



AGENDA

SPECIAL MEETING OF THE BOARD OF DIRECTORS

**Wednesday, January 17, 2024
9:00 AM**

Modular C

600 N. Highland Springs Avenue, Banning, CA 92220

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Administration Office at (951) 769-2160. **Notification 48 hours prior to the meeting** will enable the Healthcare District to make reasonable arrangements to ensure accessibility to this meeting. [28 CFR 35.02-35.104 ADA Title II].

TAB

I. Call to Order

S. McDougall, Chair

II. Public Comment

A five-minute limitation shall apply to each member of the public who wishes to address the Healthcare District Board of Directors on any matter under the subject jurisdiction of the Board. A thirty-minute time limit is placed on this section. No member of the public shall be permitted to “share” his/her five minutes with any other member of the public. (Usually, any items received under this heading are referred to staff for future study, research, completion and/or future Board Action.) (PLEASE STATE YOUR NAME AND ADDRESS FOR THE RECORD.)

On behalf of the Healthcare District Board of Directors, we want you to know that the Board acknowledges the comments or concerns that you direct to this Board. While the Board may wish to occasionally respond immediately to questions or comments if appropriate, they often will instruct the Hospital CEO, or other Hospital Executive personnel, to do further research and report back to the Board prior to responding to any issues raised. If you have specific questions, you will receive a response either at the meeting or shortly thereafter. The Board wants to ensure that it is fully informed before responding, and so if your questions are not addressed during the meeting, this does not indicate a lack of interest on the Board’s part; a response will be forthcoming.

NOTE: ALL MEMBERS OF THE SAN GORGONIO MEMORIAL HOSPITAL BOARD OF DIRECTORS ARE INVITED PARTICIPANTS AND MAY ADDRESS THE SAN GORGONIO MEMORIAL HEALTHCARE DISTRICT BOARD OF DIRECTORS AT ANY TIME DURING THIS MEETING.

NEW BUSINESS

III. ***Proposed Action – Adopt Resolution No. 2024-02**

S. Barron

A

(A resolution of San Gorgonio Memorial Healthcare District authorizing the execution and delivery of a Promissory Note, Loan and Security Agreement, and certain actions in connection therewith for a loan under the Distressed Hospital Loan Program)

IV. Adjournment

S. McDougall

***Action Required**

In accordance with The Brown Act, *Section 54957.5*, all public records relating to an agenda item on this agenda are available for public inspection at the time the document is distributed to all, or a majority of all, members of the Board. Such records shall be available at the Healthcare District Administration office located at 600 N. Highland Springs Avenue, Banning, CA 92220 during regular business hours, Monday through Friday, 8:00 am - 4:30 pm.

Certification of Posting

I certify that on January 16, 2024, I posted a copy of the foregoing agenda near the special meeting place of the Board of Directors of San Gorgonio Memorial Healthcare District, and on the San Gorgonio Memorial Hospital website, said time being at least 24 hours in advance of the special meeting of the Board of Directors (*Government Code Section 54954.2*).

Executed at Banning, California on January 16, 2024



Ariel Whitley, Executive Assistant

TAB A

RESOLUTION NO. 2024-02

**RESOLUTION OF SAN GORGONIO MEMORIAL HEALTHCARE DISTRICT
AUTHORIZING THE EXECUTION AND DELIVERY OF A PROMISSORY NOTE, LOAN
AND SECURITY AGREEMENT, AND CERTAIN ACTIONS IN CONNECTION
THEREWITH FOR A LOAN UNDER THE DISTRESSED HOSPITAL LOAN PROGRAM**

DISTRESSED HOSPITAL LOAN PROGRAM

WHEREAS, San Gorgonio Memorial Healthcare District (“Borrower”) is a public hospital, as defined in Section 129381 of the Health and Safety Code;

WHEREAS, Borrower does not belong to an integrated health care system with more than two separately licensed hospital facilities;

WHEREAS, Borrower has determined that it is in its best interest to borrow an aggregate amount not to exceed \$9,800,000.00 from the California Health Facilities Financing Authority (the “Lender”) under the Distressed Hospital Loan Program, with that loan to be funded with the proceeds in the Distressed Hospital Loan Program Fund; and

WHEREAS, Borrower intends to use the loan for working capital related to the routine costs of providing care to patients, projects that are needed for urgent regulatory requirements needed to maintain operations, or revenue enhancing turnaround initiatives that will assist with returning the hospital to financial viability.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Borrower as follows:

Section 1. The Board of Directors of Borrower hereby approves a working capital loan from the California Health Facilities Financing Authority Distressed Hospital Loan Program in the principal amount of \$9,800,000.

Section 2. Shannon McDougall, Chair of the Board of Directors of Borrower, Lanny Swerdlow, Vice Chair of the Board of Directors of Borrower, or Dennis Tankersley, Treasurer of the Board of Directors of Borrower (each an “Authorized Officer”) are each individually hereby authorized and directed, for and on behalf of the Borrower, to do any and all things and to execute and deliver any and all documents that the Authorized Officers deem necessary or advisable to consummate the borrowing of moneys from the Lender and otherwise to effectuate the purposes of this Resolution and the transactions contemplated hereby.

Section 3. The proposed form of Loan and Security Agreement (the “Agreement”), which contains the terms of the loan, is hereby approved in substantially final form. The loan shall be in a principal amount not to exceed \$9,800,000.00, shall not bear interest, and shall mature 72 months from the date of the executed Agreement between the Borrower and the Lender. Each of the Authorized Officers are hereby authorized and directed, for and on behalf of the Borrower, to execute the Agreement in substantially that form, which includes the Loan Funds Disbursement Certification, as well as the redirection of up to twenty percent (20%) of Medi-Cal reimbursements (checkwrite payments) to Lender in the event of default in accordance with Health and Safety Code section 129384, with those changes therein as the Authorized Officers may require or approve, that approval to be conclusively evidenced by the execution and delivery thereof.

