



October ~~25~~18, 2023

Dr. Gene Ma
President and CEO
Tri-City Healthcare District
4002 Vista Way
Oceanside, CA 92056

Dear Dr. Ma,

It has been a pleasure meeting with you and members of your leadership team over the last several months to explore opportunities for Sharp HealthCare ("Sharp") and Tri-City Medical Center ("TCMC") to develop a strategic relationship focused on patient access, quality of care, and transforming the delivery of care within the San Diego community. We recognize TCMC is at a critical juncture in its evolution as an organization, and we are enthusiastic about the opportunity to partner with you in this journey. As a result of our initial evaluation to date, we are confident that an affiliation between TCMC and Sharp would enhance our collective ability to deliver superior clinical care, improve the patient experience, offer greater affordability and accessibility to health care services to those we serve, and provide long-term economic stability for our organizations. Attached to this letter are the following materials:

- I. A summary value proposition of an affiliation between TCMC and Sharp,
- II. An overview of Sharp, and
- III. A summary of select proposed elements of an affiliation between TCMC and Sharp.

We are confident this material will be helpful in our proposal for a potential affiliation.

In great health,

A handwritten signature in black ink, appearing to read "Ch Howard", written in a cursive, flowing style.

Christopher D. Howard
President and Chief Executive Officer



PRELIMINARY VALUE PROPOSITION OF AN AFFILIATION BETWEEN TCMC AND SHARP HEALTHCARE

These statements describe the overarching benefits associated with pursuing an affiliation between Sharp and TCMC. An affiliation between TCMC and Sharp would:

- Enhance our collective capability to deliver superior comprehensive clinical care, improve the patient experience, offer greater and enhanced affordability and accessibility to health care services to those we serve, and provide long-term economic stability for our organizations.
- Expand our capacity to serve our respective communities through a comprehensive network resulting in the provision of and access to services on a larger scale, while supporting a county-wide focus on community health and wellness.
- Advance population health, including access to care with a focus on total health, to improve the health of those we serve and reduce health inequities within our communities.
- Improve our ability to navigate current and future volatility of the healthcare market by operating at a scale that drives operating and capital efficiencies, enhances effectiveness, supports resilience in uncertain times, allows for continued investment in facilities, services, and technologies, and more positively responds to community needs and underserved populations.
- Capitalize on the strong compatibility and cultural alignment of our organizations to further enhance the transformation of care our industry and respective communities require.
- Create an efficient and effective infrastructure resulting in clinical integration, operational excellence, optimal patient experiences, and performance as a high reliability organization, which will ensure our organizations' ability to serve our patients and community members, pursue innovations in healthcare, and advance our missions and visions.
- Receive significant focus and attention from Sharp leadership. This proposal has been reviewed and approved by the Sharp HealthCare Board of Directors, following an endorsement by its executive leadership team. Should we be selected to advance, we will bring significant resources, including both internal and external personnel, to execute an affiliation with TCMC as expeditiously as possible and within the mutually agreed upon timing objectives. Further, we would envision a collaborative process to design the future state of TCMC in partnership with Sharp.



I. OVERVIEW OF SHARP HEALTHCARE

A California nonprofit public benefit corporation with its corporate offices in San Diego, California, Sharp, together with its affiliated entities, constitutes a regional integrated health care delivery system known as Sharp HealthCare. Sharp's mission is to improve the health of those we serve with a commitment to excellence in all that we do. Our goal is to offer quality care and services that set community standards, exceed patients' expectations, and are provided in a caring, convenient, cost-effective, and accessible manner.

Serving a population of approximately 3.3 million, Sharp operates 1,962 licensed beds, has approximately 3,000 physicians in affiliated medical groups, employs more than 19,000 employees, and has over 1,000 volunteers. Sharp's assets total \$7.0 billion and its total revenue totals \$4.5 billion for fiscal year 2022. Sharp's unique combination of high-quality care, innovation, population health experience, operational expertise, and financial strength differentiates Sharp from other organizations. Sharp is the demonstrated healthcare market leader in San Diego, with ***21 of the last 22 years showing continuous market share growth***.

As San Diego's health care leader, Sharp has an unwavering commitment to excellence and a passion for caring. At the forefront of Sharp's commitment to excellence is ***The Sharp Experience***, a sweeping performance improvement initiative launched in 2001. This initiative has resulted in numerous advances in clinical outcomes, patient safety enhancements, and organizational and service improvements. Sharp's passion for caring is shared by its team members, who are working together to attain Sharp's vision to transform the health care experience and be recognized as:

- ***The best place to work,***
- ***The best place to practice medicine, and***
- ***The best place to receive care.***

Sharp's transformation has resulted in significant improvements in each of its seven pillars of excellence – ***Quality, Safety, Service, People, Finance, Growth, and Community***. Sharp has realized continuous growth while continuing its substantial community support through its community benefit programs and services. Sharp is rated Aa3/AA by Moody's Investors Services and Standard & Poor's, respectively. A summary of Sharp's utilization and financial metrics is

below as of and for the year ended September 30, 2020, 2021, and 2022 and as of and for the nine months ended June 30, 2023 (“YTD”):

	FY 2020	FY 2021	FY2022	FY 2023 YTD
Utilization				
Maintained Beds	2,007	2,047	1,962	1,944
Occupancy	64.1%	67.2%	69.2%	70.5%
Discharges	77,218	83,071	85,056	64,017
Patient Days	469,556	502,227	495,667	371,645
Acute Average Length of Stay	5.2	5.4	5.2	5.1
Outpatient to Total Revenue	37.7%	41.6%	42.6%	43.6%
Outpatient Visits at Hospitals	868,491	949,489	970,727	699,157
Profitability				
Operating Margin ¹	4.5%	3.7%	1.7%	(3.1%)
EBITDA Margin	15.0%	19.5%	(8.0%)	14.6%
Leverage				
Debt to Capitalization	15.1%	14.8%	15.8%	14.5%
Unrestricted Cash to Debt	473.0%	479.0%	412.5%	457.6%
Debt Service Coverage	8.0	11.0	7.0	8.6
Liquidity				
Days Cash on Hand	358	394	322	337
Days in Accounts Receivable	43.2	54.9	52.8	54.4
Average Payment Period	82.4	66.1	66.9	58.3

