

RESOLUTION of the
HOAG MEMORIAL HOSPITAL PRESBYTERIAN
BOARD OF DIRECTORS

Newport Beach, California
June 19, 2019

(Approval of Realignment of relationship with PSJH)

A. WHEREAS, Hoag Memorial Hospital Presbyterian (“Hoag”) is a California nonprofit public benefit corporation founded in 1952 to serve and benefit the Orange County community;

B. WHEREAS, Hoag was formed with the support of The George Hoag Family Foundation and the Association of Presbyterian Ministers, who became the original members of Hoag (the “Founding Members”);

C. WHEREAS, Hoag’s mission statement focuses on providing “the highest quality healthcare services” to the Orange County community (“Hoag’s Mission”);

D. WHEREAS, Hoag was initially formed as a community hospital, and has remained as such, while expanding its support and outreach services to better serve the Orange County community;

E. WHEREAS, Hoag has developed as a unique community health care institution by reason of its substantial community involvement, including its extraordinary community philanthropic success; its broad range of clinical service offerings; the distinctive credentials of its Medical Staff; the high level of “community benefit” contribution; its premier facilities; its innovative partnerships, including the formation of the successful Hoag Orthopedic Institute; and its culture of innovation and execution;

F. WHEREAS, in 2011 and 2012, although Hoag was operationally and financially successful, leadership determined after an internal planning process that healthcare was moving in the direction of caring for broad segments of populations to promote wellness through programs then generally termed “population health management,” and the Hoag Board believed that affiliating with another local health system would allow Hoag to implement a comprehensive “population health management” program for Orange County and advance Hoag’s Mission for the communities we serve;

G. WHEREAS, in October of 2012 Hoag entered into an Affiliation Agreement with the St. Joseph Health System (“SJHS”) then a nine-hospital Catholic health system headquartered in Orange County for the specific purpose of pursuing “population health management” and better supporting Hoag’s Mission (hereinafter, the “Affiliation”);

H. WHEREAS, Hoag did not sell its assets to SJHS nor receive any monetary consideration, nor did Hoag merge with SJHS or any of SJHS's affiliates, but rather retained its separate corporate status with its fiduciary board;

I. WHEREAS, Covenant Health Network ("CHN") was created as a separate not-for-profit corporation that was intended to locally govern Hoag and the four Southern California SJHS hospitals and pursue the "primary purpose" of creating an integrated community healthcare delivery system by, among other things, "developing new, innovative systems of care and advancing population health" focusing on Orange County;

J. WHEREAS, the governing board of CHN was structured with SJHS appointing a majority (four appointed by SJHS and three by Hoag) with defined supermajority rights for major decisions affecting CHN; and CHN became the majority corporate member of Hoag (with Hoag's Founding Members as minority members), thus giving CHN certain membership rights and controls over Hoag and the four SJHS Southern California hospitals, and effectively making Hoag a controlled affiliate;

K. WHEREAS, Hoag and SJHS intended CHN to be an actual operating company providing or directly planning, organizing and implementing health care services to the Orange County community under the name St Joseph Hoag Health;

L. WHEREAS, by 2015 Hoag leadership had become concerned about the lack of cultural alignment with SJHS, the structure and function of CHN, and the lack of progress in meeting the goals of the SJHS Affiliation, and initiated and held several meetings with SJHS's President and CEO regarding the above concerns;

M. WHEREAS, at roughly the same time in 2015, SJHS disclosed to Hoag that it intended to consolidate with a larger health system, and in October of 2015 effectively merged with Providence Health & Services, a twenty-nine hospital Catholic system operating in Alaska, Montana, Oregon, Washington and California, to form a new and larger health system, Providence St. Joseph Health ("PSJH"), which would succeed to SJHS' rights and responsibilities in the Affiliation;

N. WHEREAS, at the time of the PSJH merger, Hoag hoped that the initiatives and developments that had been delayed or deferred at SJHS might come to fruition in the new PSJH system, and attempted to work with PSJH to assure that the objectives of the Affiliation would be advanced and Hoag's unique position would be maintained with the larger health system;

O. WHEREAS, despite Hoag's efforts and notwithstanding the entry of PSJH, CHN has not been successful in realizing the goals of the Affiliation in transforming medicine in Orange County (through "population health" or "value based medicine");

P. WHEREAS, CHN has remained a shell corporation, without assets, management or staff and, in the judgment of this Board, has not provided the impetus, capital, planning or expertise to carry out its primary purposes, nor has the St. Joseph Hoag Health brand been successfully implemented;

Q. WHEREAS, CHN currently functions primarily as a mechanism for PSJH (through CHN) to exercise governance control over Hoag without the intended corresponding benefits to Hoag or the community more generally;

R. WHEREAS, the goals of the larger PSJH system as a whole have become incompatible in many respects with Hoag's goals and Hoag's unique character in its community:

- Orange County is no longer a defined market with dedicated leadership and strategy derived by and through a CHN board. PSJH seeks to homogenize Hoag as an increasingly less important element of a larger, national, Catholic health system
- PSJH focuses on standardization of systems across regions in contrast to Hoag's patient centered approach to medicine that vests its healthcare professionals with substantial discretion and a broad variety of tools to care for the community
- PSJH and Hoag have, in some cases, competing clinical service offerings in Orange County, with PSJH planning or introducing partnered clinical products in Orange County that compete or potentially compete with Hoag offerings
- The cultures of Hoag and PSJH are not aligned in a manner that supports a control relationship
- While Hoag pays a substantial annual system overhead assessment to PSJH, PSJH standardized system support services have not produced material benefits for Hoag, including with respect to managed care contracting efficiencies, PSJH group purchasing, revenue cycle processing, or consolidated debt management
- PSJH's larger southern California goals potentially constrain Hoag's ability to adequately grow in the communities we serve and Hoag's capital growth projects are potentially put at risk in the current Affiliation;

S. WHEREAS, while this Board recognizes the important mission of PSJH and the efforts of the many persons associated with PSJH, this volunteer Board views its necessary priorities first and foremost as stewards tasked, on behalf of the community, with the fiduciary obligation and responsibility to protect Hoag's Mission, its unique character, and the assets which support Hoag and its Mission;

T. WHEREAS, this Board faces a critical decision with respect to whether it is in the best interests of Hoag and the community it serves for Hoag to continue within the Affiliation as a controlled subsidiary in the larger PSJH system without the governance independence to operate solely and primarily in the interests of the Hoag institution and the Orange County community, and to independently direct the future of the organization;

U. WHEREAS, taking the above considerations in total, this Board finds that with the passage of time, the institutional, corporate, hierarchical, strategic and cultural incongruities between Hoag and PSJH have persisted, and therefore this Board has determined in the good faith exercise of its fiduciary obligations that the above facts and circumstances, taken together, compel the Board to take all steps necessary to sever the PSJH/CHN governance-control relationship, as well as Hoag's subsidiary status within the PSJH system, and this Board finds that such actions, as reflected in the Resolutions below, are in the best interests of Hoag and the community it serves;

V. WHEREAS, notwithstanding the necessity of achieving institutional independence to protect Hoag and its Mission in the future, this Board recognizes that there are certain common interests between Hoag and PSJH, and now a common history, and, on that basis, the Board believes it essential to first try and work with PSJH on a collaborative basis to come to a voluntary agreement on realigning the relationship of the parties prior to taking any more formal action pursuant to these Resolutions; and

W. WHEREAS, this Board believes that there are specific collaborative activities that can be and are in fact being conducted on a contractual basis (partnerships, joint ventures, etc.) with PSJH that benefit the Community, and, where feasible, Hoag should attempt to seek out such opportunities and pursue them with PSJH, or others, where practical and beneficial, while preserving Hoag's independence and decision-making capacity.

NOW, THEREFORE, BE IT RESOLVED:

1. **Discontinuation of Controlled Affiliate Status.** This Board hereby resolves that all necessary steps must be taken to effect the discontinuation of Hoag's controlled affiliate status and the attendant discontinuation of any membership in, or other governance control of, Hoag by CHN, PSJH or any PSJH affiliate, (while retaining the membership in Hoag by its Founding Members), and Hoag Senior Management and counsel are hereby instructed to pursue and implement such steps as provided in Resolutions 4 and 5 below in the event that PSJH is unwilling to agree to a voluntary realignment of the interests as provided in Resolutions 2 and 3.

2. **Approval of Realignment.** A realignment of the relationship with PSJH, wherein Hoag's controlled affiliate status within the PSJH system is discontinued, and wherein Hoag proposes to become a voluntary partner strategically and/or contractually allied with PSJH and its affiliates in specific clinical and business relationships (the "Realignment") is hereby approved.

3. **Negotiation to Voluntarily Realign Hoag and PSJH.** Hoag Senior Management is hereby instructed to work together with a specially appointed Committee of this Board (the "Special Committee") to attempt to secure the Realignment through voluntary agreement with PSJH prior to taking any other Realignment actions authorized herein.

- a. The Board approves the terms of the Realignment proposal to be made to PSJH, as set forth in Attachment A (the "Offer").
- b. Hoag Senior Management assisted by selected Directors are instructed to convey the Offer to PSJH, and to do so in a positive, confidential and coordinated fashion,

stressing opportunities for success in future strategic alliances in the Orange County communities Hoag serves.

