



**NUECES COUNTY HOSPITAL DISTRICT**  
**Administrative Offices**

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**BOARD OF MANAGERS RESOLUTION**  
**SEPTEMBER 10, 2014**

**A RESOLUTION APPROVING LETTER OF INTENT BETWEEN  
NUECES COUNTY HOSPITAL DISTRICT AND CHRISTUS SPOHN HEALTH SYSTEM  
CORPORATION APPLICABLE TO HOSPITAL DISTRICT-OWNED HOSPITAL REAL  
PROPERTY LOCATED AT 2606 HOSPITAL BOULEVARD, CORPUS CHRISTI, TEXAS**

**WHEREAS**, the Nueces County Hospital District (the “Hospital District” or “District”) is a body politic and corporate and a political subdivision of the State of Texas, established and created pursuant to the Texas Constitution, Article IX, Section 4 and the Texas Health and Safety Code (the “Health Code”), Chapter 281, and operated in accordance with the Health Code and other applicable laws of the State of Texas;

**WHEREAS**, the Hospital District’s Board of Managers (the “Board”) have been duly appointed pursuant to Health Code, §281.021(a); pursuant to collective authorities of Health Code, §281.047 and §281.048, the Board is the Hospital District’s governing body and the Board has, and at the time of adoption of this Resolution had, full power and authority to manage, control, administer, and to adopt rules governing operation of the District;

**WHEREAS**, the Board, pursuant to Health Code, §285.051, has, and at the time of adoption of this Resolution had, full power and authority to order the closing of a hospital owned by the Hospital District upon a finding that such closing is in the best interest of the residents of the District;

**WHEREAS**, the Board, with the approval of the Nueces County Commissioners Court (“Commissioners Court”), has the authority to construct, condemn, acquire, lease, add to, maintain, operate, develop, regulate, sell, exchange, and convey any property, property right, equipment, hospital facility, or system to maintain a hospital, building, or other facility or to provide a service required by the Hospital District, pursuant to Health Code, §281.050;

**WHEREAS**, the Board, with the approval of Commissioners Court, has the authority to contract or cooperate with a private owned or operated hospital to provide a service required by the Hospital District, pursuant to Health Code, §281.051;

**WHEREAS**, the Hospital District owns a hospital facility known as Christus Spohn Hospital Corpus Christi-Memorial (formerly known as Memorial Medical Center) located at 2606 Hospital Boulevard, Corpus Christi, Texas (the “Memorial Facility”) and the tract of land on which the Memorial Facility is located (“Memorial Campus”) (the Memorial Facility and the Memorial Campus are collectively referred to herein as the “Memorial Property”);

**WHEREAS**, in 1996, the Board, with the approval of Commissioners Court, and pursuant to Health Code, §281.050 and §281.051, leased the Memorial Property (the “Lease”) to Christus Spohn Health System Corporation (formerly, Spohn Health System Corporation) (“Christus Spohn”); the Lease includes the Memorial Facility; and under the Lease, Christus Spohn is the sole operator of the Memorial Facility;

**WHEREAS**, effective October 1, 2012, the Hospital District and Christus Health became parties to a certain Christus Spohn Health System Corporation Membership Agreement (the “Membership Agreement”) and Schedule 1, Section 3.8.6 of the Membership Agreement provides that Christus Spohn may deliver to the District notice of Christus Spohn’s proposed material alterations to the Memorial Property and related consent request (the “Material Alterations Notice”);

**WHEREAS**, the Hospital District received a Material Alterations Notice from Christus Spohn on or about September 9, 2014 which includes, but is not limited to, the proposed construction by Christus Spohn of a minimum 40,000 building gross square foot ambulatory health center on the Memorial Campus (“Health Center”) and then, subject to the Board’s resolution ordering the closure of the Memorial Facility and subject to applicable law, demolition of the Memorial Facility;

