Development Agreement Between the City of Escondido and Palomar Pomerado Health

TO: Board of Directors / Finance Committee

MEETING DATE: Thursday, February 23, 2006

FROM: Bob Hemker, CFO

Background: On March 18, 2005, PPH entered into an Option to Purchase, Purchase Agreement and Escrow Instructions – ERTC Parcels 27 through 29 and Parcels 33 through 36 with JRM-ERTC I, L.P. Previously, PPH had acquired adjacent Parcels 30 through 32. Parcels 27 through 29 and Parcels 33 through 36 comprise an approximate 49.65 gross acres and 28.08 net pad able acres. Combined with the previously acquired 6.6 gross acres / 6.56 net acres, the total acreage of 56.25 gross acres / 34.64 net pad able acres ('the Site") was deemed to be potentially sufficient for the New Hospital and related needs medical campus. However, the existing zoning and entitlements for these parcels—which are situated within Planning Area 4 and a portion of Planning Area 5—did not specifically allow the development of an acute care hospital. However, it should be noted that many of the campus needs and proposed uses were allowed by the current zoning.

In order to determine the suitability of the combined parcels for use as an acute care hospital and related services, PPH undertook Lead Agency responsibilities for the CEQA evaluation. It was determined that the Site was suitable and, as such, an Addendum to the previously completed FEIR for the ERTC was approved.

During discussions of the necessary General Plan Amendment and Specific Plan Amendment with the City of Escondido, both parties determined that a Development Agreement be adopted to correctly identify the responsibilities of both parties. Management entered into discussions and negotiations with City Leadership to formulate the Development Agreement (DA).

In summary, the resultant DA requires PPH to make a Public Benefit Payment in the amount of $13,000,000. Through relocation of supply chain services and the acquisition of equipment and materials in the City of Escondido for the new hospital, it is expected that an additional funding of $6,000,000 will be achieved—a combined amount sufficient, per the City, to complete the Citracado Parkway Improvements—an obligation of the City. Other obligations and benefits of the DA are summarized on the attachment.

The City of Escondido, by Ordinance, will approve the necessary zoning and entitlement modifications, along with other requested changes to the General Plan and the ERTC Specific Plan. The DA will be approved concurrently as part of this action. The City held their public review and first reading at its February 8, 2006, City Council Meeting. The request for changes and approval of the DA was approved by a 5 to 0 vote. The City held its second reading at its February 22, 2006, meeting. The action becomes effective thirty days from the second reading. The term of the DA is for a period of Thirty (30) years from the effective date.

Development Agreement Between the City of Escondido and Palomar Pomerado Health

Management will review the key points of the zoning and entitlement changes, the key points of the Development Agreement—including obligations and rights of both parties, and the associated MOU, which will be more fully discussed in a separate agenda item.

Management will recommend approval of the Development Agreement as reviewed. The agreement requires the dual signatory of Dr. Marcelo Rivera, Chairman of the Board, and Mr. Michael Covert, President & CEO. As such, Board approval by resolution of the Development Agreement and delegation of signature authority to Dr. Rivera and Mr. Covert will be requested.

Budget Impact: $ 13,000,000 – Facility Master Plan

Staff Recommendation: Staff recommends approval, subject to the Board of Directors electing to close on the purchase agreement for ERTC Parcels 27 through 29 and Parcels 33 through 36 with JRM-ERTC I, L.P.

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action: X

Information:

Required Time:

Memorandum of Understanding Between the City of Escondido and Palomar Pomerado Health

TO: Board of Directors / Finance Committee

MEETING DATE: Thursday, February 23, 2006

FROM: Bob Hemker, CFO

Background: On March 18, 2005, PPH entered into an Option to Purchase, Purchase Agreement and Escrow Instructions – ERTC Parcels 27 through 29 and Parcels 33 through 36 with JRM-ERTC I, L.P. Previously, PPH had acquired adjacent Parcels 30 through 32. Parcels 27 through 29 and Parcels 33 through 36 comprise an approximate 49.65 gross acres and 28.08 net pad able acres. Combined with the previously acquired 6.6 gross acres/6.56 net acres, the total acreage of 56.25 gross acres/34.64 net pad able acres ("the Site") was deemed to be potentially sufficient for the New Hospital and related needs medical campus.

