

**MASTER AGREEMENT**

**by and between**

**PENINSULA HEALTHCARE DISTRICT,**

**a political subdivision of the**

**State of California**

**and**

**MILLS-PENINSULA HEALTH SERVICES,**

**a California nonprofit public benefit corporation**

**MASTER AGREEMENT**

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**MASTER AGREEMENT**

This Master Agreement ("**Agreement**"), which the parties executed on \_\_\_\_\_, 2005, and the Effective Date of which shall be determined as set forth in Section 4.01, below, is entered into by and between Peninsula Healthcare District, a political subdivision of the State of California (the "**District**"), and Mills-Peninsula Health Services, a California nonprofit public benefit corporation ("**MPHS**").

**Recitals**

A. The District is the owner of certain real property located in the County of San Mateo, City of Burlingame, State of California, commonly known as the Peninsula Medical Center site ("**Existing Hospital Site**"), and a general acute care hospital located on the Existing Hospital Site at 1783 El Camino Real, Burlingame, California 94010, commonly known as Peninsula Medical Center ("**Existing Hospital**").

B. In 1985, the District owned and operated Peninsula Hospital and Medical Center (known today as Peninsula Medical Center), and a predecessor of MPHS owned and operated Mills Hospital. Both hospitals were general acute care hospitals serving the residents of the District. The two parties sought to provide improved hospital services to residents of the District and greater efficiencies by merging the operations of the two hospitals (the "**1985 Transaction**").

C. To effect the 1985 Transaction, the District leased the Existing Hospital Site and the Existing Hospital to MPHS pursuant to an Amended and Restated Lease Agreement between the District and MPHS dated as of January 25, 1985 (the "**Existing Lease**"), under which MPHS leases and operates the Existing Hospital.

D. To further effect the 1985 Transaction, the District donated to a predecessor corporation related to MPHS (which later donated to MPHS) the District's interest in the following properties located in the City of Burlingame ("**City**"), California:

- (1) 1515 Trousdale Drive (donated land only),
- (2) 1791 El Camino Real (commonly known as the Blood Bank and Front Lawn) ("**Front Lawn**");
- (3) 1730 Marco Polo Way (including access easement) ("**Marco Polo**");
- (4) 1811 Trousdale Drive;
- (5) 1600 Trousdale Drive (donated land only subject to an assignment of ground lease, as landlord, and lease of premises, as tenant);
- (6) 1848-1850 El Camino Real;
- (7) 1720 El Camino Real (donated 50% interest only) (the "**1720 Property**");

and

(8) Davis Drive driveway access (the "**Davis Drive Driveway**").

E. The Existing Lease from the District to MPHS of the Existing Hospital Site and the Existing Hospital will expire on January 31, 2015, at which time the Existing Hospital, the Front Lawn and Marco Polo parcels will revert to full fee ownership and control by the District.

F. In 1996, MPHS affiliated with Sutter Health, a California nonprofit public benefit corporation and sole corporate member of MPHS ("**Sutter Health**"). As a condition precedent to this affiliation, the District board of directors approved of the terms of the affiliation as it related to MPHS, including but not limited to MPHS' entry into Sutter Health's obligated group ("**Sutter Health Obligated Group**") for financing purposes. As a Sutter Health affiliate, MPHS is part of an integrated delivery system and subject to system-wide financial and other policies.

G. On June 20, 1997, the District filed legal action against MPHS in San Mateo County Superior Court (*Peninsula Health Care District v. Peninsula Health Services, et al.*) (the "**Litigation**") to void the District's approval of the Existing Lease, the donation of the District's properties, and related agreements alleging conflict of interest violations by certain members of the board of directors of the District in office at the time the District entered into the Existing Lease.

H. The State of California adopted strict seismic standards for acute care hospitals under Senate Bill 1953, which are codified in California Health and Safety Code Sections 130000 through 130070 et seq., and Section 18938 (the "**Seismic Standards**"). The Existing Hospital will need substantial modification to comply with the Seismic Standards. Under current law, if the Existing Hospital fails to achieve compliance with the Seismic Standards by January 1, 2013, the Existing Hospital must cease operations as a general acute care hospital on that date. Based on independent engineering studies, both the District and MPHS have concluded that compliance with these Seismic Standards is more efficiently and economically achieved by construction of a new facility rather than substantial reconstruction of the Existing Hospital.