**WHEREAS**, in connection with the Material Alterations Notice, the Hospital District received a proposed Letter of Intent from Christus Spohn (the “Christus Spohn Letter of Intent”) wherein Christus Spohn intends, among other things, to: (i) construct the Health Center to provide comprehensive outpatient medical care on the Memorial Campus; (ii) relocate the inpatient beds and Level II trauma center from the Memorial Facility to the Christus Spohn Shoreline hospital facility; and (iii) then, subject to the Board’s resolution ordering the closure of the Memorial Facility and subject to applicable law, demolish the Memorial Facility;

**WHEREAS**, an independent appraisal of the Memorial Property obtained by the Hospital District estimated that the Memorial Facility has about 10 years of remaining economic life;

**WHEREAS**, the Hospital District engaged an independent engineering review of earlier hospital facility condition analyses obtained by Christus Spohn on the Memorial Facility and the District's independent review found that: (i) Christus Spohn's analyses estimating that 80% of the hospital facility's infrastructure (i.e., electrical, plumbing, and heating, ventilation, and air conditioning systems) were beyond their useful life; (ii) refurbishment of the Memorial Facility would cost \$191 million, of which 80% of that amount would go toward replacing items which have exceeded their useful life; (iii) the industry standard is that facility replacement is favored over refurbishment when more than 40-45% of the facility infrastructure's useful life is exceeded; and (iv) the estimated cost of \$400 million for replacement of a 200-bed hospital today are not unreasonable;

**WHEREAS**, the projected total debt service cost on a \$400 million debt issue by the Hospital District for replacement of a 200-bed hospital amounts to \$683,983,243 (interest amounts to \$283,983,243) over 25 years (the "Total Debt Service Cost");

**WHEREAS**, because the Board does not presently consider incurrence of the Total Debt Service Cost to be in the best interest of, nor financially desirable for, the residents of Hospital District, the Board does not presently intend to seek through Commissioners Court any form of debt to fund the Total Debt Service Cost for the refurbishment or replacement of the Memorial Facility;

**WHEREAS**, the Board desires to memorialize certain Findings of Fact relating to the Memorial Property, proposed Material Alterations Notice, and proposed Christus Spohn Letter of Intent; and

**WHEREAS**, in consideration of the Findings of Fact, terms and conditions contained in the proposed Christus Spohn Letter of Intent, and the projected Total Debt Service Cost, the Board believes that, subject to the approval by Commissioners Court, it would be in the best interests of the residents of the Hospital District for the Board to approve the proposed Christus Spohn Letter of Intent and consent to Christus Spohn's Material Alterations Notice.

**NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF MANAGERS OF THE NUECES COUNTY HOSPITAL DISTRICT, THAT:**

1. The Board adopts the following Findings of Fact prepared by Hospital District management relating to replacement of the Memorial Facility and related matters:

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

- The existing Memorial Facility is more than 50-years in age and major structural and operational components are beyond their estimated useful life.
- Christus Spohn’s consultants have determined that:
  - (i) 80% of major structural components of the existing Memorial 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 Facility is \$200 million;
  - (ii) the estimated cost to replace the existing Memorial Facility is \$400 million;
  - (iii) in consideration of a number of options, construction of the Health Center and consolidation of the existing Memorial 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 Christus Spohn to address the aging existing Memorial Facility; and
  - (iv) construction of the Health Center on the Memorial Campus would enable Christus 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 Christus Spohn facilities in Nueces County.

- Hospital District management has determined that:
  - (i) the estimated Total Debt Service Cost to fund the estimated \$200 million cost to refurbish the Memorial Facility 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 Service Cost to fund the estimated \$400 million cost to construct a replacement facility for the Memorial Facility over 25 years would be \$684 million and the related annual debt service would be \$27.4 million.