Section 4. The proposed form of Promissory Note (the “Note”) as evidence of the Borrower's obligation to repay the loan is hereby approved in substantially final form. The Authorized Officers are hereby authorized and directed, for and on behalf of the Borrower, to execute the Note in substantially said form, with those changes therein as the Authorized Officers may require or approve, that approval to be conclusively evidenced by the execution and delivery thereof.

This Resolution No. 2024-02 supersedes Resolution No. 2023-06 approved at a regular meeting of the Board of Directors of San Gorgonio Memorial Healthcare District held on September 5, 2023.

PASSED AND ADOPTED at a special meeting of the Board of Directors of San Gorgonio Memorial Healthcare District held on the 17th day of January, 2024.

SECRETARY'S CERTIFICATE

I, Ron Rader, Secretary of San Gorgonio Memorial Healthcare District, hereby certify that the foregoing is a full, true and correct copy of a resolution duly adopted at a special meeting of the Board of Directors of San Gorgonio Memorial Healthcare District duly held on January 17, 2024. At said meeting, all of the members of said Board of Directors had due notice and at which the required quorum was present and voting and the required majority approved said resolution by the following vote at said meeting:

Ayes:

Noes:

Absent:

I further certify that I have carefully compared the same with the original minutes of said meeting on file and of record in my office; that said resolution is a full, true and correct copy of the original resolution adopted at said meeting and entered in said minutes; and that said resolution has not been amended, modified or rescinded since the date of its adoption, and is now in full force and effect.

Ron Rader, Secretary of the Board of Directors

Date: January 17, 2024

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY¹

DISTRESSED HOSPITAL LOAN PROGRAM

LOAN AND SECURITY AGREEMENT

This Loan and Security Agreement (“Agreement”) is entered into between the CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY, a public instrumentality of the State of California, having its principal place of business at 901 P Street, Suite 313, Sacramento, California 95814 (together with its successors and assigns, the “Authority” or the “Lender”) and **San Geronio Memorial Healthcare District**, a **California public hospital**, having its principal place of business at **600 North Highland Springs Avenue, Banning, California 92220** (“Borrower”) under the Distressed Hospital Loan Program pursuant to Health and Safety Code section 129380 et seq. This Agreement is effective and dated as of the date of the execution of this Agreement by the Authority (the “Effective Date”).

RECITALS

A. Borrower is a public hospital, as defined under Health and Safety Code section 129381.

B. Borrower has applied to the Authority and the Department (as defined below) for an interest-free loan (the “Facility”) from the Distressed Hospital Loan Program Fund (the “Fund”) for the purpose of preventing the closure, or facilitating the reopening, of Borrower’s hospital.

C. The Department of Health Care Access and Information (the “Department” or “HCAI”) has determined that Borrower’s application (Form No. CHFFA 13 DHLP-01 (05/2023)) (the “Application”) meets the eligibility requirements of the Distressed Hospital Loan Program and has determined that the Turnaround Plan, which is within the Application and attached hereto as **Exhibit E** and incorporated herein by reference (the “Turnaround Plan”), is viable and there is reasonable likelihood that Borrower will be able to regain financial viability and continue to operate its hospital.

D. The Department authorized and directed the Authority to make Loans (as defined herein) to Borrower in an amount not to exceed **\$9,800,000.00** from the Fund.

E. The Lender is willing to lend Borrower the Loans subject to the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the foregoing, the parties agree as follows:

¹ 1/10/24 Comments to reflect obligations of District under this Loan Agreement are secured partially as Parity Debt and partially as Subordinate Debt

1. Certain Defined Terms. Unless otherwise defined in this Agreement, as used in this Agreement (including in the Recitals of this Agreement), the following terms have the meanings specified below:

“Application” shall have the meaning assigned to such term in the Recitals to this Agreement.

“Borrower” shall have the meaning assigned to such term in the preamble to this Agreement.

“Business Day” means any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under the laws of, or are in fact closed in, the State of California.

“Current Ratio” as of any date of determination shall be calculated using the following formula:

$$\text{Current Ratio} = (\text{Current Assets as of such date} \div \text{Current Liabilities as of such date})$$

“Collateral” shall have the meaning assigned to such term in Section 3(a).

“Days Cash on Hand” as of any date of determination shall be calculated using the following formula:

$$\text{Days Cash on Hand} = \text{unrestricted cash and cash equivalents as of such date} \div [(\text{operating expenses as of the twelve-month period ending on such date} - \text{non-cash charges as of the twelve-month period ending on such date}) \div 365 \text{ days}]$$

“Debt Service Coverage Ratio” as of any date of determination shall be calculated using the following formula:

$$\text{Debt Service Coverage Ratio} = \text{Net Income Available for Debt Service as of the twelve-month period ending on such date} \div \text{Actual Annual Debt Service as of the twelve-month period ending on such date}$$

“Department” shall have the meaning assigned to such term in the Recitals of this Agreement.

“Disbursement Request” means a Request for Disbursement of Loan Funds under the Distressed Hospital Loan Program in accordance with Section 2(b) of this Agreement and substantially in the form of **Exhibit C**.

“Effective Date” shall have the meaning assigned to such term in the preamble to this Agreement.

“EFT Cancellation Form” means the form described in Section 3(b) of this Agreement and substantially in the form of **Exhibit B**, together with all amendments, modifications, replacements, extensions, and rearrangements thereof.

“Event of Default” shall have the meaning assigned to such term in Section 7(a) of this Agreement.

“Facility” shall have the meaning assigned to such term in the Recitals of this Agreement.

“Fund” means the Distressed Hospital Loan Program Fund established pursuant to Health and Safety Code section 129385.

“HCAI” shall have the meaning assigned to such term in the Recitals of this Agreement.

“Lender” shall have the meaning assigned to such term in the preamble to this Agreement.

“Loan” shall have the meaning assigned to such term in Section 2(a) of this Agreement.

“Loan Documents” means this Agreement, the Note, the Medi-Cal Intercept Form, the EFT Cancellation Form, each Disbursement Request, the Application, and any other agreements, instruments or documents previously or hereafter executed by Borrower which evidence or secure Borrower’s obligations under this Agreement.