As part of the planning of the New Hospital Campus and the Master Facility Plan, the use of the existing Palomar Medical Center Campus for both medical and non-medical purposes was assessed. In conjunction with this planning effort, it was determined that the existing Palomar Medical Center Campus would be a component part of PPH's Facility Master Plan before and after the development of the New Hospital Campus. The existing campus will have certain medical services and will be the site for relocation of PPH's corporate operations, currently located at Innovation Drive.

In concert with the City of Escondido, PPH management and City leadership determined that a Memorandum of Understanding was key to outlining various commitments, obligations and responsibilities as both parties collaborate in achieving certain development on and around the existing Palomar Medical Center Campus. Accordingly, and at the previous direction of the PPH Board of Directors, Management entered into discussions and negotiations with City Leadership to formulate the requisite Memorandum of Understanding ("MOU").

In summary, the Parties agree that the following principles are central to the terms and conditions of this MOU: (a) PPH will make a good faith effort to maintain, renovate, and repair portions of the Downtown Medical Campus; (b) PPH will consider conversion of existing hospital space to office space at a later date; (c) City will vacate the Valley Boulevard Road Segment, as hereinafter defined, to facilitate PPH's construction of a new building at the Downtown Medical Campus; (d) PPH will move its corporate and administrative offices to the Downtown Medical Campus; (e) City will cooperate in good faith to facilitate the development of the Palomar West facility; and, (f) PPH will be responsible for financing the improvements to the Downtown Medical Campus The resultant MOU is divided into three (3) phases as follows:

Phase I: (a) Vacation and transfer of the Valley Boulevard Road Segment by the City to PPH; (b) Acquisition of the adjacent "West Properties" by PPH to facilitate vacating of the road segment, (c) Development of a 50,000 sq ft mixed use office building for use as the PPH Corporate Offices on a footprint approximating the land from (a) and (b); and, (d) relocation of PPH's distribution warehouse from its current location at Innovation Drive to the City of Escondido. Subject to certain events, Phase I efforts cover the period of 2006 through 2010.

Memorandum of Understanding Between the City of Escondido and Palomar Pomerado Health

Phase II: PPH will use its best efforts to upgrade the McLeod Tower to approximately 85,000 sq ft of non-hospital bed use. Likely medical services are identified that outline the provision of certain levels of medical care at the existing campus. Phase II would not occur until after the opening of the New Hospital Campus at ERTC.

Phase III: (a) PPH will consider, in its sole discretion, completion of certain improvements at the existing campus. The improvements may include identified medical services, a magnet high school, and/or residential housing units; (b) City will vacate a portion of Pennsylvania Avenue to facilitate the development; and, (c) PPH, in its sole discretion, may acquire certain properties Northeast and East of the existing campus to facilitate the development.

PPH has the right to utilize third party partnering to accomplish any or all of its responsibilities for all three phases. The MOU is for a term ending February 2020.

In related actions, the City of Escondido, by Ordinance, will approve the necessary zoning and entitlement modifications, along with other requested changes to the General Plan and the ERTC Specific Plan. An associated Development Agreement will be approved concurrently as part of that action. The City held their public review and first reading at its February 8, 2006, City Council Meeting. The request for changes and approval of the DA was approved by a 5 to 0 vote. The City held its second reading at its February 22, 2006, meeting. The action becomes effective thirty days from the second reading. The MOU was conditioned upon and, as such, will take effect concurrently with, the effective date of the DA and the necessary zoning and entitlement modifications, along with other requested changes to the General Plan and the ERTC Specific Plan.