These results are based on the combined performance of the organizations that comprise Sharp HealthCare. Sharp (the parent organization) is the sole statutory member or controls through other means the following corporations:

- **Sharp Metropolitan Medical Campus** has 1,037 licensed beds, including the following hospitals:
 - **Sharp Memorial Hospital**, opened in 1955, has 656 licensed beds and is the largest non-university, quaternary care hospital campus in San Diego County (the “County”). It provides a comprehensive range of primary, secondary, and specialized quaternary medical and surgical care to a diverse geographic distribution of patients residing in the County. Sharp Memorial Hospital is a County designated trauma center;
 - **Sharp Mary Birch Hospital for Women & Newborns**, opened in 1992, has 206 licensed beds, including 85 NICU beds, and is San Diego’s only women’s hospital (delivering over 7,000 babies a year, more babies than any other hospital in California) and the largest provider of NICU services;

¹ June 30, 2023 YTD excludes the calendar 2023 Medi-Cal Provider Fee Program, which is expected to provide net funding of \$108 million through September 30, 2023.

- **Sharp Mesa Vista Hospital**, a psychiatric hospital, affiliated in 1998, has 159 licensed beds, and is the largest free-standing psychiatric hospital in the County; and
- **Sharp McDonald Center**, a chemical dependency recovery hospital, affiliated in 1998 with 16 licensed beds.

The combined operations of Sharp Metropolitan Medical Campus are under the corporate governance of Sharp Memorial Hospital.

- **Sharp Chula Vista Medical Center** (“SCVMC”), formerly Community Hospital of Chula Vista, affiliated in 1989. SCVMC has 449 licensed beds, including 100 skilled nursing beds in the **Birch-Patrick Convalescent Center**, and is the largest provider of health care services in the rapidly expanding South Bay region. SCVMC’s new 138-bed Ocean View Tower opened in January 2020.
- **Grossmont Hospital Corporation** (“GHC”), doing business as **Sharp Grossmont Hospital**, was formed in 1991 through a lease arrangement with **Grossmont Healthcare District**. Sharp Grossmont Hospital has 542 licensed beds, including 30 skilled nursing beds and 24 NICU beds, and is the largest provider of health care services in San Diego’s far-reaching East County with one of the busiest emergency rooms in the County. The **Sharp Grossmont Hospital Neuroscience Center of Excellence** for advanced neurosurgical, neurological, and orthopedic-spine care is under construction. The first center of its kind in the County, the center will be completed in 2026. The expansion will include a two-story facility with two inpatient progressive care units, an inpatient rehabilitation unit, a 16-bed neuro-intensive care unit, and physical and occupational therapy gymnasium areas.
- **Sharp Coronado Hospital and Healthcare Center** (“SCHHC”), formerly The Coronado Hospital, affiliated in 1994 through a lease arrangement with **Coronado Hospital Foundation** (“CHF”), a nonprofit public benefit corporation. SCHHC has 181 licensed beds, including 122 sub-acute and skilled nursing beds. SCHHC expansions anticipated to be completed in 2023 include an intensive care unit relocation, emergency department expansion (8 to 15 beds), and seismic SPC-4D compliance. CHF exists for the purpose of serving as landlord for the lease arrangement and raising funds for SCHHC.
- **Sharp Rees-Stealy Medical Centers** joined Sharp in 1985. As a foundation model, Sharp Rees-Stealy Medical Centers contract with **Sharp Rees-Stealy Medical Group, Inc.** to provide ambulatory health care services to over 185,000 capitated enrollees in addition to its significant fee-for-service business. Services are provided at 24 clinic facilities and five urgent care centers throughout the County. The medical group comprises over 157 primary care and family physicians, supported by 393 specialists and subspecialists representing virtually every medical specialty.
- **Sharp Community Medical Group** was formed in 1989. Sharp Community Medical Group is an Independent Physicians Association with physicians on the various Sharp medical staffs. Sharp Community Medical Group includes Palomar Health Medical Group and Graybill

Medical Group (“Graybill”), the latter having physicians on TCMC’s medical staffs. Sharp Community Medical Group consists of 294 primary care physicians and 721 specialists representing more than 30 specialties. The medical group has a Management Services Agreement with Sharp to provide various administrative and contracting services and serves over 128,000 capitated enrollees.

- ***SharpCare Medical Offices*** (“SharpCare”) was formed in 2016 and contracts with ***SharpCare Medical Group*** to provide primary care services. Created as an additional option for physicians who want to practice within a foundation model, SharpCare is focused on expanding community-based primary care services throughout the County. SharpCare has six locations in the County and serves over 7,000 capitated members.
- ***Sharp Health Plan*** was formed in 1992 as a Knox-Keene licensed plan, offering managed care products through a nonprofit health maintenance organization (“HMO”). Sharp Health Plan enhances Sharp’s ability to provide affordable health care coverage to its employees and the communities it serves. Sharp Health Plan has over 148,000 commercial members, including employees of Sharp and their dependents. Sharp Health Plan is the highest member-rated health plan in the state, has a 4.5 out of 5 quality rating by the National Committee for Quality Assurance (“NCQA”), placing it in the top decile of commercial health plans nationally. And, Sharp Health Plan has a 5 out of 5 overall Medicare quality star rating by the Centers for Medicare and Medicaid Services (“CMS”).
- ***Sharp Freestanding Surgery, LLC*** was formed in 2019 to operate freestanding ambulatory surgery centers (“ASCs”) located in the County. Sharp Freestanding Surgery, LLC owns two ASCs, located in San Diego and La Mesa.
- ***Continuous Quality Insurance, SPC*** is a wholly owned captive insurance company domiciled in Grand Cayman. It provides professional and commercial general liability insurance services to certain Sharp entities and stop-loss insurance to Sharp Health Plan. Continuous Quality Insurance was formed in 1992.
- ***Sharp HealthCare Foundation***, formerly Sharp Hospitals Foundation, was formed in 1979 and exists solely for the purpose of raising funds for Sharp.
- ***Grossmont Hospital Foundation*** was formed in 1985 and exists solely for the purpose of raising funds for GHC.