**B. Findings of Fact Related to Christus Spohn’s Commitments to the Hospital District and the Hospital District Residents Pertaining to the Proposed Material Alteration**

As further described in the Christus Spohn Letter of Intent, Christus Spohn has made a number of commitments to the Hospital District in consideration of the District consenting to the proposed Material Alterations Notice including, without limitation, the following:

- Christus Spohn will continue to provide comprehensive health care services to Nueces Aid Program beneficiaries at Christus Spohn facilities, including Shoreline and South, at current levels without charge to the Hospital District pursuant to the Membership Agreement or the suspended Revised and Restated Indigent Care Agreement (“Indigent Care Agreement”) through at least 2036 and potentially through 2056;
- Christus Spohn will not cease operations at or demolish the Memorial Facility until it has completed the construction to the Shoreline emergency department and trauma center, ensuring that the Hospital District residents will have constant access to an emergency department equipped to provide Level II trauma services;
- Christus Spohn will ensure that the initial refurbishment and enhancement of Shoreline’s emergency department will target the construction or renovation of 39 emergency department treatment beds or emergency department beds, subject to no less than a 10% variance, following Spohn’s architectural patient flow assessment and related design considerations;
- Christus Spohn will monitor community needs and consider several factors as part of its redesign of the Shoreline emergency department, including the growing population in Nueces County, the increased number of freestanding emergency departments serving the Hospital District residents, the increasing availability of primary care in the Hospital

District residents, and other factors that may impact patients served by Christus Spohn's Shoreline emergency department;

- Christus Spohn will maintain at least two graduate medical education programs and (i) maintain, support, and fill at least the number of resident slots needed to obtain Medicare payment at its current annual Medicare allowable full-time-equivalent graduate medical education cap; (ii) provide office space and a training center for the residents within the redesigned Shoreline campus, and (iii) ensure that resident training continues to occur at various care sites, in order to ensure a comprehensive training experience;
- Christus Spohn will ensure the appropriate availability of inpatient psychiatric and behavioral health services for Nueces Aid beneficiaries; provide access for law enforcement officers and others to bring Nueces County residents to its appropriate facilities; provide psychiatric assessment services and crisis stabilization, provide a commitment hearing location within or adjacent to its inpatient psychiatric facility; provide adequate availability of inpatient psychiatric beds for Nueces Aid Beneficiaries, patients under emergency detention warrant, and adult Behavioral Health Center of Nueces County patients; and continue its collaboration with Behavior Health Center of Nueces County for behavioral health services and resources, including inpatient services;
- Christus Spohn will, at its sole cost and expense, build, and equip the new state-of-the-art Health Center as a leasehold improvement on the Memorial Campus which shall be the property of the Hospital District;
- Subsequent to the construction of the Health Center as a leasehold improvement on the Memorial Campus, Christus Spohn will, subject to the Board's resolution ordering the closure of the Memorial Facility and subject to applicable law, at its sole cost and expense, demolish the existing Memorial Facility and dispose of all debris; and
- Following the demolition of the Memorial Facility, Christus Spohn will continue to maintain the "green space" at the Memorial Campus in at least the same condition as the other green space on the Memorial Campus.

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

In addition to the above commitments by Christus Spohn, the Hospital District has determined that the Board's approval of the Christus Spohn Letter of Intent would afford the following additional benefits to the District and the Hospital District residents:

- The Hospital District would avoid future costs for: (i) demolishing the existing Memorial Facility, and (ii) buying out equipment from Christus Spohn in accordance with the agreements between the District and Christus Spohn;
- The Hospital District's maximum annual payments under the suspended Indigent Care Agreement would be reduced to \$29 million per year;
- Christus Spohn would continue to make capital expenditures for the Memorial Campus, Health Center, and other improvements owned by the Hospital District in accordance with the agreements between the District and Christus Spohn although at phased-down amounts; and
- The Hospital District would continue to receive actual or imputed payments from Christus Spohn for the right of use or lease of the Memorial Property at the current lease rate through September 30, 2026 and thereafter at a rental rate of \$1 million through September 2036.

2. The Board finds that the closure of the Memorial Facility is in the best interest of the residents of the Hospital District and the Board intends to order the closure of the Memorial Facility under a separate Board resolution.

3. Subject to approval by Commissioners Court, the Board approves the Christus Spohn Letter of Intent attached hereto and identified as Exhibit "A" and authorizes the Hospital District's Administrator to consent to the Material Alterations Notice and execute the Christus Spohn Letter of Intent and any other related documents necessary to achieve the objectives of the Letter of Intent.