Management will review the key points of the MOU as part of the presentation.

Management will recommend approval of the Memorandum of Understanding as reviewed.

Budget Impact: To be Determined – Facility Master Plan

Staff Recommendation: Staff recommends approval, subject to the Board of Directors electing to close on the purchase agreement for ERTC Parcels 27 through 29 and Parcels 33 through 36 with JRM-ERTC I, L.P. and acceptance of the Development Agreement with the City of Escondido.

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion: **X** - Approve as per Staff Recommendation

Individual Action: **X**

Information:

Required Time:

Development Agreement Between JRM-ERTC I, L.P. and Palomar Pomerado Health

TO: Board of Directors / Finance Committee

MEETING DATE: Thursday, February 23, 2006

FROM: Bob Hemker, CFO

Background: On March 18, 2005, PPH entered into an Option to Purchase, Purchase Agreement and Escrow Instructions – ERTC Parcels 27 through 29 and Parcels 33 through 36 with JRM-ERTC I, L.P. Previously, PPH had acquired adjacent Parcels 30 through 32. Parcels 27 through 29 and Parcels 33 through 36 comprise an approximate 49.65 gross acres and 28.08 net pad able acres. Combined with the previously acquired 6.6 gross acres/6.56 net acres, the total acreage of 56.25 gross acres/34.64 net pad able acres ("the Site") was deemed to be potentially sufficient for the New Hospital and related needs medical campus.

The acquisition of the acreage, as detailed above, affords the opportunity to develop a comprehensive medical services campus consistent with the vision and design outlined in PPH's Master Facility Plan. Inclusive to a comprehensive medical services campus is the provision of physician access to medical office space that is convenient for the medical community and patients. In order to ensure adequate acreage, convenient access to the hospital facilities, and flexibility in campus design and layout, PPH and JRM-ERTC I, L.P. agreed to enter into a Development Agreement for the provision of Medical Office Building ("M.O.B.") space as a condition and component element of the consideration for acquisition of the land.

In summary, PPH will grant to JRM-ERTC I, L.P. ("Developer") the exclusive right to develop, on a joint venture basis with PPH, up to 300,000 gross square feet of M.O.B. (plus or minus 25,000 square feet, at PPH's discretion), in one or more phases on the Campus upon the terms and subject to the conditions set forth in the Development Agreement. The Developer's exclusive right to develop M.O.B. remains in effect until expiration of the Term of the Agreement unless otherwise terminated pursuant to certain terms. The Agreement will end on the earlier to occur of: (i) when the Parties have completed the development of 300,000 gross square feet of M.O.B.; or (ii) Twenty (20) years after the Effective Date.

Each Project shall be constructed on a portion of the Campus to be designated by PPH, in its sole discretion, which shall be subject to a ground lease between PPH and the LLC. PPH and Developer intend to hire one or more creditworthy, unaffiliated, third-party general contractors with substantial experience in constructing M.O.B. or commercial office buildings through a public bidding process, as required, to be implemented by Developer under PPH's oversight.

<u>Initial Project</u>. Both parties have agreed that the initial phase of at least 150,000 gross square feet of M.O.B. (plus or minus 10,000 square feet, at PPH's discretion) will be completed on or before the date the New Hospital opens to provide services to the public. Developer and LLC shall not be required to break

ground on construction of the Initial Project until after ground breaking for the New Hospital has occurred.

Subsequent Projects. PPH will determine, in its discretion, the need for up an additional 150,000 square feet of M.O.B. in addition to the M.O.B. space provided by the Initial Project. As such, after the New Hospital commences operations, the parties will meet periodically to evaluate whether market conditions, demand for additional M.O.B., and other conditions are such that PPH desires to construct additional Project(s)

Each phase of M.O.B. will be developed upon the terms and subject to the conditions of the Agreement as a "Project" or "Projects". Developer and PPH intend to create one limited liability company (or, if the Parties agree, one limited partnership) to own each Project. Developer and PPH shall each have membership interests in each LLC, with their respective percentage interests therein to be as described in this Agreement, which initially will be 50/50. PPH may offer to sell a portion of its LLC membership interest in each LLC to tenants in the Project owned by such LLC or to other members of the medical staff, in each case on fair market value terms, and it will confer with Developer to determine whether Developer would like to so sell a portion of Developer's interest in such LLC as well.

