

June 3, 2019

Client-Matter: 24901-045

Mr. Scott Chan  
Deputy Attorney General  
California Department of Justice  
Office of the Attorney General  
Charitable Trusts Section  
455 Golden Gate Avenue, Suite 11000  
San Francisco, Ca. 94102

Re: St. Joseph Health System (SJHS) and Adventist Health Systems/West (AHW)

Dear Mr. Chan:

In a letter dated April 24, 2019, you requested that SJHS and AHW (collectively, the “Applicants”) provide your office with additional information pertaining to the Applications for Attorney General Consent (the “Applications”) submitted by those parties. On behalf of SJHS and AHW (as applicable), set forth herein are explanatory and clarification materials in response to your letters. We will be pleased to provide any further clarification or explanations as needed.

This letter will be included in the Applicants’ website postings and in the hospital reading rooms as a supplement to the extensive materials already included on the websites and in the reading rooms.

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**(1)** The Master Formation Agreement (“MFA”) between SJHS and AHW does not provide for, or require, any changes to the medical and/or healthcare services maintained at any of the health facilities that are the subject of the proposed transaction. As discussed in SJHS and AHW’s respective Applications, the parties expect that the transaction will have a positive impact on the availability and accessibility of healthcare services in the affected communities.

In order to be responsive to community needs and demands and to changes in technology and best practices, certain currently available services may be augmented or reduced to better serve the community and improve medical care. Neither SJHS nor AHW has any current plans to make changes in currently available services in the five years immediately following the closing of the proposed transaction, except as provided below.

Moreover, each of the four SJHS hospitals that are the subject of the proposed transaction went through the full Attorney General (“AG”) review and consent process in 2016, and are

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currently subject to conditions of consent that require those hospitals to maintain the types and levels of services available at those facilities. All four SJHS affiliated facilities will continue to comply with all prior AG Conditions of Consent, and the proposed transaction will have no effect on such compliance.

With respect to the Adventist Health St. Helena facility (“AHSH”), the creation of the ST Network will allow the Applicants to coordinate physician and support services in an effort to improve volume and scale for some service lines that are currently not clinically and/or economically viable over the mid-to-long term. With regard to reproductive services in particular, AHW and SJHS have discussed a cooperative arrangement among the AHW and SJHS medical staffs to augment OB/GYN physician services at AHSH. Such an arrangement would allow AHSH to continue to provide existing levels of OB/GYN services at current levels for a five-year period.<sup>1</sup> Absent such an arrangement, continuation of such services does not appear to be practically viable due to the low volume and physician recruitment challenges, and it is most likely that AHSH would need to close such services before the end of five-year period discussed above.

(2) No notice of change of control of Petaluma Valley Hospital (“PVH”) has been provided because the November 30, 2018 letter of intent between SJHS and Petaluma Health Care District does not effect a change of control of PVH.

On January 19, 1997, SRM Alliance Hospital Services entered into a lease agreement for the operation of PVH with Petaluma Health Care District. The lease agreement expired on January 20, 2017. However, in order to avoid a discontinuation of services to the community, SRM Alliance continues to operate PVH at the request of the District. Effective November 30, 2018, SJHS and the Petaluma Health Care District entered into a letter of intent by which NewCo, a yet-to-be-formed subsidiary of the ST Network, would be the operator of PVH. The letter of intent, which by its own terms is non-binding on the parties (except for certain provisions unrelated to control of the facility), indicates that if final terms of a lease are agreed

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<sup>1</sup> As noted in AHW’s responses to the Attorney General’s August 24, 2018 correspondence (*see* response to Request #1), due to, *inter alia*, 2030 seismic requirements, reductions in patient volume, and associated physician recruitment challenges, there is a “hard” five-year time limit during which AHSH can commit to continuing to operate the St. Helena facility in its current configuration. While AHW and SJHS intend to explore their ability to coordinate physician and support services in order to improve volume and scale for some service lines that are currently not clinically and/or economically viable over the mid-to-long term, AHW nonetheless expects that a number of the clinical service lines that are currently provided at St. Helena will remain clinically and/or economically non-viable and, as such, will, of necessity, be discontinued at the time of the operation of the restructured hospital in five years. It is for these reasons that, while AHW is able to commit to maintaining existing services for five years at AHSH, it simply cannot guarantee to operate any such services for a longer period of time.