4. The Hospital District's Administrator shall be and is expressly authorized and directed to do and perform all acts, and to execute all instruments and other related documents, whether or not herein cited, as required to carry out the intent, terms, and provisions of this Resolution, such execution to be conclusively evidenced by the performance of such acts.

5. The Hospital District's Administrator, in his capacity as the Secretary of the Hospital District Board, be and is hereby legally authorized and empowered to perform all acts described above and certify these resolutions and that the provisions hereof are in conformance with the laws of the State of Texas and the Governing Board Bylaws of the Hospital District.

6. This Resolution shall take effect and be in full force and effect upon and after its passage.

7. The Board retains its right to amend or repeal this Resolution.

**NUECES COUNTY HOSPITAL DISTRICT  
BOARD OF MANAGERS**

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Van Huseman  
Chairman

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Claude C. Jennings, C.P.A.  
Vice Chairman

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Raymond F. Wetegrove  
Member

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Rodney J. Hart, P.E.  
Member

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Dan Winship  
Member

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Irma Caballero  
Member

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Robert N. Corrigan, Jr.  
Member



**CERTIFICATE OF SECRETARY**

THE STATE OF TEXAS                                §  
   §  
COUNTY OF NUECES                                §  
   §  
NUECES COUNTY HOSPITAL DISTRICT           §

THE UNDERSIGNED HEREBY CERTIFIES that:

1. The members of the Board of Managers (the "Board") of the Nueces County Hospital District (the "Hospital District") have been duly appointed pursuant to Texas Health and Safety Code (the "Health Code"), §281.021.

2. Pursuant to Health Code, §281.021(a), the Hospital District's Board of Managers (the "Board") have been duly appointed; pursuant to Health Code, §281.048, the Board is the governing body of the Hospital District; and pursuant to the collective authorities of Health Code, §281.047 and §281.048, the Board has, and the time of adoption of this Resolution had, full power and authority to manage, control, administer, and to adopt rules governing operation of the Hospital District.

3. On the 10<sup>th</sup> day of September, 2014 the Board convened in a special meeting at the Hospital District's regular meeting place (the "Meeting"), the duly constituted members and officers of the Board being as follows:

- Van Huseman, Chairman
- Claude C. Jennings, C.P.A., Vice Chairman
- Raymond F. Wetegrove
- Rodney J. Hart, P.E.
- Dan Winship
- Irma Caballero
- Robert N. Corrigan, Jr.

and all of said persons were present, except the following absentees:

\_\_\_\_\_ , \_\_\_\_\_  
and \_\_\_\_\_, thus constituting a quorum.

4. Among other business considered at the Meeting, the attached resolution entitled:

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PROPERTY LOCATED AT 2606 HOSPITAL BOULEVARD, CORPUS CHRISTI, TEXAS**

is a true copy of a resolution introduced and submitted to the Board for consideration toward passage and adoption (the "Resolution"). After presentation and discussion, it was then duly moved and seconded that the Resolution be passed and adopted. The motion to pass and adopt the Resolution prevailed and carried by the following viva voce vote:

YEAS: \_\_\_\_\_  
NAYS: \_\_\_\_\_  
PRESENT NOT VOTING: \_\_\_\_\_  
ABSENT: \_\_\_\_\_

all as shown in the official Minutes of the Board for the Meeting.

5. The attached Resolution is a true and correct copy of the original on file in the official records of the Hospital District; the duly qualified and acting members of the Board on the date of the Meeting are those persons shown above, and, according to the records of my office, each member of the Board was given actual notice of the time, place, and purpose of the Meeting and had actual notice that the Resolution would be considered; and the Meeting and deliberation of the aforesaid public business, was open to the public and written notice of said meeting, including the subject of the Resolution, was posted and given in advance thereof in compliance with the provisions of Chapter 551, Texas Government Code, as amended.

6. We the Board Secretary and General Counsel have been duly appointed by the Board.

7. The foregoing Resolution is in full force and effect; that the same has not been rescinded, nor has it been amended or modified in any way.