For each Project, Developer will prepare and provide to PPH a proposed Development Plan subject to PPH's reasonable approval. The Plan will assure compliance with fraud and abuse laws and any other legal requirements governing PPH's operations. Following are the major components of the plan: 1) Description of the size and types of improvements; 2) Pre-construction budget, a construction budget and construction schedule which includes a detailed estimate of all projected costs to be incurred in the development of the Project; 3) A construction plan setting forth the timing and sequence of matters relating to planning, development, site preparation, construction and leasing; 4) A marketing plan and leasing pro forma setting forth projected lease rates, commissions, and other material economic terms for subleasing; 5) Operating pro formas for the Project, including projected lease and sublease revenues and expenses; 6) A financing plan, including projected principal loan amounts, interest rates, and maturity dates for a pre-development loan (including site preparation, grading, project design, planning and entitlements), construction loans and permanent loans; and, 7) Ownership structure of the Project.

Based upon certain financial return criteria, the Developer may opt out of a Project(s). In such an event, PPH has reserved the right to proceed with a similar project to assure adequate M.O.B. space is located in proximity to the New Hospital.

The Development Agreement affords PPH, subject to certain triggering events, significant exclusive use rights for medically related services within the Medical Office Building(s) as well as the entire ERTC project. Imbedded with the agreement are penalties for breach of the exclusive use rights. In addition, the Developer is bound to a covenant not to compete within a three-mile radius of the hospital campus.

Development Agreement Between JRM-ERTC I, L.P. and Palomar Pomerado Health

The resultant Development Agreement provides opportunity for PPH to assure adequate M.O.B. space is available upon the opening of the New Hospital, as well as at key growth points. In addition, business protections are available through the exclusive use and prohibited use provisions. Economic benefit, through equity ownership in exchange for ground lease rights, affords PPH additional and fair market value benefit.

Management will review key points of the Development Agreement, including obligations and rights of both parties, as part of the presentation.

Management will recommend approval of the Development Agreement as reviewed.

Budget Impact: Contingent obligation related to 1/3 of capital cost for T.I. allowances that can't be financed as part of capitalizing the LLC's obligation. Section 4.4).

Staff Recommendation: Staff recommends approval, subject to the Board of Directors electing to close on the purchase agreement for ERTC Parcels 27 through 29 and Parcels 33 through 36 with JRM-ERTC I, L.P.

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion: **X** - Approve as per Staff recommendation

Individual Action:

Information:

Required Time:

Agreement as to Form and Content— CCRs Governing the ERTC and Association

TO: Board of Directors / Finance Committee

MEETING DATE: Thursday, February 23, 2006

FROM: Bob Hemker, CFO

Background: On March 18, 2005, PPH entered into an Option to Purchase, Purchase Agreement and Escrow Instructions – ERTC Parcels 27 through 29 and Parcels 33 through 36 with JRM-ERTC I, L.P. Previously, PPH had acquired adjacent Parcels 30 through 32. Parcels 27 through 29 and Parcels 33 through 36 comprise an approximate 49.65 gross acres and 28.08 net pad able acres. Combined with the previously acquired 6.6 gross acres/6.56 net acres, the total acreage of 56.25 gross acres/34.64 net pad able acres ("the Site") was deemed to be potentially sufficient for the New Hospital and related needs medical campus.

In conjunction with the development of the Escondido Research and Technology Center ("ERTC"), JRM-ERTC, I, L.P., a California limited partnership ("Declarant"), established certain Covenants, Conditions and Restrictions ("CCRs") and an Owners Association to perform certain obligations related to the CCRs.