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to, the lease will be subjected to a referendum and voter approval. The parties understand that the final lease negotiations will not occur until after approval of the ST Network by the applicable regulatory authorities. No final agreement will be executed by which the ST Network directly or indirectly manages and operates PVH until after the ST Network is initiated. Furthermore, any such agreement will require voter approval.

(3) The purchase option set forth in the November 30, 2018 letter of intent between SJHS and Petaluma Health Care District refers generally to the “Premises” as defined in the Lease Agreement between Petaluma Valley Health Care District and SRM Alliance Hospital Services, effective January 19, 2017. The Premises, as defined in the Lease Agreement, includes, *inter alia*, the Land (as defined in Exhibit A to the Lease Agreement) and the Buildings as defined in the Lease Agreement, including the building known as PVH located at 400 N. McDowell Boulevard in Petaluma, California. Assuming that a lease agreement is entered into by the parties, and that the agreement is approved by the voters in the District, no decision has been made by SJHS or any of its affiliates as to whether the purchase option will be exercised within the next five years.

(4) The MFA identifies Kevin Klockenga as the initial President and Chief Executive Officer for the ST Network, LLC. No additional officers and employees of the ST Network, LLC have been appointed.

When appointed, none of the officers or employees of the ST Network, LLC, including Mr. Klockenga, will concurrently hold positions as employees, officers or board members of either SJHS, AHW, or any of their respective affiliates. Similarly, no employees or officers of SJHS, AHW or their respective affiliates will concurrently hold positions as employees or officers of the ST Network, LLC.

The proposed compensation and employment benefits for the officers/employees of the ST Network have not yet been determined. However, each of said persons will be compensated at a level that does not exceed fair market value and all such compensation arrangements will be approved in accord with the standards and policies prescribed pursuant to IRC 4958 and Treasury Regulations § 53.4958-4(b)(1)(ii)(A).

AHW has appointed the following individuals to the ST Network Board of Directors:

- Rick Jones
- Joyce Newmyer

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- Rich Reiner
- Joe Reppert
- Bill Wing

Mr. Jones currently serves as a member of Adventist Health St. Helena's governing board. Ms. Newmyer is an AHW employee, and president of AHW's Pacific Northwest Region. Mr. Reiner is a member of AHW's Board of Directors, as well as a member of all AHW hospital boards of directors. Mr. Reppert is an AHW employee, and is AHW's Chief Financial Officer. Mr. Wing is an AHW employee, and is AHW's President.

SJHS has appointed the following individuals to the ST Network Board of Directors:

- Michael Butler
- Jo Ann Escasa-Haigh
- Edward E. Dolejsi
- Gary Campbell
- Doug Koekkoek, M.D.

Mr. Butler currently serves as Providence Saint Joseph Health's ("PSJH") President of Operations and Strategy, and serves as a board member and President of SJHS. Ms. Escasa-Haigh currently serves as a PSJH Executive Vice President and CFO of Operations and Business Development, and serves as a board member and Treasurer/CFO of SJHS. Dr. Koekkoek is an employee of PSJH, and currently serves at its Chief Medical Officer of Physician Enterprise.

(5) The goals described in the Applicants' responses to Request #10 set forth in the Attorney General's August 24, 2018 letter are aspirational goals that SJHS and AHW believe will be accomplished through the formation of the ST Network, LLC. As already described in the Applicants' prior responses (as well as the response set forth in Paragraph (12) below), combining the Northern California operations of both AHW and SJHS offers a platform to help create healthier communities at an affordable cost, and to improve access and value to the people who live and work in the communities. The parties plan to achieve these goals by serving as a more integrated population health manager over a larger population; by linking currently disparate electronic health records across both organizations for the entire geography; by achieving the scale necessary to better recruit and retain physicians; by better aligning patient needs with physicians that can provide these services locally; and by enhancing outpatient offerings while reducing readmissions. Additional details and planning as to how the ST Network's goals and aspirations will be achieved (apart from the information already provided in

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the Applicants' prior responses to Request #10) will be determined by the ST Network, including its future executive team and employees, upon the closing of the proposed transaction.

None of the goals outlined by the Applicants in their prior responses require or call for a reduction in the scope or type of any medical services provided in the ST Network service area. To the contrary, SJHS and AHW expect that the transaction will have a positive impact on the availability and accessibility of healthcare services in the affected communities.