IN WITNESS WHEREOF, we have hereunto signed our names officially and affixed the seal of the Hospital District on this the 10<sup>th</sup> day of September, 2014.

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Jonny F. Hipp  
Secretary, Board of Managers

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Wm. DeWitt Alsup  
General Counsel



## **EXHIBIT "A"**

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September 10, 2014

Jonny F. Hipp, ScD, FACHE  
Administrator/Chief Executive Officer  
Nueces County Hospital District  
555 N. Carancahua St., Suite 950  
Corpus Christi, TX 78401-0835

Re: Letter of Intent Regarding Material Alteration Notice

Dear Mr. Hipp:

This binding Letter of Intent Regarding Material Alteration Notice ("Letter of Intent") sets forth the intentions expressed by CHRISTUS Spohn Health System Corporation ("Spohn") and the Nueces County Hospital District (the "District") to engage in a series of transactions designed to improve the provision of hospital and community-based care to residents in Nueces County, Texas, with particular regard to Nueces Aid Beneficiaries. Specifically, the terms outlined below will facilitate Spohn's commencement of a \$325 million capital project in Nueces County, Texas that will update, expand, and realign Spohn's healthcare delivery structure. The proposed transactions include:

- (1) the District's written approval of Spohn's Material Alteration Notice, which is hereby provided by the District, to construct a minimum 40,000 building gross square foot outpatient clinic as a leasehold improvement on the Memorial campus for the provision of comprehensive outpatient clinic care, the relocation of the inpatient beds and Level II Trauma Center from Memorial to the Spohn Shoreline hospital facility, and then, following the District's Board of Managers' approval of the closure of the Memorial hospital building and subject to Texas Health & Safety Code §§ 285.051 and 285.052, demolish the existing Memorial hospital building as a leasehold improvement on the land the District granted Spohn a right to access, use, and occupy (collectively, "Material Alteration");
- (2) amendments to the presently-effective CHRISTUS Spohn Health System Corporation Membership Agreement (the "Membership Agreement") including, without limitation, amendments to the provisions in the Membership Agreement governing the revenue sharing determination process and a Memorandum of Understanding ("MOU") between Spohn and the District incorporating the parties' new or revised rights and obligations pursuant to the Material Alteration;
- (3) amendments to the presently-suspended agreements between Spohn and the District to reflect the parties' new or revised rights and obligations in the event the Membership Agreement terminates, including the Master Agreement as amended ("Master Agreement"), the Lease Agreement as amended ("Lease"), and the Revised and Restated Indigent Care Agreement ("ICA");

- (4) amendments to Schedule 1 of the Membership Agreement and the suspended Lease to support Spohn's construction of the new Dr. Hector P. Garcia – Memorial Family Health Center as a leasehold improvement on the Memorial campus; and
- (5) a MOU setting out Spohn's commitments to the District regarding Spohn's refurbishment and expansion of Spohn's Shoreline hospital facility and Spohn's construction of the new Dr. Hector P. Garcia – Memorial Family Health Center.

Subject to due diligence and the preparation and execution of the District's written approval of the Material Alteration, which is hereby provided by the District, amendments to the Agreements listed above, as well as the MOU (the "Definitive Agreements"), following are the terms and provisions for the proposed transactions:

***I. Terms to be Added to or Revised in Schedule 2 of the Membership Agreement, the suspended Master Agreements and ICA, the MOU, and any other documents related to Spohn's provision of Indigent Care and Other Services to Nueces Aid Beneficiaries.***