To date, the following events have occurred:

1) On March 18, 2005, Declarant caused a Declaration of Covenants, Conditions and Restrictions of Escondido Research and Technology Center, encumbering a portion of the Property (San Diego County Recorder's Office Document No. 2005-0222548) to be recorded with the San Diego County Recorder ("Existing Declaration"). A Declaration amending and restating the Existing Declaration in its entirety is pending PPH's review and acknowledgement.

2) Declarant may add all or any of the real property in the ERTC, and said Additional Property so annexed will thereupon be subject to this Declaration and become a part of the Property. Parcels being acquired by PPH will be subject to the proposed annexation.

3) Declarant has established the Escondido Research and Technology Center Owners Association ("**Association**") to perform certain obligations under the Declaration and to own certain real property for the benefit of all of the Owners.

In conjunction with the anticipated annexing of the parcels being acquired into the Association, PPH has diligently reviewed the existing CCRs and negotiated with the Declarant certain changes throughout the CCRs in order to protect its interest, rights and obligations. Notable to the changes are: Section 6.6 (Applicability to PPH) related to USE RESTRICTIONS and Section 8.10 (Applicability to PPH) related to ARCHITECTURAL APPROVALS.

Agreement as to Form and Content— CCRs Governing the ERTC and Association

PPH has negotiated pre-approvals, i.e. with Association approval, of up to 1.5 million square feet on its Parcels until such time that Citracado Parkway is completed. Upon completion, the pre-approval is 2 million square feet. Amounts in excess of these limits would require review and approval of the Association. Notwithstanding these approvals and/or limits, compliance with CEQA will prevail. In addition, PPH's requirement for Architectural review, as is applicable to all Parcels in the project, has been pre-reviewed and obtained for certain uses, materials and site plan, subject to no substantial deviation from the reviewed plans and the approved Specific Plan Amendment.

PPH is not a Co-Declarant as it relates to the proposed revision to the CCRs. Rather, the agreed upon revised CCRs will be filed as part of the closing process for the PPH Parcels. The revised CCRs afford PPH, subject to certain triggering events, rights for medically related services including medical office building(s), total square footage rights, and pre-approved architectural review. Additionally, PPH has negotiated a not-to-exceed cap on its share of Association expenses, regardless of future included/excluded Parcels in the Association.

Management will review key points of the CCRs, including obligations and rights of both parties, as part of the presentation.

Management will recommend acceptance of the CCRs as reviewed.

Budget Impact: Future budgets for operating expenses related to allocated share of Association expenses.

Staff Recommendation: Staff recommends approval, subject to the Board of Directors electing to close on the purchase agreement for ERTC Parcels 27 through 29 and Parcels 33 through 36 with JRM-ERTC I, L.P.

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion: **X** - Approve as per Staff recommendation

Individual Action:

Information:

Required Time:

Ratification of Indemnification Agreement Between PPH and San Diego Gas & Electric ("SDG&E")

TO: Board of Directors / Finance Committee

MEETING DATE: Thursday, February 23, 2006

FROM: Bob Hemker, CFO

Background: On March 18, 2005, PPH entered into an Option to Purchase, Purchase Agreement and Escrow Instructions – ERTC Parcels 27 through 29 and Parcels 33 through 36 with JRM-ERTC I, L.P. Previously, PPH had acquired adjacent Parcels 30 through 32. Parcels 27 through 29 and Parcels 33 through 36 comprise an approximate 49.65 gross acres and 28.08 net pad able acres. Combined with the previously acquired 6.6 gross acres/6.56 net acres, the total acreage of 56.25 gross acres/34.64 net pad able acres ("the Site") was deemed to be potentially sufficient for the New Hospital and related needs medical campus. However, the existing zoning and entitlements for these parcels, which are situated within Planning Area 4 and a portion of Planning Area 5, did not specifically allow the development of an acute care hospital. However, it should be noted that many of the campus needs and proposed uses were allowed by the current zoning.