“Maturity Date” shall have the meaning assigned to such term in Section 2(d) of this Agreement.

“Medi-Cal Intercept Form” means the form described in Section 3(b) and substantially in the form of **Exhibit A**, together with all amendments, modifications, replacements, extensions, and rearrangements thereof.

“Net Cash Runway” as of any date of determination shall be calculated using the following formula:

$$\text{Net Cash Runway} = \text{Cash Balance as of such date} \div \text{Monthly Average Operating Loss (excluding depreciation and non-cash expenses) for the twelve-month period ending on such date}$$

“Net Income Available for Debt Service” for any period shall be calculated using the following formula:

$$\text{Net Income Available for Debt Service} = \text{Excess of Revenue Over Expenses} + \text{Depreciation Expense} + \text{Amortization Expense} + \text{Interest Expense} + \text{Non-Cash Charges} - \text{Restricted Donations} - \text{Extraordinary/Non-Recurring Charge} - \text{Non-Cash Revenues} - \text{Unrealized Gain (Loss) on Investments}$$

“Note” means the Promissory Note of Borrower described in Section 2(f) of this Agreement and being substantially in the form of **Exhibit E**, together with all amendments, modifications, replacements, extensions, and rearrangements thereof.

“Operating Margin” for any period shall be calculated using the following formula:

$$\text{Operating Margin} = (\text{Net Income for such period} \div \text{Total Revenue for such period})$$

“Turnaround Plan” shall have the meaning assigned to such term in the Recitals of this Agreement.

2. The Loan Disbursement and Repayment.

(a) Loan Availability. Subject to the terms and conditions of this Agreement and as of the Effective Date, the Lender agrees to make interest-free loans (each a “Loan” and together, the Loans”) in the aggregate principal amount not to exceed **Nine Million Eight Hundred Thousand Dollars and No Cents (\$9,800,000.00)** to Borrower, and Borrower agrees to repay the Loans in accordance with the terms hereof. The proceeds of each Loan shall be

disbursed to Borrower upon the satisfaction of all the conditions precedent set forth in Section 4 of this Agreement.

(b) Borrowing Procedure. For each Loan, Borrower shall submit a signed and completed Request for Disbursement of Loan Funds under the Distressed Hospital Loan Program (a “Disbursement Request”), in the form attached hereto as **Exhibit C** and incorporated herein by reference, submitted to the Lender, who shall forward a copy of the request to HCAI. The Lender may disburse Loan proceeds incrementally upon receipt of an approved Disbursement Request from HCAI for each incremental disbursement.

(c) The Note. Borrower’s obligation to repay the Loans shall be evidenced by a Promissory Note (“Note”), dated as of the Effective Date, in the form attached hereto as **Exhibit D** and incorporated herein by reference, payable to the Lender and its successors or assigns. The Lender may attach a schedule to its Note and endorse the date, amount and maturity of the Loans and payments made with respect thereto. Any failure to so record or any error in doing so shall not, however, limit or otherwise affect the obligation of Borrower hereunder to pay any amount owing with respect to the Loans. The Lender’s books and records shall be conclusive absent manifest error of the amount of the Loans made by the Lender and the interest and principal payments thereon.

(d) Repayment; Maturity. Borrower agrees to repay the Loans in equal monthly installments, commencing on the first day of the nineteenth (19th) month from the Effective Date until the principal sum of the Loans is paid in full, which shall occur no later than seventy-two (72) months from the date of this Agreement (the “Maturity Date”). If Borrower commences a restructuring under chapter 9 of the Bankruptcy Code before the Maturity Date and seeks debtor-in-possession financing from the Lender, the Lender agrees to “roll up” the Loans under this Facility into a debtor-in-possession financing facility on a dollar-for-dollar basis and on such other terms and conditions acceptable to the Lender.

(e) Prepayment. Borrower shall have the right at any time to prepay the Loans in whole or in part without premium or penalty. The Lender shall apply any prepayments to the last monthly installments of the Loans.

(f) Method of Payment. Borrower shall make payments on the Loans by check or through the Authority’s Electronic Payment System (“EPS”).

3. Security Interest.

(a) Grant of Security. To induce the Lender to make the Loans and to secure Borrower’s performance under this Agreement, including, without limitation, the punctual payment of the Loans under this Agreement and the Note, Borrower hereby grants a security interest to the Lender and to its successors and assigns, in all of its right, title and interest, whether now owned or hereafter acquired, in and to all Medi-Cal checkwrite payments with respect to Medi-Cal reimbursements due to Borrower from the Department of Health Care Services (“DHCS”) and the accounts and payment intangibles relating to same and the proceeds thereof (all those rights being the “Collateral”). The obligations of the District under this Agreement relating to \$7,000,000 of the principal amount of the Loans constitute “Parity Debt” under that certain Indenture of Trust, dated as of January 1, 2021, between the Borrower and U.S. Bank Trust

Company, National Association, as trustee (or any successor, the “Trustee”), as amended and supplemented (collectively, the “Indenture”), related to the Borrower’s outstanding Bonds (as defined in the Indenture). Accordingly, the security interest granted in the Collateral pursuant to the first sentence of this Section 3(a) securing \$7,000,000 of the principal amount of the Loans shall be on a parity with the pledge of Revenues (as defined in the Indenture) under the Indenture. The obligations of the District under this Agreement relating to \$2,800,000 of the principal amount of the Loans constitute “Subordinate Indebtedness” under the Indenture. Accordingly, the security interest granted in the Collateral pursuant to the first sentence of this Section 3(a) securing \$2,800,000 of the principal amount of the Loans shall be subordinate to the pledge of Revenues under the Indenture.