Sharp provides centralized system support services to the Sharp entities, including centralized patient placement, clinical effectiveness, contracting, credentialing, corporate compliance, facilities development, finance, government relations, human resources, informatics, information technology, internal audit, legal, risk management and insurance, marketing, communications and consumer digital strategy, physician services, Sharp laboratory, Sharp

Ventures, strategic planning and business development, supply chain services, *The Sharp Experience*, and The Transformation Office.

SHARP

San Diego's
Health Care
Leader

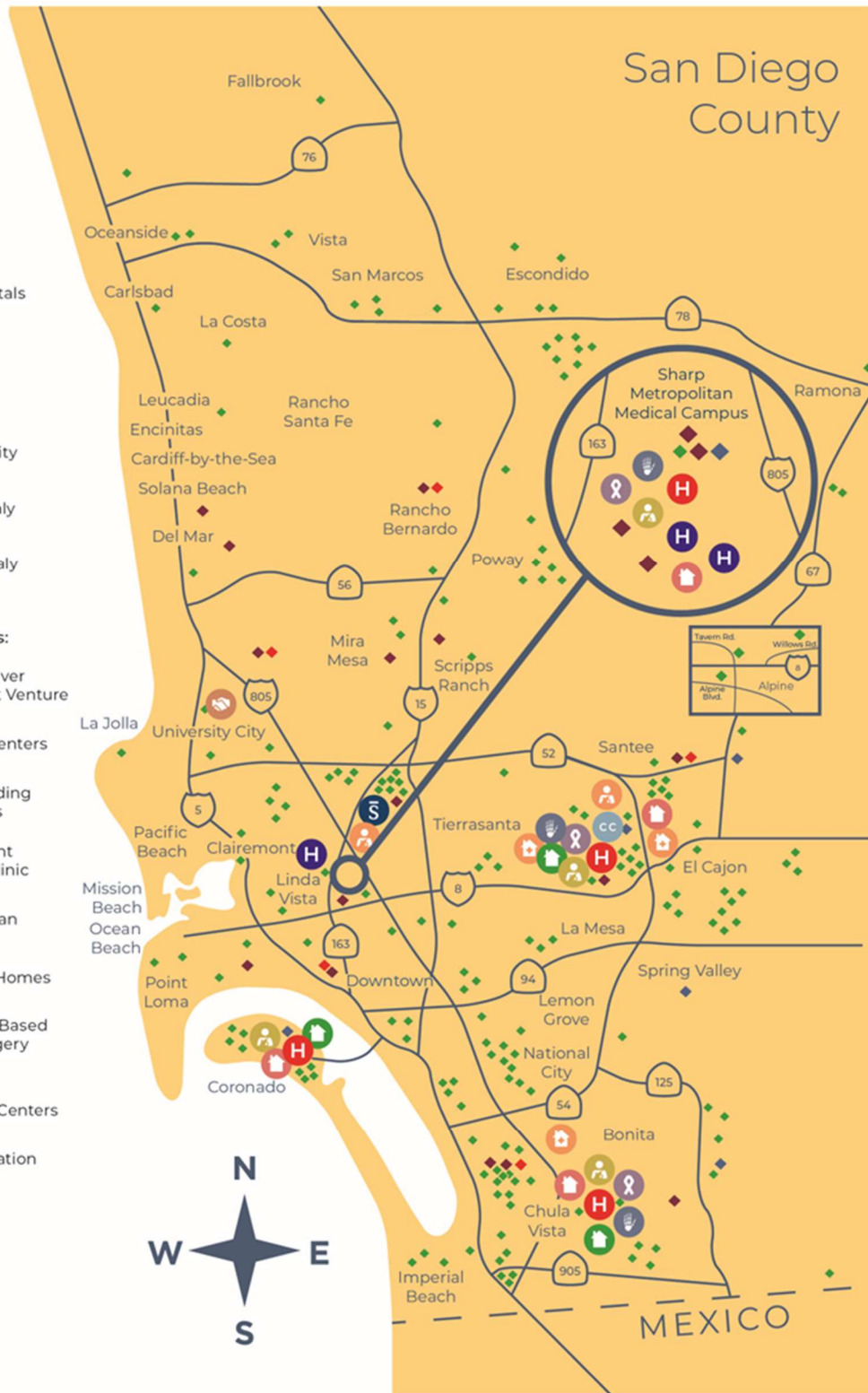
- H Acute Care Hospitals
- H Specialty Hospitals

Doctors' Offices:

- ◆ SharpCare Medical Group
- ◆ Sharp Community Medical Group
- ◆ Sharp Rees-Stealy Medical Group
- ◆ Sharp Rees-Stealy Urgent Care

Other Sharp Facilities:

- ⌘ Bone Marrow/Liver Transplant Joint Venture
- ⌘ Sharp Cancer Centers
- ⌘ Sharp Freestanding Surgery Centers
- cc Sharp Grossmont Hospital Care Clinic
- S Sharp Health Plan
- ⌘ Sharp Hospice Homes
- ⌘ Sharp Hospital-Based Outpatient Surgery Centers
- ⌘ Sharp Imaging Centers
- ⌘ Sharp Rehabilitation Centers
- ⌘ Skilled Nursing



II. SUMMARY OF SELECT KEY AFFILIATION ELEMENTS

As we understand, TCMC's administrative team has identified key considerations that are material to the Tri-City Healthcare District (the "District") board's decision process. Based on our discussions to date and preliminary evaluation of the strategic opportunity, Sharp believes that it is an optimal partner to execute on each of the District's objectives, which are outlined below.