(6) Neither SJHS nor AHW are aware of the existence of documents not already produced to the FTC (and made available to the Attorney General) discussing any plans— by either SJHS or AHW—to partner with Western Health Advantage to develop an HMO plan or alternative to a traditional fee-for-service PPO plan. To the extent the Attorney General seeks documents concerning SJHS and/or AHW's relationship, generally (including as providers participating in Western Health Advantage's health plans), the Applicants have produced documents in response to the FTC's Civil Investigative Demands that contain references to Western Health Advantage, and those documents have already been made available to the Attorney General (*see* Applicants' responses to Attorney General's September 28, 2018 correspondence – Request #1).

(7) With respect to your inquiry concerning whether any employee and/or board member of the ST Network will hold any board position at SJHS and/or AHW, please see the Applicants' response in Paragraph (4) above, which identifies the employees and/or board members of SJHS, AHW or their affiliated entities who will hold board positions at the ST Network. Upon the closing of the proposed transaction, SJHS and AHW do not anticipate that any employees of the ST Network will hold board positions at SJHS or AHW.

(8) The names and titles of the current members of AHW's Board of Directors are set forth below:

- David Banks
- Robert Cherry, MD
- Andrew Davis
- John Freedman
- Ricardo Graham, Chairman of the Board of Directors

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- Kerry Heinrich
- Larry Innocent
- Scott Reiner
- Richard Reiner
- Velino Salazar
- Bill Wing
- Marc Woodson

The names and titles of the current members of SJHS’s Board of Trustees are set forth below:

- Richard Blair (Board Chair)
- Dave Olsen (Board Vice Chair)
- Dick P. Allen
- Isiaah Crawford, PhD
- Lucille Dean, SP
- Sr. Diane Hejna, CSJ, RN
- Michael Holcomb
- Sr. Phyllis Hughes, RSM, Dr.PH
- Sallye Liner, MSN, RN
- Mary E. Lyons, PhD
- Walter “Bill” Noce, Jr
- Carolina Reyes, MD
- Phoebe Yang

(9) With regard to bargaining unit contracts at the hospitals involved in the proposed transaction, please see the chart below:

Contract Name	Employer	Union	Expiration	Evergreen
Collective Bargaining Agreement by and between Santa Rosa Memorial Hospital and Environs and Petaluma Valley Hospital and the International Union of Operating Engineers Stationary Engineers Local 39	SJH Santa Rosa Memorial Hospital	International Union of Operating Engineers Local 39	6/4/2019	Yes

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Collective Bargaining Agreement Between Santa Rosa Memorial Hospital and National Union of Healthcare Workers	SJH Santa Rosa Memorial Hospital	National Union of Healthcare Workers	6/17/2019	Yes
Agreement Between Santa Rosa Memorial Hospital and Staff Nurses Association of Santa Rosa Memorial Hospital	SJH Santa Rosa Memorial Hospital	Staff Nurses Association of Santa Rosa Memorial Hospital	9/30/2020	No
Agreement between Queen of the Valley Medical Center and California Nurses Association	SJH Queen of the Valley Med Ctr	California Nurses Association	8/17/2019	Yes
Agreement between St. Joseph Hospital Eureka Redwood Memorial Hospital and California Nurses association	SJH St. Joseph Hospital Eureka & Redwood	California Nurses Association.	8/18/2019	Yes
Collective Bargaining Agreement Between National Union of Healthcare Workers and St. Joseph, Eureka Hospital Redwood Memorial Hospital April 12,- '19	SJH St. Joseph Hospital Eureka & Redwood	National Union of Healthcare Workers	4/12/2019 (extended by mutual agreement to 5/31/2019)	No
Memorandum of Understanding between Adventist Hospital Clearlake, Inc. and the Redbud Community Hospital Employees Association	Adventist Health Hospital Clearlake	Redbud Community Hospital Employees Association	9/30/2021	No

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(10) Currently, Adventist Health St. Helena (“AHS”) employs 674 full-time employees (FTEs), with a total employee count (including FTEs) of 1,174.