(b) Security Documents. Borrower hereby agrees to execute a written authorization in the form attached hereto as **Exhibit A** and incorporated herein by reference (the “Medi-Cal Intercept Form”), and an electronic fund transfer cancellation form in the form attached hereto as **Exhibit B** and incorporated herein by reference (the “EFT Cancellation Form”), authorizing DHCS to intercept and redirect twenty percent (20%) of the Medi-Cal checkwrite payments to the Lender as further set forth in such forms and in Section 7(f).

4. Representations and Warranties.

To induce the Lender to make the Loans under this Agreement, Borrower hereby represents and warrants to the Lender that as of the Effective Date and, until the Note is paid in full and all obligations under this Agreement are performed in full, that:

(a) Borrower is a public hospital, as defined under Health and Safety Code section 129381, and undertakes the Loans to prevent the closure of, or facilitate the reopening of, Borrower’s hospital pursuant to Health and Safety Code section 129380 et seq., and Borrower does not belong to integrated health care systems with more than two separately licensed hospital facilities;

(b) Borrower has the requisite right, power and authority to execute and deliver all documents authorizing this Facility and the Loans thereunder, including this Agreement, the Medi-Cal Intercept Form, the EFT Cancellation Form, the Disbursement Request, the Note, and Borrower’s Application (all such documents are sometimes hereafter collectively referred to as the “Loan Documents”), and to carry out and consummate all transactions contemplated by these Loan Documents;

(c) the officers of Borrower executing this Agreement, the Note and all of the other Loan Documents are duly and properly in office and fully authorized to execute same;

(d) Borrower has duly authorized, executed and delivered this Agreement, the Note and all of the other Loan Documents;

(e) the execution, delivery and performance of this Agreement, the Note and all of the other Loan Documents, the consummation of the transactions herein and therein contemplated and the fulfillment of or compliance with the terms and conditions hereof and thereof will not: conflict with or constitute a breach of, violation or default (with due notice or the passage of time or both) under any articles of incorporation or bylaws of Borrower, any applicable law or administrative rule or regulation or any applicable court or administrative decree or order, or any

indenture, mortgage, deed of trust, loan agreement, lease, contract or other agreement, evidence of indebtedness or instrument to which Borrower is a party or to which or by which it or its properties are otherwise subject or bound, or result in the creation or imposition of any prohibited lien, charge or encumbrance of any nature whatsoever upon any of the property or assets of Borrower, which conflict, violation, breach, default, lien, charge or encumbrance might have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Loan Documents;

(f) this Agreement, the Note, and all of the other Loan Documents constitute the legal, valid and binding obligations of Borrower, enforceable in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting the enforcement of creditors' rights, to the application of equitable principles, regardless of whether enforcement is sought in a proceeding at law or in equity, to public policy and to the exercise of judicial discretion in appropriate cases;

(g) no consent or approval of any trustee or holder of any indebtedness (including, without limitation, guaranty and credit or liquidity enhancement reimbursement obligations) of Borrower, and no consent, permission, authorization, order or license of, or filing or registration with, any governmental authority (except with respect to any state securities or "blue sky" laws) is necessary in connection with the execution and delivery of this Agreement, the Note and all of the other Loan Documents or the consummation of any transaction herein or therein contemplated, or the fulfillment of or compliance with the terms and conditions hereof or thereof;

(h) this Agreement creates a valid and binding security interest in the Collateral in favor of the Lender as security for payment of the Loans, enforceable by the Lender in accordance with the terms hereof;

(i) except as provided in the Indenture, Borrower has not heretofore made a pledge of, granted a lien on or security interest in, or made an assignment or sale of the Collateral that ranks on a parity with or prior to the pledge and assignment and security interest granted hereby;

(j) no representation made, nor any information, exhibit or report furnished to the Lender by Borrower in connection with the negotiation of the Loan Documents contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(k) except as previously disclosed to the Lender in writing,² there is no action, suit or proceeding, pending or threatened against Borrower or the assets, properties or operations of Borrower (1) in any way contesting or affecting the validity of this Agreement, the Note or the other Loan Documents or (2) which might adversely affect Borrower in any material respect; and

² District to provide disclosures referred to in 10/31/23 letter.

(l) all proceeds of this Facility will be used by Borrower solely for the purpose approved by the Lender, as described in the Recitals of this Agreement, the Disbursement Request, and in Borrower's Application, including the Turnaround Plan.

5. Conditions Precedent.

(a) The Lender shall have no obligation to make any Loans under this Agreement until the Lender is satisfied that all of the following conditions have been met for each Loan:

(i) Borrower shall have delivered to Lender a duly executed Agreement, Medi-Cal Intercept Form, EFT Cancellation Form, Note, and all other requested Loan Documents;

(ii) Borrower shall have delivered to the Lender a resolution of Borrower's Board of Directors or governing body duly authorizing the execution, delivery, and performance by it of each of the Loan Documents;

(iii) Borrower shall have delivered to the Lender the Disbursement Request including the required representations therein for each Loan; and

(iv) Borrower shall have delivered to the Lender any other documents reasonably required by the Lender in connection with carrying out the purposes of this Agreement.

6. Covenants.

From the Effective Date until the Note is paid in full and all obligations under this Agreement are performed, Borrower covenants that:

(a) Borrower shall provide periodic reports and financial information to the Lender in the manner set forth below:

(i) as soon as available, but in any event no later than one hundred fifty (150) days after the end of each fiscal year of Borrower, a copy of Borrower's audited consolidated financial statements prepared by a Certified Public Accountant and consisting of, at a minimum, a balance sheet, statement of income and expenses, and a cash flow statement;

(ii) as soon as available, but in any event no later than forty-five (45) days after the end of each fiscal quarter of Borrower, a copy of Borrower's unaudited quarterly financial statements and consisting of, at a minimum, a balance sheet, statement of income and expenses, and a cash flow statement;

(iii) as soon as available, but in any event no later than thirty (30) days after the end of each fiscal year of Borrower, a copy of Borrower's board-approved annual budget;