In order to determine the suitability of the combined parcels for use as an acute care hospital and related services, PPH undertook Lead Agency responsibilities for the CEQA evaluation. It was determined that the Site was suitable and, as such, an Addendum to the previously completed FEIR for the ERTC was approved.

During the review and subsequent discussions of the necessary General Plan Amendment and Specific Plan Amendment with the City of Escondido, SDG&E expressed concern about potential impacts related to noise, air dispersion, sensitive receptor impacts, and helicopter safety.

PPH provided SDG&E with information, including supplemental information related to their specific concerns, and engaged in positive dialog and information sharing communications. As a result of those discussions, SDG&E eliminated their concerns, subject to PPH entering into an indemnification agreement specifically related to helicopter safety associated with SDG&E's "plume" and negative impacts resulting to PPH's patients (i.e. sensitive receptors) from air dispersion exposure impacts.

Management entered into the Indemnification and Hold Harmless Agreement on February 8, 2006, thereby eliminating SDG&E's concerns and resulting in a non-opposition of hospital position. The Agreement is for an extended period of time ending until the earlier to occur of: (i) the permanent decommissioning and dismantling of the Palomar Energy Center, or (ii) the permanent termination of all patient and helicopter services and permanent decommissioning and dismantling of all helicopter infrastructure at the Escondido Research and Technology Center

Ratification of Indemnification Agreement Between PPH and San Diego Gas & Electric ("SDG&E")

Budget Impact: N/A

Staff Recommendation: Staff recommends ratification of the Agreement, subject to the Board of Directors electing to close on the purchase agreement for ERTC Parcels 27 through 29 and Parcels 33 through 36 with JRM-ERTC I, L.P.

Committee Questions:

COMMITTEE RECOMMENDATION:	
Motion:	**X** - Approve as per Staff recommendation
Individual Action:	
Information:	
Required Time:	

Form A_SDGandE indemnity agreement.doc

Exercise of Option to Purchase, Purchase Agreement and Escrow Instructions – ERTC Dated March 18, 2005

TO: Board of Directors / Finance Committee

MEETING DATE: Thursday, February 23, 2006

FROM: Bob Hemker, CFO

Background: Discussion of and possible action authorizing PPH Management to consummate the Option to Purchase, Purchase Agreement and Escrow Instructions – ERTC Parcels 27 through 29 and Parcels 33 through 36, dated March 18, 2005, and close escrow in accordance with the terms and conditions related to said Agreement and escrow instructions.

On March 18, 2005, PPH entered into an Option to Purchase, Purchase Agreement and Escrow Instructions – ERTC Parcels 27 through 29 and Parcels 33 through 36 with JRM-ERTC I, L.P. Previously, PPH had acquired adjacent Parcels 30 through 32. The Option period was through August 15, 2005, and for a purchase price of $28,080,000. Parcels 27 through 29 and Parcels 33 through 36 comprise an approximate 49.65 gross acres and 28.08 net pad able acres. Combined with the previously acquired 6.6 gross acres/6.56 net acres, the total acreage of 56.25 gross acres/34.64 net pad able acres was deemed to be potentially sufficient for the New Hospital and related needs medical campus.

Subsequently, on August 31, 2005, PPH exercised its Option to Purchase rights under the Agreement, triggering a process of acquisition with an agreed upon closing of escrow on or about February 28, 2006. Since the August 31, 2005, exercise, PPH has been diligently pursuing completion of the necessary, including but not limited to, due diligence: CEQA, zoning and entitlements, with the Developer, Acknowledgement of the CCRs, Development Agreement and other pre-closing matters.