TCMC Affiliation Objectives:

1. Be prepared to assume financial and operating responsibility for the hospital in a transaction that complies with the relevant provisions of the Health and Safety Code.
2. Demonstrate a commitment to serve all members of our community, regardless of insurance status.
3. Maintain TCMC as a full-service community hospital.
4. Commit to ensure that the hospital remains in compliance with all regulations and laws, including seismic standards.
5. Be prepared to commit to integrate our electronic health record system ("EHR") with their own system.
6. Demonstrate an intent to minimize disruption to our employees.
7. Support the development of the primary care network associated with TCMC.
8. Support the development of TCMC's outpatient network.
9. Demonstrate a clear strategic intent for the future of TCMC.

Sharp has an extensive list of clinical and service innovations, and its integrated delivery system structure provides a great benefit to its affiliated entities and the communities it serves. Sharp has a track record of supporting district healthcare organizations, developing sound strategic and financial plans, executing on committed capital programs, effectively integrating and creating synergies, and successfully implementing strategies that enhance quality, services, and facilities. With a sound financial position, durable balance sheet, and history of sustained operating performance, Sharp is consistently recognized as a low-cost, high-quality provider. Solid physician relations, committed employees, and strong community support are hallmarks of Sharp's success. Following are some key areas where Sharp's success can be leveraged to provide unparalleled opportunities for TCMC, as well as its staff, physicians, and the communities it serves.

Each of the following sections is intended to be responsive to the respective TCMC Affiliation Objective provided.

1) Partner assumes financial and operating responsibility for the hospital in a transaction

Based on our discussions to date, Sharp understands TCHD's preference for a fully integrated lease structure. To that end, as a non-profit corporation seeking to support and enhance the operations and maintenance of TCMC, Sharp proposes to develop a ~~(p)(2)-long-term~~ lease with TCHD consistent with the Health and Safety Code Section 32121(p)(2), as further outlined herein.

The Lease will include all buildings, appurtenances, improvements, equipment and fixtures located on the real property and used in the operation of TCMC. Following closing and based upon the Integration Plan described below and Sharp's current knowledge of the seismic compliance information supplied by TCMC and available through HCAI, Sharp will continue to operate TCMC's existing facilities and hospital beds (i.e., approximately 175 beds) that meet seismic standards for 2030.

Sharp has historical experience and success operating in this manner, most recently with Sharp Grossmont Hospital, which was formed in 1991 through a lease arrangement with the Grossmont Healthcare District. Today, Sharp Grossmont Hospital is the largest provider of health care services in San Diego's far-reaching East County with one of the busiest emergency rooms in the County.

This transaction structure enables TCMC to capitalize upon the Sharp brand and allows Sharp to support significant operational and financial investments into the community such as ambulatory and physician network infrastructure, the Epic EHR, and a broader integrated delivery system, as outlined herein. While Sharp will bear ultimate responsibility for execution of the financial and operational elements, it will do so within the context of designing the optimal healthcare ecosystem for the greater San Diego County community. This includes Sharp fully absorbing the financial risk of operations and executing on the strategic vision in which TCMC becomes a core part of the Sharp HealthCare integrated delivery system, gaining from a fully aligned corporate infrastructure, provider network development platform, connected health plan strategy, and various other elements of the Sharp system.

The fully integrated lease structure also enables Sharp to more readily extend its quality infrastructure to TCMC. As an integrated delivery system, Sharp approaches care quality different from a traditional fee-for-service based health system. That is, Sharp's economic value is created by advancing the health of individuals rather than patients reactively seeking care. This has enabled Sharp to position itself as the county-wide leader in healthcare, and TCMC would immediately receive access to the significant resources Sharp can bring to bear.

SAN DIEGO'S HEALTH CARE LEADERSM



MAGNET Designation for Nursing Excellence: Sharp Grossmont Hospital (SGH), Sharp Memorial Hospital (SMH), Sharp Chula Vista Medical Center (SCVMC) and Sharp Mary Birch Hospital for Women & Newborns



Leapfrog Hospital Safety Grades of "A" – SMH, SCVMC, SGH, Sharp Coronado Hospital and Healthcare Center, 2022



Newsweek's 2023 Best Hospitals for Maternity Care (Uncomplicated Pregnancy), SGH and SCVMC



Elite Status, Sharp Rees-Stealy Medical Group (SRS) and Sharp Community Medical Group, 2010 – 2022



First system worldwide with all acute care hospitals Planetree-designated



Union Tribune Best Hospital Group (Sharp HealthCare), Hospital (SMH), Medical Group (SRS) and Health Insurance (SHP), 2022



Sharp Health Plan (SHP) Highest Member-Rated Plan in the State, 2015 – 2022



Press Ganey Pinnacle of Excellence Awards; multiple entities, 2013 – 2022



LGBTQ+ Healthcare Equality Leader, All Sharp HealthCare Hospitals, 2022



Hospitals & Health Networks "Most Wired," 2012 – 2021



100% Clean Power Champion Award, Sharp HealthCare, Bloom 2022

Sharp's integrated structure and physician alignment position it well for continued success as healthcare reimbursement increasingly shifts to pay-for-performance and value-based purchasing. With over **40 years of experience with medical group integration**, much of Sharp's success in managed care can be attributed to its care management and population health initiatives. Sharp Health Plan has over 148,000 members, is an approved CalPERS insurer and was selected to participate in *Covered California* in the County, the state's insurance exchange and health insurance marketplace for individual and small business coverage beginning in 2014. **Sharp Health Plan's integration with Sharp creates a better position to manage quality and cost of care.** Additionally, Sharp is the largest provider of Medi-Cal services in the County and has extensive contracting relationships with local, state, and national insurers.