(iv) as soon as available, but in any event no later than forty-five (45) days after the end of each fiscal quarter of Borrower, a report from Borrower of the status of progress made in relation to the Turnaround Plan that was submitted as part of the Loan application process. The Turnaround Plan Progress Report shall consist of, at a minimum, (1) an updated narrative describing actions taken pursuant to the Turnaround Plan and remaining actions to be taken by

leadership; (2) an updated 24-month cashflow projection of Borrower's future financial situation, which projection shall incorporate all remaining actions to be taken by Borrower and also identify how Loan proceeds were utilized and will be repaid after the 18-month grace period; and (3) an updated description of how the actions taken will affect various revenue and expense line items in the future. After the 18-month grace period, if Borrower is in compliance with all terms and conditions of this Agreement and the Note, the Turnaround Plan Progress Report requirement may be waived by the Department;

(v) as soon as available, but in any event no later than one hundred twenty (120) days after the end of each fiscal year of Borrower, a report detailing Borrower's utilization statistics;

(vi) as soon as available, but in any event no later than one hundred fifty (150) days after the end of each fiscal year of Borrower, a calculation of financial ratios, including Days Cash on Hand, Current Ratio, Operating Margin, Net Cash Runway, and Debt Service Coverage Ratio, in each case, as of the last day of such fiscal year, based on Borrower's audited consolidated financial statements for such fiscal year; and

(vii) as soon as available, but in any event no later than forty-five (45) days after the end of each fiscal quarter of Borrower, a calculation of financial ratios, including Days Cash on Hand, Current Ratio, Operating Margin, Net Cash Runway, and Debt Service Coverage Ratio, in each case, as of the last day of such fiscal quarter, based on Borrower's unaudited financial statements for such fiscal quarter and the immediately preceding three fiscal quarters;

(b) upon reasonable notice from the Lender, Borrower shall allow visits by representatives or agents of the Lender or the Department to observe Borrower's operations, to review Borrower's financial records and corporate records, and to discuss Borrower's financial position, results of operations, business or prospects with Borrower's staff and governing board and upon notice to Borrower, communicate with Borrower's independent certified public accountants;

(c) Borrower shall accurately maintain books of account, records and documents of every kind of or relating to all income, expenditures, assets, and liabilities of Borrower, including information related to the Collateral;

(d) Borrower shall at all times (i) maintain its corporate existence, if applicable, and shall (ii) do or cause to be done all things necessary to preserve and keep in full force and effect its rights, licenses, or franchises;

(e) (i) Borrower shall not, without the prior written notification to the Lender, change its name or place of business and (ii) Borrower shall not, without prior written consent of the Lender, dissolve, sell or otherwise dispose of all or substantially all of its assets or affiliate with, consolidate with or merge into another entity or permit one or more other entities to affiliate with, consolidate with or merge into it or otherwise substantially change its organization or corporate structure or the general character of its business as it is conducted as of the date hereof;

(f) Borrower shall not, without the prior written consent of the Lender, sell, assign, transfer, lease, sublease, pledge, or otherwise encumber or dispose of any of the properties

or assets of Borrower, except for the lien on the Collateral in favor of the Lender created by this Agreement;

(g) Borrower shall not use or permit any required Collateral to be used unlawfully or in violation of any provision of this Agreement, or any applicable statute, regulation, or ordinance covering the Collateral;

(h) Borrower acknowledges that the Lender shall file in the applicable UCC filing office of Borrower's jurisdiction of formation a UCC-1 financing statement describing the Collateral. Borrower agrees to execute and deliver such assignments or other documents deemed necessary or appropriate by the Lender to perfect, maintain and protect the Lender's security interest in the Collateral;

(i) Borrower shall pay all taxes, assessments, and related obligations when such taxes, assessments and obligations are due and payable;

(j) Borrower shall not create, incur, assume or suffer to exist any assignment, encumbrance, or lien upon the Collateral (other than the lien on the Collateral in favor of the Lender created by this Agreement) without the prior written consent of the Lender;

(k) Borrower shall not create, incur, assume or suffer to exist any additional debt other than (i) the debt in existence as of the Effective Date that has been disclosed in writing to the Lender prior to the Effective Date and (ii) debt incurred after the Effective Date with prior written consent of the Lender;

(l) Borrower shall not assign its rights under this Agreement or the Note to any person or entity, and none of Borrower's obligations under this Agreement or the Note may be assumed by any person or entity without the prior written consent of the Lender;

(m) Borrower shall promptly notify the Lender in writing of the occurrence of any event which might materially adversely affect Borrower, or which constitutes, or upon notice or passage of time or both, would constitute an Event of Default;

(n) Borrower shall comply with any service provision requirements during the term of this Agreement as determined by the Department under Health and Safety Code section 129383;

(o) Borrower shall implement or otherwise adhere to the Turnaround Plan as approved by the Department;

(p) Borrower shall use the proceeds of any Loan for purpose approved by the Lender, as described in the Recitals of this Agreement, the Disbursement Request, and in Borrower's Application, including the Turnaround Plan; and

(q) if Borrower commences a restructuring under chapter 9 of the Bankruptcy Code prior to the Maturity Date and seeks debtor-in-possession financing from the Lender, Borrower covenants and agrees to "roll up" the Loans under this Facility into postpetition loans under such postpetition financing facility on a dollar-for dollar basis and on such other terms and conditions acceptable to the Lender.