The Agreement includes conditions precedent to closing obligations on both the Seller, as well as PPH. In addition, the Agreement affords the Seller certain post closing obligations and time to perform said obligations, ranging from June 2006 through December 2006. The post closing obligations are not deemed to impinge on the rights and/or abilities of PPH to proceed with its efforts to proceed on building the new hospital effective on the closing date. Seller performance is protected through a purchase price holdback pending completion of the obligations.

Management will review the status of the: 1) Escrow Closing checklist; 2) Seller's conditions precedent; 3) PPH's condition precedent; and, 4) Seller's post-closing obligations, if any, and will recommend a go/no-go for the targeted closing date of February 28, 2006.

Exercise of Option to Purchase, Purchase Agreement and Escrow Instructions – ERTC Dated March 18, 2005

Budget Impact: $28,080,000 plus associated buyer closing costs. Amount previously identified in the Facility Master Plan update. Funding source: G.O. Bonds issued July 2005.

Staff Recommendation: A recommendation will be made by staff at the meeting.

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information:

Required Time:

Operating Agreement for PDP Pomerado LLC for Pomerado Campus OSP Building

TO: Board of Directors/Finance Committee

MEETING DATE: Thursday, February 23, 2006

FROM: Bob Hemker, CFO
George Gigliotti, Construction Auditor

Background: Previously, the BOD has reviewed and approved the joint venture between PPH and Pacific Medical Buildings ("PMB") for the development of the Outpatient Services Pavilion ("OSP") on the Pomerado Hospital Campus. In connection with the development, various agreements have also been approved, including: the Development Agreement, the Ground Lease, Parking License Agreement and Parking Management Plan. Additionally, a Subtenant Recognition Agreement related to the Center for Health Care lease was been approved.

To affect the construction of the OSP in a timely manner, pursuant to the intent of the parties as outlined in the Development Agreement, it is necessary to complete and approve the LLC Operating Agreement as part of the construction and permanent financing requirements. Further, tenant occupancy is targeted for May 2007, requiring finalization of the LLC Operating Agreement in a timely manner.

As such, on January 6, 2006, Articles of Organization for PDP POMERADO LLC (the "LLC") were filed with the California Secretary of State. The Manager and Members (including PPH) are now in a position of adopting and approving the Operating Agreement for the LLC.

The LLC's purpose is to engage in any lawful activity for which a limited liability company may be organized under the Act. Without Member Approval, the LLC may only engage in the following business:

- The business of entering into the Ground and developing and improving the Property with the O.S.P. and related improvements, managing, operating, and leasing the Property and the O.S.P. pursuant to a program, and budgets adopted and incurring financing to facilitate the foregoing, all with Member Approval
- Such other activities directly related to the above as may be necessary, advisable, or appropriate, in the Manager's reasonable opinion (but subject to any applicable approval requirement set forth in the Agreement or in any other contract to which the LLC is a party) to further this business.

The Operating Agreement affords certain rights and obligations to each of the Members of the LLC—specifically, PPH and Pacific Medical Buildings ("PMB"). Notably, PMB Obligations include:

- Project Guarantees. PMB shall cause its Affiliates to provide: (a) to the construction lender, all necessary construction loan and other guarantees and related environmental indemnities; and, (b) to PPH, substantially similar guarantees and indemnities.

- Project Entitlements. PMB shall use its commercially reasonable efforts to obtain all required architectural plans and governmental entitlements and permits to develop the Project and build it in accordance with approved plans on behalf of this LLC.

- Project Leasing. PMB shall use its commercially reasonable efforts to lease the Project to end-users (subject to any Ground Lease restrictions) and to manage, operate, and maintain the Project in a commercially reasonable manner and in accordance with the applicable Business Plan.

Furthermore, the Operating Agreement details and governs such matters as:

- Article 3 - Initial Capital Contributions and Additional Capital Contributions – as per the previously approved project pro forma

- Article 4 – Members

- Article 5 – Management and Control

- Article 6 – Allocation and Distribution of Operating Profits/Losses & Capital Matters – as per the previously approved project pro forma

The Operating Agreement, as drafted, adequately governs and provides clear direction for the development and operation of the OSP.