To execute on this vision, Sharp will invest in the development of a Master Site Plan, which will be jointly developed with TCMC prior to closing. This Master Site Plan will articulate the hospital, facility and infrastructure, including a new patient tower, required to most effectively meet the near-, medium-, and long-term needs of the community. This Master Site Plan will also form the basis vision and plan for General Obligation Bonds ("GO Bonds") that would be issued by the Tri-City Healthcare District ("TCHD") to fully fund the Plan. The GO Bonds will not be a condition of the transaction closing; rather, consistent with the Master Site Plan, they will be issued by TCHD (as when appropriate to do so post-closing based on TCMC's financial performance and operational improvements). ~~For avoidance of doubt, Sharp would not bear responsibility for anticipates that tax revenues approved as a part of the GO Bonds and/or cash flow from TCMC's operations will be the primary funding source servicing the principal and interest payments associated with the GO Bonds; however, through its lease payments, Sharp will support TCHD in meeting those funding needs of the GO Bonds not covered by tax revenues and/or cash flow.~~ Further, ~~the as a part of the transaction, TCHD will ensure the continuation of supplemental funding currently received by TCMC, including tax revenues and intergovernmental fund transfers. Development of a mutually agreeable Master Site Plan and the issuance of GO Bonds to fund the Plan are critical success factors to execute the lease/affiliation outlined herein and, therefore, are requirements for closing.~~

Consistent with prior practices, the TCMC Foundation will remain a separate, supporting entity of TCMC, and all current and future funds raised would be utilized solely for their intended benefits intended purposes. The TCMC Foundation would benefit from synergies other foundations within the Sharp system have realized, such as a common set of infrastructure that supports greater coordination of fundraising efforts, and other similar matters.

2) Commitment to serve all members

As a mission-based, not-for-profit healthcare system, Sharp has a fundamental commitment to serving all members of the community. Sharp is a San Diego leader in the provision of hospital services to the County's Medi-Cal population. In calendar 2022, Sharp provided hospital care to 38% of the County's total hospitalized Medi-Cal population. In fiscal 2022, as a reflection of Sharp's charitable mission, it contributed more than \$541 million in community benefit programs and services to the communities it serves.

Sharp has developed strong partnerships with community clinics and other providers to effectively serve the Medi-Cal population. Sharp is proud to work with and support a number of Federally Qualified Health Centers including Family Health Centers of San Diego, La Maestra Community Health Centers, San Ysidro Health Centers, and the Southern Indian Health Council. Additionally, on the campus of Sharp Grossmont Hospital, Sharp has an express care clinic to better serve Medi-Cal patients that have historically utilized Sharp Grossmont Hospital's emergency department to obtain non-emergent care.

An affiliation with Sharp provides TCMC the opportunity to build on Sharp's expertise, relationships, strategy development, and program funding to effectively meet the health care needs and expectations of the County's Medi-Cal population.

3) – 4) Maintain TCMC as a full-service community hospital, compliance with all regulations and laws, including seismic standards

TCMC will be a focal point in Sharp's development of a robust North County network, serving as an acute care hub from which care is provided to the community. In this regard, following closing of the lease/affiliation and based upon Sharp's current knowledge of the seismic compliance information supplied by TCMC and available through HCAI, Sharp intends to continue operating TCMC's facilities and hospital beds (i.e., approximately 175) that meet seismic standards for 2030. As detailed above, Sharp will invest in the pre-close development of a Master Site Plan that will articulate the envisioned near-, medium-, and long-term state of TCMC such that the ability to provide high-quality, accessible care to the community is maximized. Fundamental to any Master Site Development is compliance with all regulatory and legal requirements, of which Sharp will commit to uphold the standards of care that are representative of the system as a whole.

As the parties jointly advance the Master Site Plan, it is expected that the approach to addressing seismic requirements will be defined as well. Sharp has preliminarily reviewed the TCHD's plans to address seismic requirements and looks forward to jointly developing the details through the Master Site Plan process.

5) Commit to integrate EHR

An affiliation provides the opportunity for TCMC to participate in Sharp's current suite of information technology products to achieve synergies, accelerate consumer innovation strategies, enhance clinical technology and data management, and jointly develop information systems that support the evolving health care environment. Sharp would work with TCMC to integrate information technology systems into one platform. Sharp considers it a strength that it will be implementing Epic on October 1, 2023 to support the operations of Sharp Health Plan, and will implement Epic on March 1, 2024 to support the operations of its medical groups, hospitals, outpatient and ancillary services, revenue cycle and scheduling. Sharp is committed to

implementing Epic's foundation system, with customizations limited to 2% and only by express approval from its executive team, to ensure Epic's effectiveness as a single platform in the months and years ahead. Sharp is on track for implementation of Epic across the enterprise and would integrate TCMC onto the platform post-closing. Sharp estimates this will require an investment of at least \$30 million, and Sharp would bear the cost of doing so.

6) Minimize disruption to our employees

As the largest non-government employer in the County and the employer of choice for over 19,000 team members, Sharp's success in attracting and retaining organizational talent has been based upon our local, regional, and national reputation, relationships with academic and educational programs, competitive compensation and benefit packages, opportunities for professional development and advancement, and creation of an organizational culture grounded in the vision to be the best place to work, practice medicine, and receive care.

As part of the commitment to be the best place to work, our employees receive a holistic package of benefits designed to encourage their professional growth and personal wellbeing — from career mobility and fully funded educational programs to medical, dental, vision and pet insurance. Through our partnership with Guild, we are proud to offer educational benefits, including tuition-free education. Built-in career pathways allow employees to choose where they would like to take their career. Through Guild, Sharp provides access to hundreds of online classes and programs — many of which are eligible for full or partial tuition assistance by Sharp. These classes stem from a variety of programs within the extensive Guild catalog and provide online, self-paced learning. Employees can earn undergraduate and graduate degrees, certificates, or diplomas — all while working at Sharp. With this benefit, 100% of tuition is covered for our tuition free programs, or up to \$5,250 for our tuition assistance eligible programs, at high-quality Learning Partners within the Guild catalog.

For even greater flexibility, students pursuing their college education outside of the Guild network can choose a college tuition reimbursement benefit of up to \$5,000 per calendar year. All regular full-time Sharp team members are eligible for this benefit on their first day of employment. This program is offered in addition to our outside training education reimbursement program, which provides full-time and part-time employees the opportunity to enhance current job skills via reimbursement of a variety of training options such as seminars, professional learning modules and continuing education. Additionally, Sharp leaders (leads and above) participate in quarterly Leadership Development Sessions focused on developing key leadership qualities and behaviors that support Sharp's mission, vision, and values. Sessions are focused on three domains – Self, People and Organization – and six capabilities that fall within each domain. Sharp leaders commit to modeling the way, inspiring a shared vision, challenging the process, enabling others to act, and encouraging the heart — all practices of exemplary leaders (Kouzes & Posner, 2017).

As a result of these initiatives, benefits, and structures, Sharp's turnover rates are significantly below regional and state benchmarks, and employee satisfaction is in the top quartile nationally,

as measured through an annual employee engagement survey, demonstrating that team members are committed to Sharp's mission, vision, and values.

As the healthcare industry undergoes a fundamental transition to the overarching business model, Sharp believes it is imperative to recruit and retain talent across all elements of the integrated delivery system. This is core to Sharp's objective of being the best place to work, which will enable the organization's ability to transform the healthcare experience. The breadth and strength of Sharp's employee programs allow the organization to recruit and retain well-qualified talent, which has been a hallmark of Sharp's success and is a considerable strength that can be extended to TCMC in partnering with Sharp.



To that end, Sharp will work with TCMC to design an integration and retention plan that supports the parties' mutual objective of minimizing disruption to employees. At closing, Sharp will offer employment to all of TCMC's employees in good-standing, provided that TCMC has ~~accomplished~~ met substantially all of the staffing and other similar targets and metrics defined in its turnaround plan. Following the closing, the "go forward" operating strategy included as a part of the Integration Plan discussed below will serve as the blueprint for TCMC to capture the value Sharp can bring to the organization and articulate in reasonable detail the possible impact on various stakeholders. To the extent certain stakeholders are ultimately impacted by the lease/affiliation, Sharp will utilize its best efforts to identify opportunities within the broader Sharp system.

7) – 8) Support development of primary care and outpatient networks

As an integrated delivery system, a high functioning ecosystem of care is critical to Sharp's success, including a robust primary care and outpatient network. To effectuate this, Sharp maintains relationships with the highest-caliber physicians by creating an environment in which physicians enjoy positive, collaborative relationships with nurses and other caregivers, have access to state-of-the-art equipment and cutting-edge technology, and play an important role in Sharp's strategic planning process and board governance. Furthermore, Sharp engages affiliated physicians through Sharp's Physician Leadership Academy, with curriculum that aligns with Sharp's strategic plan and business objectives.

Sharp's affiliated physician network includes:

- Sharp Rees-Stealy Medical Group, San Diego's first and oldest multispecialty medical group that operates in conjunction with Sharp's foundation model clinics;
- Sharp Community Medical Group, San Diego's largest Independent Practice Association; and

- SharpCare Medical Group, Sharp's newest primary care medical group.

Sharp works with these organizations, as well as Sharp-aligned independent physicians, to provide cost-effective, quality care to the communities it serves. Physicians can will have the option either to select a medical group model that aligns with how they practice or to maintain their existing medical practice model, while having the opportunity to gaining access to Sharp's third-party payor relationships and an integrated delivery system providing comprehensive and compassionate care to ~~their~~ patients.

Sharp's vision to provide the best place to practice medicine guides leadership's focus on providing a collaborative, patient-centered environment with the highest quality staff and technology to meet physician practice requirements and exceed physician expectations in each of our ambulatory and hospital locations. By offering a full-spectrum of physician affiliation models – from independent physicians to an Independent Practice Association to primary- and multi-specialty-care foundation models – Sharp is able to provide options to meet a physician's practice preferences.

By affiliating with Sharp, TCMC would have access to Sharp's physician network services and its expertise in working with medical groups to design the best provider experience for affiliated physicians. Sharp is committed to working with all practice models adopted by TCMC's physicians to ensure their success and the health and well-being of the communities it serves. Through joint planning with TCMC and its affiliated medical groups, as well as the Master Site Plan development, Sharp would work to further integrate TCMC's affiliated physicians into Sharp's network offerings and design the optimal network strategy that promotes the overarching vision of providing the highest-quality, accessible care to residents of North County. In doing so, Sharp's primary objective will be to minimize any disruption and enhance the opportunities for TCMC's provider base. For avoidance of doubt, Sharp applies a pluralistic model for its provider alignment. As a result, TCMC providers will have access to all of Sharp's models of care, including remaining in an independent practice with privileges at TCMC.

9) Strategic intent for the future of the hospital

As articulated above, TCMC will form the basis for Sharp to develop a hospital presence in TCMC's North County communities. At the current time, Sharp does not have an acute care presence in the geography, so TCMC will serve as an acute care solution for Sharp's regional network strategy. The North County region is a key strategic initiative for Sharp, so the system is highly incentivized to ensure TCMC remains a viable, high-quality hospital to serve the community.

As the Master Site Plan is codified, it will influence key matters such as the following:

- The compliment of services, which will factor in community need, economic viability, physician availability, patient access, and other similar factors;
- The number of inpatient beds, which will evaluate supply/demand dynamics over the near-, medium, and long-term. Sharp's initial study indicates that TCMC's plans for a 96-

bed seismically compliant facility may be more appropriate for community requirements than the existing chassis; and

- Ambulatory investments, which will identify key outpatient, physician, and other related investments to ensure TCMC thrives into the future.

TCMC is a critical component of a potential North County strategy for Sharp. The primary objective for Sharp is to jointly develop and reach alignment on the optimal future state vision so that the parties can execute the formation of a care network that meets the needs of the community. Sharp is committed to enabling TCMC to optimally provide care to the communities served by TCHD and believes an affiliation will best achieve our shared objectives.

SUMMARY OF SELECT KEY AFFILIATION ELEMENTS AND CLOSING

The following table is intended to summarize and augment key elements of a proposed affiliation.

Element	Description
Structure	<ul style="list-style-type: none"> • Sharp and TCHD will enter into a non-fair market value, (p)(2), triple-net, long-term lease (30 years), consistent with <u>the requirements of Section 32121(p)(2) of the Health and Safety Code, covering the assets and operations of TCMC (the "Lease"), which will be subject to voter approval as required by law.</u> • The Lease will include all buildings, appurtenances, improvements, equipment and fixtures located on the real property and used in the operation of TCMC. • To effectuate the Lease, Sharp will form and be the sole member of a new 501(c)(3) entity ("NewCo") that will lease TCMC from TCHD. • TCMC Foundation will remain a separate, supporting entity of TCMC, and all current and future funds would be utilized solely for the benefits <u>intended purposes.</u> • <u>Following closing and based upon Sharp's current knowledge of the seismic compliance information supplied by TCMC and available through HCAI, Sharp intends to continue operating TCMC's facilities and hospital beds (i.e., approximately 175 beds) that meet seismic standards for 2030.</u> • <u>To support and oversee the execution of TCMC's turnaround plan prior to closing, Sharp is willing to develop and</u> TCHD will enter into a management services agreement with TCMC for the period between the signing of definitive <u>lease/affiliation</u> agreements and the closing of the <u>transaction/affiliation.</u> The objective of the management services agreement is to provide TCMC with tools, capabilities, resources, and infrastructure available to Sharp to advance and achieve a successful outcome for the operational turnaround plan. If TCHD is open to this type of arrangement, The specific terms and conditions of a management

Element	Description
	<p>services agreement will be developed as a part of the discussions related to the definitive <u>lease/affiliation</u> agreements.</p> <ul style="list-style-type: none"> • <u>Sharp will make up to \$50 million in working capital available to TCHD to help fund TCMC's operations and turnaround plan during the period from the signing of definitive agreements through the closing of the transaction. The form, terms and conditions of this working capital commitment will be developed as a part of the discussions related to the definitive lease/affiliation agreements.</u>
Governance	<ul style="list-style-type: none"> • NewCo will be governed by a board of directors that will include representation from TCHD <u>Board members</u>, <u>members of TCMC's medical staff</u>, directors elected by Sharp, and certain <i>ex officio</i> directors. TCHD's representation on the board is intended to assure that TCHD maintains an <u>active</u> voice in the local governance of TCMC for the duration of the Lease. • Sharp will retain certain reserved rights and powers over Newco so that Sharp may <u>can</u> financially consolidate the operations of TCMC, among other matters.
Master Site Plan	<ul style="list-style-type: none"> • Prior to closing, Sharp will work with TCMC and TCHD to develop a Master Site Plan related to TCMC. In addition to achieving seismic compliance, <u>a new hospital tower and other facilities for TCMC</u> needs to be designed in a manner to enable affordable, modernized care across a health care campus capable of accommodating expected long-term growth, community needs, and future technology, modalities and service offerings. As described above, the Master Site Plan will seek to achieve this objective by identifying the facility and infrastructure required to most effectively meet TCMC's near-, medium-, and long-term needs. This Master Site Plan will, in effect, describe the vision of the affiliation between TCHD's <u>and Sharp's vision for TCMC's campus for the Healthcare District's residents, who will ultimately determine the outcome of both the affiliation and the GO Bonds.</u> • The Master Site Plan also will identify any "core services" that Sharp would commit to operate post-closing, <u>on both a short-term and longer-term basis</u>, in order to assure ongoing access to care, subject to community need, economic viability, physician availability, and other similar factors. • Future development of a new hospital tower and the other campus facilities <u>based on the Master Site Plan will be funded primarily by operating cash flows and/or GO Bonds to be issued by TCHD post-closing when and as determined to be appropriate, subject to voter approval of the GO Bond funding as required by law</u> be a condition to closing of the affiliation. <u>Voter approval of the GO Bonds, however, will not be a condition of closing the lease/affiliation transaction described in this Proposal.</u>

Element	Description
	<ul style="list-style-type: none"> • Sharp has significant relevant experience in crafting and designing Master Site Plans, having recently completed multiple plans for its other facilities. While Sharp has expertise in this area, it is essential for the success of this process for it to be collaborative and bring together various key stakeholders to actively participate, including representative TCHD board members, TCMC's administrative executives, and key physician leaders.
Integration Plan	<ul style="list-style-type: none"> • Prior to closing, Sharp will develop an Integration Plan that describes Sharp's intent with respect to TCMC's post-closing operations, EHR implementation timing, and other similar matters. • Sharp will use best efforts to minimize potential disruption to staff and providers following the closing of a potential affiliation. Sharp's goal is to build and expand TCMC's operations and does not anticipate any substantial changes to staffing at the closing of the affiliation. In this regard, provided TCMC achieves substantially all of the staffing targets in its turnaround plan, Sharp will offer employment to all of TCMC's staff in good-standing at closing. The Master Site Plan and the integration plan will ultimately determine the appropriate long-term staffing levels necessary to deliver high-value and quality healthcare to the communities served by TCMC. Further, as an existing health care system with multiple opportunities within San Diego County, any staff members who may be impacted by the affiliation will be afforded opportunities for employment elsewhere within the Sharp system. By way of example, Sharp Grossmont Hospital's employee base has more than doubled since the start of our affiliation. • Subject to diligence, Sharp intends to maintain TCMC's existing provider relationships in place as of the closing. Sharp's pluralistic provider model is unique in the region and presents options for all providers through Sharp Rees-Stealy Medical Group, Sharp Community Medical Group, and independent medical groups or practice. Sharp does not have any intentions to require TCMC providers to join a specific offering or physician model; rather, the options will be made available to TCMC's providers as they select or see fit to advance their individual practice objectives.
District Role	<p>TCHD will remain an ongoing and important voice for the community served by TCMC. In addition to the NewCo governance representation described above, other roles and responsibilities for the TCHD <u>Board</u> include the following:</p> <ul style="list-style-type: none"> • <u>Community Benefits Committee</u>: TCHD, Sharp, and TCMC physicians (including independent physicians who practice at TCMC) would form a committee that informs the approach and manner in which Sharp deploys and funds community benefits programs that serve the North County. In 2022, Sharp HealthCare provided more than \$541 million in community

Element	Description
	<p>benefit programs and services. This amounts to more than \$1 million per day, and to \$1 of every \$8 of Sharp's net revenue being spent in direct support of the community and its diverse healthcare needs. TCHD and its community will play an important role in how Sharp deploys funds and develops programs that serve the local community.</p> <ul style="list-style-type: none"> • <u>Community Initiative Funding</u>: Following an initial integration and operations period focused on ensuring TCMC's transition to a long-term viable organization, Sharp is open to making certain funds available to TCHD for purposes of funding community healthcare initiatives. The mechanism and amounts of such funding will be included as a part of the discussions related to the definitive <u>lease/affiliation</u> agreements. • <u>Community Health Needs</u>: Since 1995, Sharp participates in a countywide collaborative with the Hospital Association of San Diego and Imperial Counties to conduct a triennial Community Health Needs Assessment (CHNA) that identifies priority health and social needs for San Diego County. Sharp develops CHNAs for each of its individually licensed hospitals. Sharp expects TCHD and its constituents to be actively engaged in the CHNA related to TCMC and the communities it serves.
Capital Investment and EHR Plans	<ul style="list-style-type: none"> • While Sharp contemplates that TCHD will support the <u>facility development identified in the Master Site Plan post-closing through the future issuance of GO Bonds and the associated tax revenues to fund payment thereof</u>, Sharp expects to commit significant capital and other resources towards optimizing TCMC and the <u>its overall care continuum. From the preliminary review of the information and data provided by TCHD to date, the initial estimate of Sharp's capital to be invested over a 3- to 5-year period will be \$375 million for the purposes outlined below and the implementation of the Master Site Plan and Integration Plan: ,which will include the following:</u> <ul style="list-style-type: none"> ○ <u>Funding repayment of the existing debt obligations to HUD (as refinanced at closing) and to the HCAI Distressed Hospital Loan Program.</u> ○ Developing a robust ambulatory and physician network to complement and support TCMC's hospital operations and extend the access to and delivery of care in the community. ○ Deploying Epic EHR across both TCMC's inpatient and outpatient settings, at a current estimated cost of \$30 million. ○ Supporting the post-closing net working capital requirements of TCMC, especially during the turnaround and operational reinforcement phase of the integration plan.

Element	Description
	<ul style="list-style-type: none"> ○ Investing in routine and strategic capital for the hospital TCMC prior to and after completion of the <u>facility development/construction work</u> to be described in the Master Site Plan. ○ Expanding Sharp Health Plan and its product offerings to the local businesses and individuals in TCMC's community, including network development and expanded marketing. ○ <u>Making</u> other similar investments to support and enable the provision of high-quality healthcare at TCMC for the North County community consistent with Sharp's systemwide standards. <p>• Sharp has a long history of investing in facilities similar to TCMC. As an example, Sharp has invested or committed to invest \$394 million at Sharp Grossmont Hospital since FY13. To achieve our shared vision <u>for TCMC</u>, Sharp will deploy significant resources to provide the highest value of care to the community.</p>
Other Key Elements	<ul style="list-style-type: none"> • Sharp commits to operate TCMC for the benefit of all patients in the communities served by TCHD, without regard to the ability to <u>pay or insurance status</u>. • TCHD will assure the continuation of the supplemental funding currently received by TCMC, including tax revenues and intergovernmental fund transfers. • Prior to or concurrent with closing of an affiliation, TCHD will refinance any existing debt necessary to allow for the affiliation (e.g., TCMC's HUD financing). With respect to TCHD's Health Care Access and Information (HCAI) Loan, Sharp will work closely with TCHD to evaluate the alternatives for the appropriate treatment and satisfaction of this debt. Sharp expects discussions related to any debt to be refinanced and the HCAI debt will occur during the next phase of due diligence and the discussions related to definitive affiliation agreements. As further discussed below, Sharp's ultimate goal is to design a debt structure that best positions the various constituents to achieve the optimal economic outcome <u>and success</u>. • Any debt of <u>associated with</u> TCMC will be held separately from Sharp's obligated group; however, Sharp's full faith and credit will support TCHD in meeting its debt obligations. Moreover, during the term of the Lease, Sharp commits to support TCHD in meeting the funding needs of any indebtedness incurred for the benefit of TCMC, such as the GO Bonds, and any refinanced debt <u>and the HCAI Distressed Hospital Loan Program debt</u>, to the extent not covered by tax revenues <u>and/or cash flow from TCMC's operations</u>. Sharp's initial perspective is that setting periodic lease payments (supported by Sharp's full faith and credit) to equal the debt service requirements of all

Element	Description
	<p><u>relevant</u> debt associated with TCMC may be the most efficient mechanism to achieve the parties' objectives; however, Sharp is open to exploring alternatives during next phase of the due diligence process. Under Sharp's proposed model, since the Lease will be treated as a capital transaction for financial accounting purposes, Sharp's obligation to fund the periodic lease payments to meet TCHD's debt service requirements, <u>including from operational cash flow</u>, will constitute a liability <u>and be reflected on</u> Sharp's consolidated financial statement.</p> <ul style="list-style-type: none"> • Similar to the experience with Sharp Grossmont Hospital, Sharp will evaluate market conditions for the opportunity to <u>issue and/or</u> refinance the GO Bonds and, <u>when appropriate</u>, add TCMC as a member of Sharp's Obligated Group. • In the event TCHD wishes to sell, assign, or transfer all or any portion of its assets subject to the lease to any third party, Sharp will have a right of first refusal to purchase the assets on equivalent terms. • Upon expiration of the lease, TCMC will revert back to TCHD and again will be subject to other applicable terms and provisions of the Health and Safety Code.

As described in the foregoing, an affiliation with Sharp can provide substantial strategic value to TCMC. Sharp has extensive experience and a successful track record in working with a hospital district, as demonstrated by Grossmont Healthcare District's General Obligation bond support and recent Sharp lease extension approval by San Diego's East County community. Sharp has the ability to provide significant value to TCMC's constituents, physicians, and employees, providing TCMC with the best prospect for long-term success and providing the growing San Diego community with the best opportunity for comprehensive, compassionate health care.

Sharp is very interested in advancing the dialog with TCMC leaders to further discuss how Sharp and TCMC can work towards an affiliation arrangement. We look forward to your feedback and to discussing next steps.