As noted above and in AHW’s response to Request #1 in the Attorney General’s August 24, 2018 letter, due to, *inter alia*, 2030 seismic requirements, reductions in patient volume, and associated physician recruitment challenges, there is a “hard” five-year time limit during which AHS can commit to continuing to operate the St. Helena facility in its current configuration. As a result, the AHW Board has authorized management to engage in further planning with respect to a “right-sizing” of the hospital to reflect a realistic regional role for the hospital in light of the continuing reductions in patient volumes, the associated physician recruitment challenges, and the desire to maintain and improve the core clinical service lines in a manner that best serves the community. AHW and AHS expect that a restructured hospital will require substantially less capacity than is provided at the existing facility, which may reduce the need for the number of employees at the facility when the restructuring is complete. However, due to the dynamic and constantly changing nature of the healthcare industry, as well as the need for AHW and AHS to remain flexible in order to address any changes in community needs for healthcare services in the communities served by the hospital, AHW does not have any definitive information about the number of employees that will be employed by the facility five years after the closing of the proposed transaction.

(11) With respect to outmigration in Humboldt County, yes, patients outmigrate from Humboldt County, and more specifically from the areas served by St. Joseph Hospital in Eureka and Redwood Memorial Hospital in Fortuna. The ST Network intends to help address the issue of outmigration through its broader, combined network, which will offer more access to services through joint physician recruitment, shared medical records, and specialty referrals. For further information on the Applicants’ general strategies to reduce outmigration from rural counties, see the parties’ response to Request #5 of the Attorney General’s September 28, 2018 letter.

(12) The terms of the proposed transaction, including as set forth in the MFA, do not provide for any plans to infuse any of the hospitals with funds for capital improvements or for the development of specific additional healthcare services by the ST Network.

With regard to capital improvements, each hospital involved in the proposed transaction will remain owned by its current health system, and SJHS and AHW will continue to be responsible for capital improvements at their own affiliated hospitals respectively. Information concerning the capital improvements completed and/or planned at the Applicants’ respective

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affiliated hospitals has already been produced in response to the FTC's Civil Investigative Demands, and that information has been made available to the Attorney General (*see* Applicants' responses to Attorney General's September 28, 2018 correspondence – Request #1).

With respect to additional healthcare services, while the terms of the proposed transaction do not provide for the development of specific additional healthcare services, the MFA expresses that the parties share a common goal of providing improved access to quality healthcare throughout the counties in which their facilities operate. In this regard, as noted in the Applicants' responses to the AG's August 24, 2018 supplemental requests (*see* Responses to Request #1 and #10), the creation of the ST Network will allow the Applicants to coordinate physician and support services for such service lines as OB/GYN services at Adventist Health St. Helena, which would extend that facility's ability to continue to provide reproductive services to that community for the next five years. Without coordinated support and an arrangement between the parties with respect to those services, it is likely those services would have to be discontinued in the near term.

Moreover, the ST Network would offer SJHS and AHW a platform to help create healthier communities at an affordable cost, and to improve access and value to the people who live and work in the communities. The parties plan to achieve this by serving as a more integrated population health manager over a larger population; by linking currently disparate electronic health records across both organizations for the entire geography; by achieving the scale necessary to better recruit and retain physicians; by better aligning patient needs with physicians that can provide these services locally; and by enhancing outpatient offerings while reducing readmissions. In this regard, the parties expect their affiliation to increase the availability of and access to behavioral health services, as the SJHS hospitals in the 5-county region have no inpatient psychiatric or behavioral health beds and only limited outpatient psychiatric services. AHW is also considering long-term plans to expand its behavioral health capabilities at its Vallejo facility, which may include increased bed capacity, and direct referral capabilities with SJHS's Queen of the Valley Medical Center. Because a goal of the affiliation is to increase clinical collaboration between the parties, SJHS expects it will be able to build off of AHW's expertise and integrate behavioral health within its primary medical clinics. This, the parties presume, will allow earlier interventions for more patients with mental health issues and hopefully ensure better outcomes. AHW currently delivers approximately 12,000 annual behavioral health-focused Rural Health Clinic visits and will look to expand this expertise across the geography.

(13) With respect to whether there are any plans to eliminate or reduce healthcare services at any of the hospitals in this transaction, please see the Applicants' response set forth in

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Paragraph (1) above, and AHW's response to Request #1 contained in the Attorney General's August 24, 2018 correspondence.

(14) The physicians affiliated with, respectively, St. Joseph Heritage Healthcare ("Heritage") and Adventist Health Physician Network ("AHPN"), including the medical groups contracted with those entities as described in the Applicants' response to the AG's August 24, 2018 supplemental requests (*see* Request #3), will be affiliated with the ST Network following the closing of the proposed transaction. The extent to which additional physicians or medical groups not affiliated with either Heritage or AHPN will be affiliated with the ST Network is not presently known, as such physicians may or may not choose to become part of the ST Network.

