the Lessor. None of the provisions contained herein are intended by the Parties, nor shall they be deemed, to confer any benefit on any person not a party to this Agreement. This Agreement only defines the relationship between the Parties.

9. **Insurance.**

(a) **Corporation Insurance.** The Corporation shall, at its sole expense, obtain and maintain in full force during the term of this Agreement, the insurance coverages described on Exhibit B (Corporation's Insurance), and shall, as to the General and Professional Liability and Directors' and Officers' policies, name the District as an additional insured thereunder. If any insurance required by this Agreement is under a "claims-made" policy and is cancelled or terminated or the policy is changed, the Corporation shall purchase or otherwise ensure "tail" coverage for acts or occurrences occurring during the term of this Agreement, but as to which claims may be asserted after the cancellation, change or termination of the policy.

(b) **District Insurance.** The District shall obtain and maintain in full force during the term of this Agreement, the insurance coverages described on Exhibit C (District's Insurance). If any insurance required by this Agreement is under a "claims-made" policy and is cancelled or terminated or the policy is changed, the District shall purchase or otherwise ensure "tail" coverage for acts or occurrences occurring during the term of this Agreement, but as to which claims may be asserted after the cancellation, change or termination of the policy.

10. **No Referrals.** The Parties agree and represent that all matters related to this Agreement are to promote the long term enjoyment and use of the Leased Property and provide for the governance of the Parties' respective co-tenancy interests in the Leased Property. Neither Party shall receive or provide pursuant to this Agreement any money, fee, commission, credit, gift, gratuity, thing of value, or compensation of any kind which is provided, directly or indirectly, for the purpose of improperly obtaining or rewarding favorable treatment in connection to any economic business relationship or interaction of the Parties. The Parties expressly agree that nothing contained in this Agreement shall require either Party (or any physician providing services to either Party) to refer to or admit any patients to the other Party. Notwithstanding any unanticipated effect of any provision of this Agreement, neither Party will knowingly or intentionally conduct itself in such a manner as to violate any federal or state physician self-referral or anti-kickback laws.

11. **Term and Termination.**

(a) **Term.** This Agreement shall be effective as of the Effective Date and remain in effect until the expiration or earlier termination of the Lease, or the termination of the Period of Operation set forth in the Conveyance .

(b) **Termination of the Period of Operation.** In accordance with Section 3(c) of the Conveyance, upon the District's notice of termination of the Period of Operation, the Parties shall transfer the operations of the Hospital either to the District or to another party selected by the District in compliance with applicable laws and regulations.

12. **Rights Cumulative.** The various rights and remedies herein provided for shall be cumulative and in addition to any other rights and remedies the Parties may be entitled to pursue under the law. The exercise of one or more of such rights or remedies shall not impair the rights of either Party to exercise any other right or remedy at law or in equity.

13. **Assignment.** Except as otherwise described herein, no Party shall, without the prior written consent of the other Party, assign any rights or delegate any duties arising out of this Agreement.

14. **Indemnity.**

(a) **Indemnification.** To the fullest extent permitted by law, each Party (the "**Indemnifying Party**") shall, at the Indemnifying Party's sole expense and with counsel reasonably acceptable to the other Party (the "**Indemnified Party**"), indemnify, defend and hold harmless the Indemnified Party and its officers, directors, agents, employees, independent contractors, and advisors (collectively, the "**Indemnified Parties**"), from and against all Claims, as defined in subsection (b) below, that are incurred by the Indemnified Parties as a result of:

(i) The use or occupancy, or manner of use or occupancy, of the Leased Property by the Indemnifying Party;

(ii) Any act, error, omission, or negligence of the Indemnifying Party or of any invitee, guest, or licensee of the Indemnifying Party in, on, or about the Leased Property;

(iii) the Indemnifying Party's conducting of its business, wherever conducted;

(iv) Any alterations, additions or improvements to the Leased Property (including without limitation Capital Additions and Major Repairs), and activities, work, or things done, omitted, permitted, allowed, or suffered by the Indemnifying Party in, at, or about the Leased Property, including the actual, alleged or asserted violation of or failure to comply with any applicable Legal Requirements in existence on the Commencement Date or enacted, promulgated, or issued after the Commencement Date of the Lease; and

(v) Any breach or default in the performance of any obligation on the Indemnifying Party's part to be performed under this Agreement or the Lease, including obligations which survive expiration or earlier termination of the Lease under the terms of the Lease.