Management will recommend approval subject to non-substantive revisions at execution of the final Agreement.

Budget Impact: N/A

Staff Recommendation: Staff recommends approval of the LLC Operating Agreement for the PDP Pomerado LLC for the Pomerado Campus Outpatient Services Pavilion Building.

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion: **X** - Approve as per Staff recommendation

Individual Action:

Information:

Required Time:

Palomar Pomerado North County Health Development, Inc.
Status Report

TO: Joint Board of Directors/Board Finance Committee Meeting

MEETING DATE: Thursday, February 23, 2006

FROM: Brad Wiscons, Director of Grant Services
Nick Yphantides, MD, Consulting Executive Director
Jackie McDermott, Financial Services Manager

Background: Palomar Pomerado North County Health Development, Inc. ("Health Development"), a 501(c)3 fully owned non-profit subsidiary of Palomar Pomerado Health will provide a progress status report.

Budget Impact: None at this time.

Staff Recommendation:

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information: X

Required Time:

POMERADO HOSPITAL
ADMINISTRATIVE SERVICES AGREEMENT
MEDICAL STAFF OFFICERS, DEPARTMENT CHAIRS, QMC CHAIR

TO: Board Finance Committee

MEETING DATE: Thursday, February 23, 2006

BY: Jim Flinn, CHE, Chief Administrative Officer, Pomerado Hospital

BACKGROUND: Pomerado Hospital Medical Staff Officers are compensated for services performed as required by the Medical Staff By-laws. These agreements serve to document the relationship of the medical staff officers to PPH and the duties to be performed as consideration for the stipend to assure compliance with Federal regulations.

Presented are identical one-year and two-year Administrative Services Agreements for the Medical Staff Officers and the Chairperson for the Quality Management Committee.

There are three agreements for implementation at Pomerado Hospital:

Chief of Staff – Paul E. Tornambe, M.D. – One-year term
Chief of Staff Elect – Benjamin Kanter, M.D. – One-year term
Chairman, Quality Management Committee – Roger J. Acheatel, M.D. – One year Term

BUDGET IMPACT: None

STAFF RECOMMENDATION: Approval

COMMITTEE QUESTIONS:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information:

Required Time:

Hospitalist Programs at Palomar Medical Center and Pomerado Hospital

TO: Board Finance Committee

MEETING DATE: Thursday, February 23, 2006

FROM: Jim Flinn, Chief Administrative Officer, Pomerado Hospital

Background: In the past, PPH had different agreements with separate providers for Hospitalist services for the Adult, Pediatrics and Skilled Nursing Programs within the District. PPH has been negotiating with Neighborhood HealthCare to consolidate the Adult and Skilled Nursing Facility Hospitalist Agreements. Facilities included in this consolidated Agreement are Palomar Medical Center and Pomerado Hospital, as well as Villa Pomerado and Palomar Continuing Care Center.

Consolidation of these programs will assure adequate coverage at each facility for the services outlined in the Agreement. Specific performance criteria have been incorporated into the Agreement to assure the highest quality of care, appropriate utilization of resources, and continued efforts toward performance improvement.

Information regarding the status of this Agreement will be presented at the meeting.

Budget Impact: N/A

Staff Recommendation: Staff will make a recommendation at the meeting.

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information:

Required Time:

January 2006 & Fiscal YTD 2006 Financial Report

TO: Board Finance Committee

MEETING DATE: Thursday, February 23, 2006

FROM: Robert Hemker, CFO

Background: The Board Financial Reports (unaudited) for January 2006 and Fiscal YTD 2006 are submitted for the Committee's approval *(attached as Addendum J).*

Budget Impact: N/A

Staff Recommendation: Staff recommends approval.

Committee Questions:

COMMITTEE RECOMMENDATION:

Motion:

Individual Action:

Information:

Required Time: