

**Staff Report on
West Contra Costa Healthcare District
Asset Disposition Plan**

I. Introduction.

District Staff has developed a proposal for an orderly, transparent, lawful and fair disposition of District Assets. The “Asset Disposition Plan” that District Staff proposes is designed to assure that the District’s assets are exposed to the widest possible audience in order to assure that the District’s Board is able to consider the best possible proposals. The purpose of the Asset Disposition Plan is to solicit offers, review the offers to confirm that they are bone fide, legal, financially sound and that the proposing parties have the necessary financial and professional experience to perform, and present the offers to the Board together with appropriate District Staff recommendations. The final decision regarding the disposition of District Assets will rest with the Board of Directors and, in the event of a sale of DMC as an operating hospital, with the voters.

II. A Bifurcated Plan

A key feature of the Asset Disposition Plan is that it will be bifurcated. One aspect of the Asset Disposition Plan will focus on the sale of the real property owned by the District (the “Real Estate Plan”) while another aspect of the Asset Disposition Plan will focus on the sale of DMC as an operating hospital (the “Operating Hospital Plan”). The criteria by which offers will be reviewed will differ between the Real Estate Plan and the Operating Hospital Plan.

Review of proposals in connection with the Real Estate Plan will focus almost exclusively on price and financial ability to perform. The greatest consideration will be for the amount of money to be received by the District from the sale, the indemnifications required of the District, and the like. In contrast, review of proposals in connection with the Operating Hospital Plan will focus on the ability of the proposer to actually operate DMC successfully, and sustainably, where the Operating Hospital Plan proposal is for less money than the Real Estate Plan proposal. It is likely, though not certain, that proposals under the Operating Hospital Plan will be for less money than proposals under the Real Estate Plan. Such proposals will be reviewed to confirm that the Proposer will not be able to effectively undercut the price to be paid under a Real Estate Plan proposal by promising to operate DMC and then sell the asset for a profit.

III. Due Diligence Issues

It is likely that there will be a due diligence period in connection with the Real Estate Plan or Operating Hospital Plan offers. A due diligence period is, effectively, a period of exclusive negotiations with the proposed buyer. Thus, when the District enters into an agreement with a proposed buyer, the District will find itself unable to negotiate a sale to anyone other than the proposed buyer for the duration of the due diligence period. This means that the District’s assets will be “off the market” for the duration of due diligence – usually from thirty to ninety days.

District Staff, with the help and guidance of consultants, will evaluate the proposals to provide insight to the Board on the relative risks of entering into agreements with proposed buyers who offer a greater price but are less likely to be able to close. With respect to Real Estate Plan offers, the focus will be on financial ability to close. With respect to Operating Hospital Plan offers, the focus will be on the qualifications of the proposed buyer, the adequacy of the proposed buyer's legal and financial analysis, and the ability of the buyer to meet the necessary financial commitments to reopen and operate DMC. This plan must include a viable plan to address the seismic needs of the hospital as well as the sustainability of operations. That said, in the event that the District receives an Operating Hospital Plan proposal that is for an amount equal to or greater than and Real Estate Plan proposal, then District Staff's focus would be far more concentrated on the ability of the proposed buyer to close than on such proposed buyer's operating plans.

IV. Operating Hospital Plan

District Staff proposes that the District engage the Camden Group or a similar nationwide healthcare consulting group to provide both a copy of 2012 marketing materials prepared with respect to DMC's prior search for a buyer or partner for operation of DMC together with a cover letter explaining the key changes in circumstances since the 2012 marketing effort. The letter will identify the key events impacting DMC over the past three years and will note the closure of DMC and the sale of the MOB's and the back parking lot.

V. Real Estate Plan

At the same time, District Staff recommends that the District engage Kennedy-Wilson to market the real estate by publishing a brochure containing relevant information to the broadest possible cross section of commercial real estate purchasers.

VI. Compensation to Consultants

District staff expects to negotiate a modest fee (under \$10,000) for Phase 1 of the Camden Group's work which will include the distribution of a marketing brochure and update letter to the entities the Camden Group contacted on behalf of the District in 2011 and 2012 and their assistance, generally, in the Operating Hospital Plan marketing effort. The District would agree to engage the Camden Group in Phase 2 of their work to assist in the vetting of any viable offers received and to manage the due diligence and the transaction, but only if one or more such offers materialize. The District would negotiate the cost of Camden Group's Phase 2 services in the event such services are required.

If the District Board elects to proceed with the Asset Disposition Plan, the District would enter into an agreement with Kennedy Wilson for a commission of 1.5% to serve as broker for the Real Estate Plan. The agreement would also provide that Kennedy Wilson will not receive a commission in the event of a sale of DMC as an operating healthcare facility.

VII. Timing

The expectation is that both the Camden Group and Kennedy Wilson will go to market on or about May 30.

The further expectation is that, by June 30 or as soon thereafter as possible, the District will know if there are any potential buyers who propose to open and operate DMC. If there is interest in the Operating Hospital Plan, the District will engage the Camden Group and pursue the opportunity while putting the Real Estate Plan and Kennedy Wilson on hold. If there is an agreement for sale of DMC to a new operator, due diligence and negotiations leading to a definitive agreement will take place through July and August leading to an election in November. The last day for the District to place an item on the November ballot is August 7, 2015, though Contra Costa County has requested more than the minimum statutory notice – which would require a final agreement by the end of July in order to place the matter on the November ballot. If an Operating Hospital Plan sale is negotiated and confirmed, Kennedy Wilson will receive nothing and have no further rights. If a sale is not confirmed, the Kennedy Wilson contract will allow for Kennedy Wilson to bring a Real Estate Plan buyer to the District in thirty days from the date that it is clear that there is not a viable operator to acquire DMC.

If there is not a viable Operating Hospital Plan offer identified by June 30, then Kennedy Wilson will proceed to bring a Real Estate Plan buyer to the table for a closing as soon after June 30 as possible.

VIII. Right of First Refusal

In both instances, the District will have to address the Right of First Refusal held by San Pablo in advance of a deal.