(b) Type of Injury or Loss. This indemnification extends to and includes any and all claims, actions, causes of action, controversies, charges, obligations, damages, demands, expenses, costs, fines, penalties, fees, and/or liabilities, including, without limitation, from loss, damage, or injury to or death of persons or property in any manner ("**Claims**") for:

(i) Injury to any persons (including death at any time resulting from that injury);

(ii) Loss of, injury or damage to, or destruction of property (including all loss of use resulting from that loss, injury, damage, or destruction); and

(iii) All economic losses and consequential or resulting damage of any kind.

(c) Active or Passive Negligence; Strict Liability. Except as provided in this subsection (c), the indemnification provided in this Section 14 shall apply regardless of the active or passive negligence of the Indemnified Parties and regardless of whether liability without fault or strict liability is imposed or sought to be imposed on the Indemnified Parties. The indemnification provided in this Section 14 shall not apply to the extent that a final judgment of a court of competent jurisdiction establishes that a Claim against one of the Indemnified Parties was proximately caused by the willful misconduct of that Indemnified Party. In that event, however, this indemnification shall remain valid for all other Indemnified Parties.

(d) Indemnification Independent of Insurance Obligations. The indemnification provided in this Section 14 may not be construed or interpreted as in any way restricting, limiting, or modifying the Indemnifying Party's insurance or other obligations under the Lease and is independent of the Indemnifying Party's insurance and other obligations. The Indemnifying Party's compliance with the insurance requirements and other obligations under the Lease shall not in any way restrict, limit or modify the Indemnifying Party's indemnification obligations under the Lease.

(e) Attorney's Fees. The prevailing party shall be entitled to recover its actual attorney fees and court costs incurred in enforcing the indemnification clauses set forth in this Section 14.

(f) Survival of Indemnification. All of the provisions of this Section 14 shall survive the expiration or earlier termination of the Lease until all claims against the Indemnified Parties involving any of the indemnified matters are fully, finally, and absolutely barred by the applicable statutes of limitations.

(g) Duty to Defend. The Indemnifying Party's duty to defend the Indemnified Parties is separate and independent of the Indemnifying Party's duty to indemnify the Indemnified Parties. The duty to defend includes Claims for which the Indemnified Parties may be liable without fault or strictly liable. The duty to defend applies regardless of whether the issues of negligence, liability, fault, default or other obligation on the part of the Indemnifying Party has been determined. The duty to defend applies immediately, regardless of whether the Indemnified Parties have paid any sums or incurred any detriment arising out of or relating (directly or indirectly) to any Claims. It is the express intention of the parties that the Indemnified Parties be entitled to obtain summary adjudication or summary judgment regarding the Indemnifying Party's duty to defend the Indemnified Parties at any stage of any claim or suit within the scope of this Section 14.

(h) Indemnification Procedures. If an event occurs for which the Indemnified Party asserts the Indemnifying Party must indemnify it, the Indemnified Party shall notify the Indemnifying Party promptly of such event and, if the event involves the claim of a third party, the Indemnifying Party shall have sole control over, and shall assume all expenses with respect to, the defense, settlement, adjustment or compromise of such claim; provided, however, that (a) the Indemnified Party may, if reasonably necessary to protect its interests, employ counsel of its own to assist in the handling of the claim, and (b) the Indemnifying Party shall obtain the prior written approval of the Indemnified Party, before entering into any settlement, adjustment, or compromise of such claim or ceasing to defend such claim, if pursuant thereto or as a result thereof there would be imposed injunctive or other similar relief against the Indemnified Party.

15. Construction of Agreement. This Agreement is subject to and shall be governed solely by the laws of the State of California. The Parties agree that the terms and provisions of this Agreement represent their mutual agreement and that they are not to be construed more liberally in favor of, or more strictly against, any Party hereto.

16. Waiver of Breach. Waiver of a breach of any provision of this Agreement shall not be deemed a waiver of any other breach of either the same or any different provision of this Agreement. No waiver shall be effective against either Party unless it is in writing, signed by that Party. No waiver of any breach of any term or covenant contained in this Agreement shall operate as a waiver of any subsequent breach thereof.

17. Force Majeure. Notwithstanding any other provisions contained herein, no Party shall be liable to another Party, and shall not be deemed to be in default hereunder, for the failure to perform or provide any of the supplies, services, personnel, or other obligations to be performed or provided pursuant to this Agreement if such failure is a result of a labor dispute, act of God, pandemic or any other event which is beyond the reasonable control of the Party.

18. Notice. Whenever, under the terms of this Agreement, written notice is required or permitted to be given by any Party to any other Party, such notice shall be deemed to have been

sufficiently given if personally delivered or deposited in the United States Mail, in a properly stamped envelope, certified or registered mail, return receipt requested, addressed to the Party to whom it is to be given, at the address hereinafter set forth. Either Party hereto may change its respective address by written notice in accordance with this paragraph. Such notice shall be deemed to have been received (a) when actually received, (b) on the delivery date indicated on the return receipt, or (c) within five (5) business days of being deposited with the United States Postal Service, whichever is earlier.

19. **Entirety.** This Agreement, the Support Agreement and the Conveyance Agreement referenced herein contain the sole and entire agreement between the Parties related to their co-tenancy arrangement and shall supersede all prior agreements between the Parties as of the Effective Date hereof. The Parties acknowledge and agree that neither of them has made any representations with respect to the subject matter of this Agreement, or any representation inducing the execution and delivery hereof except such representations as are specifically set forth herein, and each of the Parties hereto acknowledges that it has relied on its own judgment in entering into the same.

20. **Amendments.** This Agreement may not be amended except upon the mutual written consent of the Parties. The Parties agree to negotiate in good faith regarding amendments hereto that either Party, upon the advice of legal counsel, determines are necessary to comply with any applicable state or federal requirements.

21. **Parties in Interest.** Each and all of the covenants, terms, provisions, and agreements herein contained shall be binding upon and inure to the benefit of the heirs, executors, administrators, successors, and assigns of the respective Parties hereto.

22. **Exhibits.** All exhibits referred to herein are hereby incorporated herewith. In the event of a conflict between a provision of this Agreement and an Exhibit, the Exhibit shall control with respect to the subject matter of the Exhibit.

23. **Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed to be an original.

24. **Severability.** In the event any provision of this Agreement is rendered invalid or unenforceable by the enactment of any applicable statute or ordinance or by any regulation duly promulgated by officers of the United States, or of the State of California, acting in accordance with law, or is declared null and void by any court of competent jurisdiction, the remainder of the provisions of this Agreement shall remain in full force and effect.

25. **Effective Date.** This Agreement is effective as of the Effective Date, even though the Parties may have executed it after said date.

[Remainder of page left blank intentionally]

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the Effective Date.

“District”

Pajaro Valley Health Care District

“Corporation”

Pajaro Valley Health Care District Hospital Corporation

By: _____
Name: John Friel
Title: Chair of the Board

By: _____
Name: Stephen Gray
Title: Chief Executive Officer

EXHIBIT A

OCCUPANCY; SUBLEASING ARRANGEMENTS

I. Leased Property

A. The Leased Property consists of the Land and the Leased Improvements located at the addresses below:

- 45 Nielson Street, Watsonville, California, 95076
- 65 Nielson Street, Watsonville, California, 95076
- 75 Nielson Street, Watsonville, California, 95076
- 85 Nielson Street, Watsonville, California, 95076

B. The District currently occupies the following portion of the Leased Property for the operation of the District's Clinics:¹

- 65 Nielson Street, Suite 125, Watsonville, California, 95076. The District has engaged Coastal Health Partners, PC ("CHP"), to provide general, vascular and thoracic surgery services at this location.
- 65 Nielson Street, Suite 102, Watsonville, California, 95076. The District has engaged CHP to provide nephrology and cardiology services at this location.

C. The Corporation currently occupies the following portion of the Leased Property for the operation of the Hospital:

- 75 Nielson Street, Watsonville, California, 95076

¹ The District also currently occupies a portion of the premises located at 1820 Main Street, Watsonville, California, 95076 for the operation of the District's Clinics. The District has engaged CHP to provide urology, orthopaedics and spine services at this location. Such premises are not part of the Leased Property.

II. Subleased Property

One or both Parties, or their direct or indirect sublessee, currently sublease those portions of the Leased Property set forth below:

A. 45 Nielson Street

Sublessor	Sublessee	Sublease Title	Date of Sublease	Address
District and Corporation, as successor in interest to WHC, jointly and severally, as co-tenants	Salud Para La Gente, Inc.	Medical Office Space Lease	4/1/2016	45 Nielson Street
		First Amendment to Medical Office Space Lease	7/15/2016	
		Second Amendment to Medical Office Space Lease	9/20/2019	

B. 45/65 Nielson Street

Sublessor	Sublessee	Sublease Title	Date of Sublease	Address
District and Corporation, as successor in interest to WHC, jointly and severally, as co-tenants	Sanderling Renal Services - USA LLC	Medical Office Space Lease	4/15/2018	45/65 Nielson Street

C. 65 Nielson Street

Sublessor	Sublessee	Sublease Title	Date of Agreement	Address
District and Corporation, as successor in interest to WHC, jointly and severally, as co-tenants	Neven Development LLC	Master Lease Agreement	11/21/2003	65 Nielson Street
Neven Development LLC	CHP	Sublease Agreement	7/1/2015	65 Nielson Street, Suite 135
CHP	Golden State Heart and Vascular Associates, Inc.	Sublease Agreement	9/10/2020	
Neven Development LLC	District, as successor in interest to WHC	Sublease Agreement	3/25/2004	65 Nielson Street, Suite 125 ²
		Amendment #1	8/18/2004	
		Amendment Two (2) to the Sublease Agreement	11/17/2014	
		Amendment Three (3) to the Sublease Agreement	4/25/2018	
Neven Development LLC	CHP, as successor in interest to Barstow Healthcare Management, Inc.	Sublease Agreement	11/1/2013	65 Nielson Street, Suite 102 ³
		Amendment One (1) to the Sublease Agreement	11/28/2018	

² District Clinic premises.

³ District Clinic premises (to be assigned to the District in connection herewith).

District and Corporation, as successor in interest to WHC, jointly and severally, as co-tenants	County of Santa Cruz	Lease of Storage Space	11/1/2017	65 Nielson Street (approximately 560 square feet)
District and Corporation, as successor in interest to WHC, jointly and severally, as co-tenants	Watsonville Hospital Federal Credit Union	Office Space Lease	10/17/2002	65 Nielson Street
		QHC Renewal Letter Summary	1/26/2018	

D. 75 Nielson Street

Sublessor	Sublessee	Sublease Title	Date of Sublease	Address
District and Corporation, as successor in interest to WHC, jointly and severally, as co-tenants	Surgical Associates of Monterey Bay Medical Corp.	Part-Time Lease	1/1/2018	75 Nielson Street, Suite B 1432
		First Amendment to Part-Time Lease	12/1/2018	
		Second Amendment to Part-Time Lease	12/1/2019	
		Third Amendment to Part-Time Lease	12/1/2020	
		Fourth Amendment to Part-Time Lease	8/1/2020	

E. 85 Nielson Street

Sublessor	Sublessee	Sublease Title	Date of Sublease	Address
District and Corporation, as successor in interest to WHC, jointly and severally, as co-tenants	Salud Para La Gente, Inc.	Medical Office Space Lease	2/1/2018	85 Nielson Street
		First Amendment to Medical Office Space Lease	10/31/2018	
		Second Amendment to Medical Office Space Lease	3/4/2019	
District and Corporation, as successor in interest to WHC, jointly and severally, as co-tenants	Pajaro Valley Community Health Trust, as successor in interest to WHC	Lease	9/8/1998	85 Nielson Street (approximately 1,000 square feet on the second floor of the cafeteria building)

EXHIBIT B

LIST OF CORPORATION INSURANCE

1. General and Professional Liability – with an aggregate coverage limit of at least \$20,000,000 and deductible/self-insured retention not to exceed \$500,000
2. Directors and Officers Liability – with an aggregate coverage limit of at least \$10,000,000 and deductible/self-insured retention not to exceed \$250,000
3. Employer’s Practices Liability – with an aggregate coverage limit of at least \$3,000,000 and deductible/self-insured retention not to exceed \$250,000
4. Workers’ Compensation in compliance with applicable laws/regulations

EXHIBIT C

LIST OF DISTRICT INSURANCE

1. General and Professional Liability – with an aggregate coverage limit of at least \$20,000,000 and deductible/self-insured retention not to exceed \$100,000
2. Directors and Officers Liability – with an aggregate coverage limit of at least \$5,000,000 and deductible/self-insured retention not to exceed \$200,000
3. Real Property Insurance – with an aggregate coverage limit of at least \$100,000,000 and deductible/self-insured retention not to exceed \$100,000