- c. Hoag Senior Management is instructed to seek agreement with PSJH with regard to the material terms of the Realignment by September 1, 2019, unless otherwise extended by this Board or the Special Committee (“Target Date”).
- d. In the event PSJH signals a willingness to agree upon the core terms of the Realignment, Hoag Senior Management and counsel are hereby authorized and instructed to negotiate a term sheet and/or definitive agreements and other documents (including amendments to the Hoag Articles and Bylaws) that set out the specific terms, process and timing for implementing the Realignment, with any such term sheet or definitive agreements to be subject to the approval of this Board.
- e. The Board directs that the Hoag Directors and Hoag Senior Management shall keep these Realignment matters and the discussions with PSJH leadership confidential through the Target Date, to the maximum extent feasible and practical, and unless otherwise required by law or mandatory disclosure obligations.

4. **CHN Board Vote.** In the event Hoag and PSJH are unable to come to voluntary agreement on the core terms of the Realignment by the Target Date, the matters herein shall be brought to a vote by Hoag before the CHN Board.

5. **Deadlock and Other Action.** In the event of a deadlock at the CHN board, Hoag Senior Management and counsel are hereby authorized and instructed to follow the dispute resolution procedures contemplated in the Affiliation Agreement, and if those processes are unsuccessful, are instructed to work with the Founding Members to pursue a formal dissolution of CHN and/or to pursue such other remedies available in equity or under the law.

6. **Growth Plan Budgeting.** Hoag Senior Management is authorized to begin, effective immediately, with implementing the Hoag growth plan, to include planning, budgeting and, when appropriate, requesting of PSJH capital spending and borrowing authorization for the major capital expansion and improvements at Hoag Hospital and for the acquisition of the Irvine property, collectively in an amount not to exceed \$1 billion, with final implementation thereof to be subject to approval of this Board.

7. **Intent to Finance.** This Board hereby expresses its intent to finance the growth plan referenced in Resolution 6 through one or more issuances of tax exempt bonds or similar tax exempt debt, and for Hoag to reimburse itself from the proceeds of such future tax exempt financing for qualifying interim expenditures Hoag expends with respect to such growth plan.

8. **Debt and IT Implementation Actions.** In the event the Realignment is agreed upon among Hoag and PSJH (as a result of any of the processes described above) and as a means to implement such Realignment, Hoag Senior Management is hereby authorized to: (a) negotiate with PSJH and the relevant bondholders, issuing authorities and others for Hoag to withdraw from the PSJH Obligated Group by refinancing its outstanding debt under the PSJH Obligated Group (and thus repaying and relieving PSJH of such Hoag debt), with Hoag paying the relevant PSJH transaction costs associated with such withdrawal and refinancing; and (b) continue the assessment

and begin the implementation of available means for Hoag Hospital and Hoag Clinic to install and use the relevant Epic IT platforms, whether through an agreement among Hoag, PSJH and Epic allowing Hoag to participate in the PSJH “instance” or through a separate and independent Hoag “instance” of the relevant Epic platforms, or through some other reasonable arrangement, with Hoag paying the transaction/transfer costs thereof, including PSJH’s where appropriate.

9. **Expenses and Costs.** Hoag Senior Management are hereby authorized to incur and pay all expenses and costs related to the above Resolutions as they may deem necessary or advisable to implement and give effect to the proposed Realignment, and to act in all such matters on behalf of this Board consistent with these Resolutions.

10. **Ratification.** All prior actions taken by Hoag Directors and Hoag Senior Management consistent with the authority conferred herein are, ratified, confirmed and approved in all respects by this Board.


11. **Special Committee.** A Special Committee of this Board is hereby appointed with the dual purpose of: (a) acting for this Board to provide guidance to Hoag Senior Management and counsel with respect to the Realignment process during times when the full Board is not in session; and (b) assisting Hoag Senior Management in initial communications and on-going negotiations with PSJH as requested by Hoag Senior Management; provided, however, that the full Board must approve any final definitive agreement(s) implementing the Realignment and any judicial litigation filed with respect to the Realignment. The persons listed on attachment B are hereby appointed to the Special Committee, and the Committee’s term shall be for the duration of the Realignment process unless earlier terminated or extended by the Board.

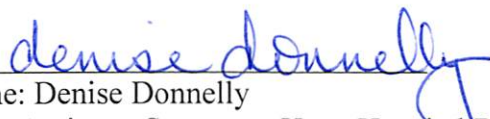
12. **Conflict of Interest.** The findings and recommendations of the Governance Committee are accepted that, due to unavoidable conflict of interest, Director Rod Hochman may not participate in the Board’s substantive deliberations or vote regarding the Realignment.

13. **Hoag Best Interests.** This Board finds that the resolutions herein are: (a) taken in good faith; (b) in the best interests of the corporation and community; (c) are fair and reasonable; and (d) represent the best path forward for the future of the institution and the community.

14. **Founding Members Approval.** This Board hereby requests approval of Resolutions 1 through 5 above by the Founding Members.

Passed and adopted at a duly noticed and held meeting of the Hoag Board of Directors on June 19, 2019, at which a quorum was present and acting throughout.

By: 
Name: George Wood
Title: Board Chair

By: 
Name: Denise Donnelly
Title: Assistant Secretary, Hoag Hospital Board