

# KaufmanHall

March 5, 2018

Ms. Peggy Sanborn  
Vice President, Strategic Growth – Mergers & Acquisitions  
Dignity Health  
3030 N. Central Avenue, Suite 501  
Phoenix, Arizona 85012

Dear Ms. Sanborn:

We are pleased to send you this letter related to a targeted process to explore strategic options involving Central California Foundation for Health, doing business as Delano Regional Medical Center (“Delano”). The Board of Delano has retained Kaufman Hall as its exclusive advisor as it seeks to evaluate the organization’s strategic options in the rapidly evolving healthcare landscape. Delano is undertaking this process to explore whether affiliation with another regional system will offer opportunities to enhance the services that it provides to the communities that it serves and strengthen its ability to support its mission. To that end, the Board has requested that Kaufman Hall assist Delano in discussions with a select few high quality providers. This letter outlines the topics that Delano would like any indication of interest to address.

Delano has asked that all communication regarding this matter be directed to:

Steve Hollis	Samuel DiSalvo
Senior Vice President	Vice President
shollis@kaufmanhall.com	sdisalvo@kaufmanhall.com

**We should point out that this letter is subject to the provisions of your existing Confidentiality and Non-Disclosure Agreement with Delano. Please do not contact anyone at Delano including board members, management, physicians, employees or other agents regarding this solicitation of interest or any matter related to a potential affiliation under any circumstances.**

An initial set of select operational and financial data related to Delano will also be provided for your reference. Following your review of the select operational and financial data, please let us know if there is any further information that you believe would be helpful. In addition, Kaufman Hall would like to schedule a discussion in the coming weeks to further describe the elements of this letter, and to assist as you begin to evaluate the opportunity and prepare a response. Please contact Kaufman Hall at your earliest convenience to schedule an initial discussion.

We request that you submit a non-binding indication of interest in electronic format to be received by Kaufman Hall no later than 5:00 pm PT on Monday, April 9, 2018.

## OUTLINE FOR INDICATIONS OF INTEREST

Interested parties are requested to provide specific, succinct submissions in the format outlined below.

1. **Brief Description.** Please provide a brief overview of your organization including organizational structure, facilities operated, geographic market and service focus, and any other relevant background information. Please describe your organization’s experience in working with and

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entering into partnerships or affiliations with community hospitals (including any hospitals similar to Delano) and why you believe that your organization is best suited to affiliate with Delano.

2. **Mission, Vision and Values.** The affiliation must enhance Delano's Mission to its community, augment its ability to achieve its Vision, and support its Values. Please describe your organization's mission, vision, values and the alignment of mission, vision and values between your organization and Delano. How does the relationship that you propose with Delano help your organization further its mission, vision and values? How do you think it would further the mission, vision and values of Delano?
3. **Brief Description of How an Affiliation with Delano Enhances Your Strategic Direction.** Please describe, in as much detail as possible, your short-term and long-term strategic plans for Delano within an affiliation.
4. **Clinical and Community Considerations.** An affiliation must maintain and enhance access to and quality of services that are currently provided locally by Delano physicians. Please describe your position and plans regarding:
  - a. Commitments to maintain or expand existing programs, particularly emergency and reproductive health services;
  - b. Development of new services, programs and facilities, particularly OB/GYN and women's services;
  - c. Continuation and enhancement of education and community programs currently supported by Delano, including activities, initiatives and programming for collaborating with local organizations to enhance health across the lifespan;
  - d. Provision of charity care; and
  - e. Population health and participation in capitation or other risk-based payor strategies.
5. **Branding.** The affiliate must possess a brand and reputation synonymous with excellence in quality and patient satisfaction. Please describe your approach to branding with respect to community hospital affiliates. How might your brand help enhance and differentiate Delano's offerings?
6. **Employees.** The affiliate must respect the strong relationships that Delano has built with its employees, and seek to continue and build on these relationships in an affiliation. Please describe your position and expectations regarding Delano's existing employees after the affiliation.
7. **Operational Considerations.** Please describe your position and expectations regarding:
  - a. Efficiencies and capabilities in administrative and clinical operations;
  - b. Integration of and investment in information systems; and
  - c. Coordination of care to ensure and enhance access to high quality tertiary services.
8. **Physician Relationships.** An affiliation must enable Delano to more effectively recruit and retain high quality clinical staff. Please describe your position and expectations regarding:
  - a. How you believe the proposed affiliation will strengthen Delano's existing relationships with physicians;

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- b. Your approach to the recruitment of physicians to the Delano community; and
  - c. Integration of your system's clinical staff into the Delano community.
9. **Proposed Affiliation Structure and Governance.** Please describe your position and expectations regarding:
- a. The nature and structure of your proposed affiliation with Delano;
  - b. A description of how major decisions will be made (e.g., strategic plans, operating budgets, employment of key executives, capital expenditures and programs); and
  - c. How local influence in oversight and decision-making will be addressed in an affiliation.
10. **Financial Commitments.** The affiliation must further enhance the organization's strong financial position and long-term viability, keeping existing funds and resources in place for the benefit of the community. This would be evidenced by and achieved through: credit rating and related credit metrics; enhanced access to capital; capital committed by the affiliate to Delano; and achieving operating efficiencies. Please describe the financial and other terms of the proposed affiliation, and any financial commitments that you are prepared to make. Please also describe the treatment and retention of assets and liabilities of Delano in your indication of interest.
11. **Decision Process.** An affiliate must demonstrate that it has the ability and willingness to dedicate the necessary resources to successfully achieving an affiliation as proposed, as well as navigating external regulatory approval processes as appropriate. Please describe your organization's structure and timing for negotiating and approving your proposed affiliation. Please identify which levels of management and governance will be required to consummate the proposed affiliation. What level of review has been given to submission of your indication of interest?
12. **Other Considerations.** Should certain other ideas or considerations that your organization deems important not be addressed in your responses above, please describe these considerations. These considerations could include any significant assumptions you have made in preparing your indication of interest, any other ongoing affiliation activity at your organization, any special requirements you are operating under pursuant to an agreement with a governmental entity, open regulatory matters that may have an impact on a potential strategic transaction or areas of conflict you have identified in preparing your indication of interest.

Despite any statements made orally or in this letter, Delano expressly reserves the right, in their sole and absolute discretion, to negotiate with one or more potential parties at any time and to enter into a definitive agreement for a transaction without prior notice to you or other potential parties to a transaction. Delano also reserves the right to terminate, at any time, further participation in the investigation and proposed process by any party, to modify any of the procedures set forth herein or any other procedures, without prior notice and without assigning any reason, or to terminate the process. On behalf of Delano, we thank you for your consideration and look forward to our future discussions.

Sincerely,  
KAUFMAN, HALL & ASSOCIATES, LLC

*Kaufman, Hall & Associates, LLC*