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**MANAGEMENT’S PROPOSED FINDINGS OF FACT RELATED TO
CHRISTUS SPOHN’S PROPOSED MATERIAL ALTERATION**

The following proposed findings of fact prepared by management of the Nueces County Hospital District (“District”) relate to CHRISTUS Spohn Health System Corporation (“Spohn”)’s proposed material alteration of certain property located at 2606 Hospital Boulevard, Corpus Christi, Texas owned by the District. The proposed material alteration would be proposed by Spohn pursuant to Schedule 1 of the Membership Agreement between Spohn and the District (“Proposed Material Alteration”) to (i) construct a new state-of-the-art hospital-based outpatient ambulatory health center to be known as the Hector P. Garcia Family Health Center (“Health Center”) on the existing Memorial Medical Center campus (“MMC Campus”) owned by the District, and (ii) subsequently demolish the existing hospital facility located on the MMC Campus known as CHRISTUS Spohn Hospital Corpus Christi – Memorial (“Memorial”):

1. Findings of Fact Related to the Purpose for the Proposed Material Alteration

- The existing Memorial hospital facility is more than 50-years in age and major structural and operational components are beyond their estimated useful life.
- Spohn’s consultants have determined that:
 - (i) eighty percent (80%) of major structural components of the existing Memorial hospital facility are beyond their estimated useful life and may require replacement at any time, and that the estimated cost to mitigate the critical components at the existing Memorial hospital facility is \$200 million;
 - (ii) the estimated cost to replace the existing Memorial hospital facility is \$400 million;
 - (iii) in consideration of a number of options, construction of the Health Center and consolidation of the existing Memorial hospital facility’s inpatient and outpatient operations into CHRISTUS Spohn Hospital Corpus Christi – Shoreline (“Shoreline”) and CHRISTUS Spohn Corpus – South (“South”) is the most operationally and economically feasible option available to Spohn to address the aging existing Memorial hospital facility; and
 - (iv) construction of the Health Center on the MMC Campus would enable Spohn to adapt to changes resulting from the Affordable Care Act, health insurance exchanges, electronic health record regulations, and general business considerations by, among other things, transition from hospital inpatient to hospital outpatient/ambulatory facilities with a focus on disease prevention, care and control of chronic conditions, and improvement in community health status, while ensuring that Nueces County Aid beneficiaries continue to have convenient and full access to

inpatient and hospital outpatient health care services at Spohn facilities in Nueces County.

- Management has determined that:
 - (i) the estimated total debt obligation to fund \$200 million over 25 years would be \$342.2 million and the related annual debt service would be \$13.7 million; and
 - (ii) the estimated total debt obligation to fund \$400 million over 25 years would be \$684 million and the related annual debt service would be \$27.4 million.

2. **Findings of Fact Related to Spohn’s Commitments to the District and the Nueces County Community Pertaining to the Proposed Material Alteration**

Spohn has made a number of commitments to the District in consideration of the District consenting to the Proposed Material Alteration including, without limitation, the following:

- Spohn will continue to provide comprehensive health care services to Nueces Aid Program beneficiaries at Spohn facilities, including Shoreline and South, at current levels without charge to the District pursuant to the Membership Agreement or a standby Indigent Care Agreement through at least 2036;
- Prior to the demolition of the existing Memorial hospital facility, Spohn will take steps necessary to alleviate current and future emergency room issues at Shoreline to the satisfaction of the District;
- Spohn will continue to provide trauma services in an accredited Level II Trauma Center to the Nueces County community at the existing Memorial hospital facility prior to its demolition and at Shoreline following the demolition of the existing Memorial hospital facility;
- Spohn will maintain the family medicine and emergency medicine graduate medical education programs until at least 2036 at levels no less than those that currently exist at Memorial;
- Spohn will continue to provide or arrange for psychiatric services and inpatient and outpatient inmate care at current levels through at least 2036;
- Spohn will, at its sole cost and expense, build, and equip the new state-of-the-art Health Center on the MMC Campus which shall become the property of the District following the termination of the Membership Agreement, Lease Agreement, or proposed Ground Lease between the parties;

- Subsequent to the construction of the Health Center on the Memorial campus, Spohn will, at its sole cost and expense, demolish the existing Memorial hospital facility and dispose of all debris;
- Spohn will collaborate with the District in ensuring that, following the demolition of the existing Memorial hospital facility, the land occupying the existing Memorial hospital facility site will be put to a use that is beneficial to the Nueces County community; and
- Spohn will make administrative office space available to the District without charge in the new Health Center facility.

3. Findings of Fact Related to Additional Considerations Pertaining to the Proposed Material Alteration

In addition to the above commitments by Spohn, the District has determined that the Proposed Material Alteration would afford the following additional benefits to the District and the Nueces County community:

- The District would avoid future costs for: (i) demolishing the existing Memorial hospital facility, and (ii) buying out equipment from Spohn in accordance with the agreements between the District and Spohn;
- Spohn would continue to make capital expenditures for land and improvements owned by the District in accordance with the agreements between the District and Spohn; and
- The District would continue to receive lease payments from Spohn following termination of the Membership Agreement through 2026 and thereafter pursuant to a proposed Ground Lease until 2036.

The District's management continues to gather additional facts and information related to Spohn's Proposed Material Alteration. The District's management will carefully evaluate any such additional facts and information and will supplement these proposed findings of fact as this process progresses.