- a. Spohn and the District will extend Spohn's current obligations to provide indigent care and other services under Schedule 2 of the Membership Agreement and the suspended ICA for an additional ten years (through 2036), with the option for Spohn to renew the ICA up to four five-year renewals (through 2056).
- b. The scope and level of services Spohn will make available to Nueces Aid Beneficiaries will remain consistent with Schedule 2 of the Membership Agreement and the suspended ICA.
- c. Nueces Aid Beneficiaries will continue to have the ability to access services in all facilities within Spohn's distributive network. Spohn's distributive network includes each of Spohn's hospitals (even those located outside of Nueces County), Spohn's family health centers, the new Dr. Hector P. Garcia – Memorial Family Health Center, Spohn's existing outpatient/ambulatory locations, and any new facilities Spohn may erect or lease for the purpose of providing healthcare to the community.
- d. Spohn will continue to provide inpatient hospital services and outpatient hospital services to the extent such outpatient hospital services are not covered as of December 1, 2013 in the jail infirmary contract to Nueces County jail inmates in Spohn's facilities located in Nueces County. To the extent the jail infirmary contract is subsequently terminated or significantly modified to reduce the level of services provided thereunder, then Spohn and the District agree to enter into negotiations for Spohn's potential provision of such jail infirmary services to jail inmates, for a reasonable fee.

- e. Spohn will ensure the appropriate availability of inpatient and outpatient psychiatric and behavioral health services for Nueces Aid Beneficiaries. Spohn is analyzing the most appropriate location for these services in conjunction with the Texas legislative initiative, House Bill 3793, 83<sup>rd</sup> Legislature, Regular Session, 2013 Plan for the Appropriate and Timely Provision of Mental Health Services, which directs the Department of State and Health Services to develop a plan to ensure the appropriate and timely provision of mental health services. The location of Spohn's inpatient and outpatient psychiatric and behavioral health services will be in Nueces County. Spohn will also ensure that inpatient psychiatric Nueces Aid Beneficiaries have access to medications upon discharge. In addition, Spohn will provide transportation services between Spohn's inpatient psychiatric facilities and Spohn's off-site service facilities for Nueces Aid Beneficiaries requiring psychiatric and/or medical services. Spohn will coordinate with law enforcement on the transportation by law enforcement authorities of jail inmates and persons in law enforcement custody.
- f. Spohn will maintain the availability of psychiatric and behavioral health services.
  - i. Spohn will provide access for law enforcement officers and others to bring Nueces County residents to its appropriate facilities.
  - ii. Spohn will continue to provide psychiatric assessment services and crisis stabilization.
  - iii. Spohn will provide a commitment hearing location within or adjacent to its inpatient psychiatric facility.
  - iv. Spohn will provide adequate availability of inpatient psychiatric beds for Nueces Aid Beneficiaries, patients under emergency detention warrant, and adult Behavior Health Center of Nueces County (formerly Nueces County MHMR) patients. Spohn will evaluate and, as appropriate, modify such number of inpatient psychiatric beds in the future based on patient demand and community need.
  - v. Spohn will continue its collaboration with Behavioral Health Center of Nueces County (formerly Nueces County MHMR) for behavioral health services and resources, including inpatient services.
- g. The suspended ICA shall be amended to provide that, starting on the earlier the termination of the Membership Agreement or September 30, 2026, the Maximum Annual Amount Spohn shall be reduced to \$29 million per year with no inflator, subject to the District's "maintenance of effort." In accordance with the suspended ICA, the suspended ICA shall likewise be amended to further reduce the Maximum Annual Amount in the event of the rollout of an expanded Texas Medicaid program comparable to that

contemplated by the Affordable Care Act that reduces the number of Nueces Aid Beneficiaries.

- h. Recognizing that the District does not set or otherwise control its tax rate, through the earlier of the termination of the Membership Agreement or September 30, 2026, the District will agree to a “maintenance of effort” commitment to request and diligently advocate for the establishment of an “effective” tax rate at a level to produce at least \$31.454 million per year in District tax revenues. The District’s continuing “maintenance of effort” commitment will be amended to reflect the reduced Nueces Aid Beneficiary enrollment and/or reduced Maximum Annual Amount and potential related reduction in effective tax rate expected after the earlier of (1) the termination of the Membership Agreement, (2) the rollout of an expanded Texas Medicaid program comparable to that contemplated by the Affordable Care Act, or (3) September 30, 2026.