7. Events of Default.

(a) The occurrence of any of the following events shall constitute an “Event of Default”:

(i) failure by Borrower to pay any principal or any other amount payable hereunder or under the Note when due in accordance with the terms of this Agreement or the Note, and the failure remains uncured for a period of ten (10) days;

(ii) failure by Borrower to fully and completely perform any covenant set forth in subsection (a), (d)(i), (e), (f), (g), (j), (k), (l), (m), (n) or (p) of Section 6 of this Agreement;

(iii) any representation or warranty made by Borrower in this Agreement or in any other Loan Document or financial or other statement furnished at any time under or in connection herewith or therewith is incorrect, false or misleading in any material respect on or as of the date when made or deemed to have been made or prior to the date when all obligations of this Agreement have been fully satisfied;

(iv) failure of Borrower to fully and completely perform any obligation, covenant, or agreement set forth in this Agreement or in any other Loan Document (except for the obligations and covenants set forth in clauses (i) and (ii) of this Section 7(a)) and the failure remains uncured for a period of thirty (30) days; provided, however, if the Lender, in its sole discretion, determines that the default is incapable of cure within the thirty (30) day period, then, in the sole discretion of the Lender, such failure shall not constitute an Event of Default if (A) Borrower commences steps to cure the failure within the thirty (30) day period and (B) Borrower cures the failure within ninety (90) days after the date of the failure;

(v) Borrower (A) makes an assignment for the benefit of creditors, (B) is the subject of any voluntary or involuntary case commenced under the federal bankruptcy laws, as now constituted or hereafter amended, or any other proceeding under other applicable laws regarding bankruptcy, insolvency, reorganization, adjustment of debt or other forms of relief for debtors in any jurisdiction, (C) consents to the appointment of a receiver, trustee, custodian or similar official for substantially all of its property or permits a decree ordering such appointment to remain in effect and unstayed for 60 days, (D) is the subject of any dissolution or liquidation proceeding, (E) has issued against it or its property any writ of attachment, execution, or other legal process involving an amount or risk deemed material by the Lender, or (F) has filed or recorded against it or its property any notice of levy, notice to withhold, or other claim for taxes other than real property taxes not yet delinquent involving an amount deemed material by the Lender; or

(vi) Borrower suspends the transaction of its usual business, Borrower ceases to be authorized by the laws of this State to operate its hospital, or Borrower’s hospital otherwise ceases to operate as a hospital.

(b) Borrower agrees that, as soon as is practicable and in any event within ten (10) days of knowledge of an Event of Default, Borrower shall provide written notice to the Lender of any event which is an Event of Default, which notice shall set forth the nature of such event and the action which Borrower proposed to take with respect thereto.

(c) If any Event of Default occurs, then, at the option and upon the declaration of the Lender, all amounts owed to the Lender under this Agreement and the Note, without presentment, demand, protest, or notice of any kind, all of which are hereby expressly waived, shall become immediately due and payable, and the Lender may immediately, and without expiration of any period of grace, enforce payment of all amounts owed to the Lender under this Agreement and the Note and exercise any and all other remedies granted to it at law, in equity or otherwise, for the enforcement of realization of the security interests provided in this Agreement; provided, that upon the occurrence of any Event of Default specified in subclauses (A) through (D) of Section 7(a)(v), all amounts owed to the Lender under this Agreement and the Note shall automatically become due and payable without presentment, demand, protest or other notice of any kind, all of which are expressly waived. In addition, the Lender shall be entitled to recover from Borrower all costs and expenses, including reasonable attorneys' fees, incurred by the Lender in exercising any remedies under this Agreement.

(d) No delay in accelerating the maturity of any obligation contained in this Agreement or in taking any other action with respect to any Event of Default shall affect the rights of the Lender later to take such action with respect thereto, and no waiver as to a prior occasion shall affect the Lender's rights as to any other Event of Default. A waiver or release with reference to any one event shall not be construed as continuing, as a bar to, or as a waiver or release of, any subsequent right, remedy or recourse as to a subsequent event.

(e) Borrower waives presentment and demand for payment, notice of intent to accelerate maturity, notice of acceleration and maturity, protest or notice of protest and nonpayment, bringing of suit and diligence in taking any action to collect any sums owing under this Agreement, and agrees that its liability on this Agreement shall not be affected by any release of or change in any security for the payment of sums due under this Agreement.

(f) Without limitation of any of the Lender's other rights and remedies provided by this Agreement, the Note, at law or in equity, if an Event of Default has occurred and is continuing, the Lender may deliver to DHCS the Medi-Cal Intercept Form and the EFT Cancellation Form and instruct DHCS to pay directly to the Lender twenty percent (20%) of Medi-Cal checkwrite payments with respect to Medi-Cal reimbursements due to Borrower from DHCS, which amounts shall be applied by the Lender to amounts owed to the Lender under this Agreement and the Note until all such amounts paid in full. Upon written notice by the Borrower to the Lender of the occurrence and continuance of an Event of Default (as defined in the Indenture) under the Indenture, the Lender shall transfer to the Trustee any Medi-Cal checkwrite payments received from DHCS in excess of the Lender's parity allocation for the portion of the Loans constituting Parity Debt for the benefit of the holders of outstanding Bonds and other Parity Debt.

(g) Acceptance by the Lender or holder of the Note of any installment after any Event of Default has occurred under this Agreement shall not operate to extend the time of payment of any amount then remaining unpaid or constitute a waiver of any of the other rights of the Lender or holder under the Note or this Agreement.

8. Miscellaneous.

(a) (i) Borrower hereby irrevocably and unconditionally agrees, to the fullest extent permitted by law, to defend, indemnify and hold harmless the Lender, the Department, the

State Treasurer and their members, officers, directors, trustees, employees and agents (each, an “Indemnified Party”), from and against any and all Indemnifiable Losses arising out of, resulting from or in any way connected with any act or omission of Borrower, its members, officers, directors, trustees, employees or agents, in applying for or accepting the Loan, carrying out of any of the transactions or undertakings contemplated by the Loan Documents, expending or applying the funds furnished pursuant to this Agreement or any breach by Borrower of any covenant or undertaking under this Agreement or the Note. This section shall survive the termination of this Agreement.