I. The Litigation and the adoption of the Seismic Standards have prompted MPHS and the District to consider a new relationship (which is referred to herein generally as the "**Restructured Relationship**"). The Restructured Relationship contemplated between the District and MPHS centers on a long-term ground lease of District real property upon which MPHS would develop a new state-of-the-art medical center and related improvements.

J. The District has concluded that the merger of the Existing Hospital and Mills Hospital and the subsequent realignment of operations have been of substantial benefit to the healthcare needs of its community and the District desires to preserve this achievement. The District also believes that MPHS has been a successful and beneficial operator of the Existing Hospital and has embarked on several years of negotiations out of a desire to retain MPHS as the operator of a new full service acute care hospital campus designed to meet the long-term healthcare needs of the community.

K. Since the 1985 Transaction, MPHS and its predecessors have expanded the scope and quality of the hospital services provided to the residents of the District, made significant

capital updates and improvements to both the Existing Hospital and Mills Hospital, consolidated all general acute care services at the Existing Hospital and established Mills Hospital as a facility which provides rehabilitation and outpatient services, all while maintaining economic balance at a time when other hospitals owned or leased by healthcare districts were economically failing.

L. Both the District and MPHS have expended substantial time and resources independently studying the strategic and land use options available to the community for construction and operation of a new medical facility. The parties also have spent considerable time and effort negotiating the major terms and conditions of a proposed Restructured Relationship. As a result of such negotiations, the District and MPHS have approved and entered into the letter of intent and attached term sheet (collectively, the "**LOI**") dated December 15, 2004, a copy of which is attached to the Pre-Closing Agreement (as defined below in Recital P). The LOI outlines the major terms and conditions of the proposed Restructured Relationship between the parties.

M. The proposed Restructured Relationship centers on MPHS' development, construction, and operation of a new general acute care hospital (the "**New Facility**"), and appurtenant parking facility and parking areas, a medical office building, helipad and other related improvements and landscaping (the "**Related Improvements**"). The New Facility and the Related Improvements may be collectively referred to herein as the "**Improvements**." MPHS would construct the Improvements upon roughly 21 acres of District-owned land, consisting of all of 1811 Trousdale Drive, 1515 Trousdale Drive, (as these parcels shall be modified by a lot line adjustment with the owner of 1609 Trousdale Drive (the "**Magnolia Lot Line Adjustment**") and the Front Lawn, and a portion of the Existing Hospital Site (collectively, the "**New Facility Site**"), as shown on **Exhibit A**, which MPHS would lease from the District. The District would retain ownership and control over the remaining portion of the Existing Hospital Site, the Marco Polo parcel and the Davis Drive Driveway after MPHS' completion of demolition of the Existing Hospital. MPHS will be responsible for demolishing the Existing Hospital at its own costs and expense.

N. MPHS, with input from the District, has engaged in a land-planning and entitlement process consistent with the site plan (the "**Site Plan**") for the proposed Improvements, attached hereto as **Exhibit B**. MPHS has also caused the project architect, Anshen + Allen ("**AA**"), to produce a set of plans for the Improvements, sheets A0.01 through PS7, date-stamped September 10, 2004, which the City has approved in Condition No. 1 to the approved Conditional Use Permit (as defined in Section 3.01A). These plans may be amended from time to time (the "**AA Plans**"). MPHS has applied for, is pursuing, or has obtained approvals by the City and other governmental agencies with jurisdiction over the project of various entitlements for the construction of the Improvements, including certification of a Final Environmental Impact Report ("**EIR**"), a copy of which is attached to the LOI, approval of the Conditional Use Permit and Design Review for the Improvements, which the City approved via Resolution 105-2004, on November 15, 2004 (the "**Conditional Use Permit**"), design review, and interim zoning actions, all by City of Burlingame Council Resolution 105-2004, adopted on November 15, 2004, and Ordinance number 1747, and has applied for a phased tentative parcel map (the "**Phased TM**"). The Phased TM provides for, as Phase 1, the merger of 1515 Trousdale Drive (as modified by the Magnolia Lot Line Adjustment) and the Front Lawn into a single parcel (the "**Merged Front Parcel**"), as shown on the Phase 1 Map attached as **Exhibit C**