(15) At some point after formation of the ST Network, the Applicants intend to form a clinically integrated network with the ST Network as its sole member.

(16) The Applicants do not presently plan to have the St. Joseph/Heritage or Adventist/AHPN physician groups enter into exclusive professional service agreements with the ST Network.

(17) Apart from the Applicants' respective Northern California facilities, there are no other hospitals that will be part of the proposed ST Network, or that are in negotiations to be part of the ST Network, before the ST Network is initiated (*i.e.*, when the ST Network transaction closes following regulatory review and operations begin). There are negotiations ongoing with two health care districts which, if each is successful, and if each is approved by voters in each district, would result in the operation and management of the district hospitals by the ST Network at some time after the ST Network is initiated. The two hospitals are Petaluma Valley Hospital ("PVH") and Healdsburg District Hospital ("HDH"). No definitive agreement has been reached with either district to include its hospital in the ST Network. Further details on the status of discussions with both PVH and HDH are set forth below.

Petaluma Valley Hospital. On January 19, 1997, PVH and SRM Alliance Hospital Services, a California nonprofit public health benefit corporation, whose sole member is Santa Rosa Memorial Hospital, a California nonprofit public benefit corporation, entered into a lease agreement for the operation of PVH. The lease agreement expired on January 20, 2017, but

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SRM Alliance has continued to operate PVH at the request of the Petaluma Health Care District (the "District") and in order to avoid a discontinuation of services to the community. Effective November 30, 2018, SJHS and the District entered into a letter of intent by which the NewCo, a yet-to-be-formed subsidiary of the ST Network, would be the operator of PVH. The letter of intent, which by its own terms is non-binding on the parties (except for certain provisions unrelated to control of the facility), indicates that if final terms of a lease are agreed to, the lease will be subjected to a referendum and voter approval. The parties understand that the final lease negotiations will not occur until after approval of the ST Network by the applicable regulatory authorities. No final agreement will be executed by which the ST Network directly or indirectly manages and operates PVH until after the ST Network is initiated. Furthermore, any such agreement will require voter approval.

Healdsburg District Hospital: On July 10, 2018, St. Joseph Health Northern California, LLC, a wholly owned subsidiary of SJHS, and North Sonoma County Healthcare District entered into a non-binding Memorandum of Understanding, under which the parties agreed to explore and negotiate a lease or management agreement whereby SJHS, or an affiliate, would manage and operate HDH and its associated clinics for a multi-year period. SJHS expects, if such an agreement is reached, that an SJHS affiliate would operate and manage HDH. No final agreement will be executed by which the SJHS affiliate manages and operates HDH until after the ST Network is initiated. And, again as with PVH, any lease agreement entered into between SJHS and the District for SJHS's direct or indirect operation of the HDH will require a public vote.

Apart from discussions involving PVH or HDH, in April 2019 Mendocino Coast District Hospital sent a Request for Proposal to a number of potential affiliation partners, including to AHW and SJHS. Responses to the Request for Proposal are due in June 2019. Neither AHW nor SJHS has entered into a letter of intent to lease, acquire or operate the hospital. AHW is in the process of considering whether to pursue any kind of affiliation. SJHS is not considering an affiliation.

The Applicants reiterate that none of the above-referenced transactions have been completed, and each transaction, if completed, will require approval by the voters of the applicable district.

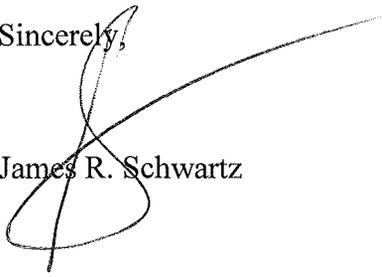
**(18)** With respect to whether any plans exist for the ST Network to enter into any agreements with hospitals not currently part of the proposed joint venture, please see the Applicants' response set forth in to Paragraph (17) above.

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(19) With respect non-compete provisions in any on-going negotiations concerning hospitals that are not part of the proposed transaction, there are no ongoing negotiations with respect to PVH until after the ST Network transaction is closed. As to HDH, SJHS and North Sonoma County Healthcare District have not discussed non-compete provisions regarding the lease arrangement.

If you have any questions about the foregoing responses, or require any additional information, please let us know. Thank you for your professional courtesy and cooperation in this matter.

Sincerely,



James R. Schwartz

cc: Yemi O. Adeyanju, Esq.  
Robert L. Layton, Esq.