(ii) The Lender agrees to notify Borrower promptly, but in no event later than twenty (20) business days, after written notice to the Lender that any third party has brought any action, suit or proceeding against an Indemnified Party that may result in an Indemnifiable Loss (a “Third Party Action”). Upon such notice or other notice from an Indemnified Party of a Third Party Action, Borrower shall assume the investigation and defense thereof, including the employment of counsel selected by the Indemnified Party and reasonably acceptable to Borrower (which may be the Attorney General of the State of California), and shall assume the payment of all Litigation Expenses related thereto, with full power to litigate, compromise or settle the same in its discretion; provided that the Indemnified Party shall have the right to review and approve or disapprove (in its sole and absolute discretion) any such compromise or settlement and the Indemnified Party has no liability with respect to any compromise or settlement of any Third Party Action effected without its written approval. Each Indemnified Party shall have the right to employ separate counsel in any Third Party Action and participate in the investigation and defense thereof, and Borrower shall pay the reasonable fees and disbursements of such separate counsel. If the Indemnified Party fails to provide such notice to Borrower, Borrower is still obligated to indemnify the Indemnified Party for Indemnifiable Losses, except that Borrower is not liable for any Litigation Expense the Indemnified Party incurs during the period in which the Indemnified Party failed to give such notice.

(iii) For purposes of this Section 8(a): “Indemnifiable Losses” means the aggregate of Losses and Litigation Expenses; “Losses” means any liability, loss, claim, settlement payment, cost and expense, interest, award, judgment, damages (other than punitive damages to the extent they may not, under law, be indemnified), diminution in value, fine, fee and penalty, and other charge, of every conceivable kind, character and nature whatsoever, contingent or otherwise, known or unknown, except Litigation Expenses and “Litigation Expenses” means any court filing fee, court cost, witness fee, and each other fee and cost of investigating and defending or asserting a claim, including, without limitation, in each case, attorneys’ fees, other professionals’ fees and disbursements.

(b) The terms of this Agreement may be revised or modified only with the written consent of both parties, and if necessary, with the approval of the Department and the Department of Finance under Health and Safety Code section 129384.

(c) The descriptive headings in this Agreement are inserted for convenience only and shall not be deemed to affect the meaning or construction of any of the provisions of this Agreement.

(d) Any provision of this Agreement that is illegal, invalid or unenforceable, shall be ineffective to the extent of such illegality, invalidity or unenforceability without rendering illegal, invalid or unenforceable the remaining provisions of this Agreement.

(e) This Agreement is intended by the parties to be the final expression of their agreement with respect to the terms included in this Agreement and may not be contradicted by evidence of any prior or contemporaneous agreement.

(f) This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all counterparts shall together constitute one and the same instrument.

(g) All notices given under this Agreement shall be in writing and shall be hand-delivered or mailed by registered or certified mail, postage prepaid and shall be sent to the parties' respective addresses first written above or any other address as a party may have specified in writing.

(h) Borrower waives the right to interpose any defense, set-off, or counterclaim of any nature or description to any action by the Lender in enforcing this Agreement or Note.

(i) The Lender and Borrower hereby agree that the laws of the State of California apply to this Agreement, including, without limitation, its validity, interpretation, construction, performance, and enforcement. Any party bringing a legal action or proceeding against any other party arising out of or relating to this Agreement shall bring the legal action or proceeding in the Sacramento County Superior Court, Sacramento, California, unless the Lender waives this requirement in writing. Each party agrees that the exclusive (subject to waiver as set forth herein) choice of forum set forth in this section does not prohibit the enforcement of any judgment obtained in that forum or any other appropriate forum. Each party waives, to the fullest extent permitted by law, (a) any objection which it may now or later have to the laying of venue of any legal action or proceeding arising out of or relating to this Agreement brought in the Sacramento County Superior Court, Sacramento, California, and (b) any claim that any such action or proceeding brought in such court has been brought in an inconvenient forum.

IN WITNESS WHEREOF, the parties to this Agreement have caused this Agreement to be executed and delivered as of the date of the execution of this Agreement by the Authority.

LENDER: **CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**, a public instrumentality of the State of California

By: _____

Name: **Carolyn Aboubechara**

Title: **Executive Director**

Date:

BORROWER: **San Geronio Memorial Healthcare District,**
a California public hospital

By:

(Authorized Officer)

Name:

Shannon McDougall

Title:

District Board Chair

EXHIBIT A - MEDI-CAL INTERCEPT FORM

**AUTHORIZATION TO CALIFORNIA DEPARTMENT OF HEALTH CARE SERVICES
REDIRECTION OF MEDI-CAL WARRANTS TO
CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**

1. NAME OF BORROWER (MEDI-CAL PROVIDER)		2. MEDI-CAL PROVIDER NUMBER	
San Gorgonio Memorial Healthcare District			
3. MAIN CONTACT PERSON NAME		4. TELEPHONE NUMBER	
5. ADDRESS CITY STATE ZIP			
600 North Highland Springs Avenue, Banning, California 92220			
6. LOAN AMOUNT NOT TO EXCEED			
Nine Million Eight Hundred Thousand Dollars and No Cents (\$9,800,000.00)			

Pursuant to Health and Safety Code section 129384, subdivision (b), and the terms and conditions of that certain Loan and Security Agreement by and between San Gorgonio Memorial Healthcare District, as Borrower, and the California Health Facilities Financing Authority (“CHFFA”), as Lender (the “Loan Agreement”), Borrower has authorized the intercept of twenty percent (20%) of the Medi-Cal checkwrite payments with respect to reimbursements due to Borrower from the Department of Health Care Services (“DHCS”), by CHFFA in an Event of Default, as defined in the Loan Agreement, until the loan has been paid in full.

This assignment shall be effective until CHFFA, in its sole discretion, has notified DHCS that the loan has been paid in full, whereupon the right to full future reimbursements shall revert to Borrower.

Borrower receives Medi-Cal reimbursement via (check appropriate box):

- Paper warrants
- Electronic funds transfer (EFT)

If an EFT recipient, Borrower acknowledges and agrees to the following requirements:

Borrower shall complete an EFT Cancellation Form (attached as **Exhibit B** to the Loan Agreement), which shall be submitted to CHFFA along with the Medi-Cal Intercept Form. Please note that the EFT Cancellation Form must be notarized.

Borrower acknowledges that after DHCS receives notice from CHFFA that Borrower’s loan is paid in full, the Medi-Cal reimbursement to Borrower will be by paper warrants until such time as Borrower reapplies for EFT and that application is effective.

Borrower assumes the responsibility of updating its address on file with DHCS and CHFFA, submitting to DHCS any necessary address correction using the Medi-Cal Supplemental Changes form (Form 6209) and submitting to CHFFA an updated Medi-Cal Intercept Form and an updated and notarized EFT Cancellation Form.

BORROWER: San Gorgonio Memorial Healthcare District, a public hospital

By: _____
(Authorized Officer)

Name: **Shannon McDougall**

Title: **District Board Chair**

EXHIBIT B – EFT CANCELLATION FORM

EXHIBIT C - LOAN FUNDS DISBURSEMENT REQUEST

**REQUEST FOR DISBURSEMENT OF LOAN FUNDS UNDER THE DISTRESSED
HOSPITAL LOAN PROGRAM**

Borrower, San Gorgonio Memorial Healthcare District, requests from CHFFA the disbursement of Loan funds in the amount of \$ _____ (the “Requested Advance”) pursuant to the Loan and Security Agreement between CHFFA and Borrower (the “Loan Agreement”), and confirms and certifies the following:

1. Date of Advance: _____

2. Intended Use of Proceeds:

3. The representations and warranties contained in Section 4 of the Loan Agreement are true and correct in all respects as of the date of this request and will be true and correct as of the Date of Advance as though made on such date, except to the extent any such representation or warranty relates to a specific date, in which case, such representation or warranty will be true and correct in all respects as of such date as though made on such date;

4. No Event of Default or event that, if it continues uncured, will, with passage of time or notice or both, be an Event of Default, has occurred and is continuing or will result from the making of the Requested Advance; and

5. The Requested Advance will be used only for the purposes set forth above. Under no circumstances shall any proceeds of any Loan be used for any purpose other than the above-described purposes.

Borrower requests Loan funds to be disbursed via:

Bank wire Paper warrant

For bank wire: Loan funds shall be directed to the following account:

Bank Routing No.: _____
Bank Account No.: _____
Bank Name: _____
Beneficiary Name: _____
Type of Bank Account: Checking/Savings/Other

For paper warrant: Loan funds shall be mailed or delivered to the following address:

Attention: _____

IN WITNESS WHEREOF, Borrower has caused this Loan Funds Disbursement Request to be executed and delivered by its duly authorized officer, as of the date listed below.

BORROWER:

San Geronio Memorial Healthcare District

By: _____

Date: _____

Shannon McDougall
District Board Chair

EXHIBIT D – NOTE

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
DISTRESSED HOSPITAL LOAN PROGRAM

PROMISSORY NOTE

This Promissory Note is dated as of the Effective Date of the Hereinafter Defined Loan Agreement

San Gorgonio Memorial Healthcare District, a California **public hospital**, as defined under Government Code section 129381, having its principal place of business at **600 North Highland Springs Avenue, Banning, California 92220** (the “Borrower”), for value received, hereby promises to pay to CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY, a public instrumentality of the State of California (the “Lender”) and its successors and assigns (the Lender and its successors and assigns, the “Holder”), at its office located at 901 P Street, Suite 313, Sacramento, California 95814, or at such other place as the Holder may from time to time designate in writing, in lawful money of the United States of America, the principal sum of **Nine Million Eight Hundred Thousand Dollars and No Cents (\$9,800,000.00)** (or such lesser amount as shall equal the aggregate unpaid principal amount of the Loans made by the Lender to Borrower under and as described in the Loan Agreement described below).

This Note is the Note referred to in, is executed and delivered under, and is subject to the terms of, the Loan and Security Agreement of even date herewith (as amended, restated, amended and restated, joined, supplemented or otherwise modified from time to time, the “Loan Agreement”) by and between the Borrower and the Lender. Capitalized terms used, but not defined, in this Note have the meanings given them in the Loan Agreement.

The Borrower agrees to repay the outstanding Loans in equal monthly installments commencing the first day of the nineteenth month from the Effective Date of the Loan and Security Agreement until payment of such principal sum shall be discharged and in no event later than the Maturity Date, as more particularly provided for in the Loan Agreement.

The Borrower shall be in default of this Note on the occurrence of any Event of Default. Upon default of this Note, the Holder may exercise all of its rights and remedies provided for under the Loan Agreement. The Holder may also use all remedies in law and in equity to enforce and collect the amount owed under this Note. The remedies of the Holder, as provided in the Loan Agreement, shall be cumulative and concurrent and may be pursued singularly, successively or together, at the sole discretion of the Holder, and may be exercised as often as occasion therefor shall arise. No act of omission or commission of the Holder, including specifically any failure to exercise any right, remedy or recourse shall be deemed to be a waiver or release of the same, such waiver or release to be effected only through a written document executed by the Holder and then only to the extent specifically recited therein. A waiver or release with reference to any one event shall not be construed as continuing, as a bar to, or as a waiver or release of, any subsequent right, remedy or recourse as to a subsequent event.

Borrower hereby waives presentment and demand for payment, notice of intent to accelerate maturity, notice of acceleration and maturity, protest or notice of protest and non-payment, bringing of suit and diligence in taking any action to collect any sums owing hereunder, and agrees that its liability on this Note shall not be affected by any release of or change in any security for the payment of this Note.

Borrower shall have the right to prepay this Note in whole or in part at any time without penalty or premium.

Any provision of this Note or corresponding Loan Agreement that is illegal, invalid, or unenforceable shall be ineffective only to the extent of that illegality, invalidity, or unenforceability without rendering illegal, invalid, or unenforceable the remaining provisions of this Note.

Borrower agrees that the laws of the State of California apply to this Note. Any legal action or proceedings brought to enforce or interpret the terms of this Note shall be initiated and maintained in the courts of the State of California in Sacramento County, provided that the Holder may waive venue in Sacramento County in its sole discretion.

San Geronio Memorial Healthcare District
a California **public hospital**

By: _____
(Authorized Officer)

Name: **Shannon McDougall**

Title: **District Board Chair**

EXHIBIT E – APPLICATION