***II. Terms to be Added to or Revised in Schedule 1 of the Membership Agreement, the suspended Lease and Master Agreements, and any other documents related to Spohn’s use and occupancy of the Memorial campus.***

- a. Spohn and the District will extend Spohn’s Lease obligation, presently \$6,253,865 per year to the District for an additional ten years (through September 2036), with the option for Spohn to extend the Lease for up to four five-year renewals (through 2056). The imputed lease value will remain \$6,253,865 per year during the term of the Membership Agreement until September 30, 2026. The lease rate under the suspended Lease will also remain \$6,253,865 per year until September 30, 2026. As described in Section II(b), the lease rate will be adjusted starting October 1, 2026.
- b. The lease amount will be adjusted to \$1 million beginning in October 2026.
- c. Due to Spohn’s demolition of the Memorial hospital building, the District will be relieved of its obligation to purchase the equipment in the facility at the end of the Lease term.
- d. Spohn’s current capital expenditure requirements of \$6 million per year on a rolling 3-year average will be phased down as follows:
  - i. Calendar Year 2014 – \$6 million capital expenditure requirement calculated on a three-year rolling average in accordance with Schedule 1 of the Membership Agreement, with potential deficit for such three-year rolling average added to Spohn’s capital expenditures obligation for calendar year 2015;
  - ii. Calendar Year 2015 – \$3 million capital expenditure requirement encompassing infrastructure and equipment expenditures for District-owned facilities (including green space at the Memorial campus) and

- the Dr. Hector P. Garcia – Memorial Family Health Center construction costs associated with the Dr. Hector P. Garcia – Memorial Family Health Center leasehold improvement calculated for the 12-month period comprising calendar year 2015, with potential deficit for such 12-month period added to Spohn’s capital expenditures obligation for calendar year 2016;
- iii. Calendar Year 2016 – \$2 million capital expenditure requirement encompassing infrastructure and equipment expenditures for District-owned facilities (including green space at the Memorial campus) and construction costs associated with the Dr. Hector P. Garcia – Memorial Family Health Center leasehold improvement calculated for the 12-month period comprising calendar year 2016, with potential deficit for such 12-month period added to Spohn’s capital expenditures obligation for calendar year 2017;
  - iv. Calendar Year 2017 and forward – \$600,000 expenditure requirement encompassing infrastructure, equipment, repairs, maintenance, and minor equipment expenditures for District-owned facilities (including green space at the Memorial campus) calculated on a three-year rolling average, with the potential deficit (including the potential deficits rolled over from Calendar Year 2014 through Calendar Year 2016) paid by Spohn to the District following reconciliation for calendar year 2017 and forward.
- e. Notwithstanding anything herein to the contrary, Spohn and the District agree that the difference between Spohn’s original capital expenditure requirement of \$6 million and Spohn’s phased down capital expenditure obligation for Calendar Years 2015 until the Calendar Year in which Spohn satisfactorily completes its commitments as set out in Sections II.e (i)-(iv) below (“Escrow Funds”) shall be held in escrow. The Escrow Funds shall be disbursed to Spohn based on the following schedule:
- i. Spohn shall be entitled to withdraw twenty-five percent (25%) of the Escrow Funds balance upon obtaining a certificate of occupancy for the Dr. Hector P. Garcia – Memorial Family Health Center and treating a Nueces Aid Beneficiary patient in that facility. In addition, Spohn will reduce its subsequent Escrow Funds deposits by twenty-five percent (25%) upon completion of this commitment.
  - ii. Spohn shall be entitled to withdraw twenty-five percent (25%) of the Escrow Funds balance upon completion of the Emergency Department renovations at the Shoreline hospital campus. In addition, Spohn will reduce its subsequent Escrow Funds deposits by twenty-five percent (25%) upon completion of this commitment.
  - iii. Spohn shall be entitled to withdraw twelve and a half percent (12.5%) of the Escrow Funds balance upon the Shoreline hospital campus



obtaining designation from the Texas Department of State Health Services as “in active pursuit” of Level II Trauma status. In addition, Spohn will reduce its subsequent Escrow Funds deposits by twelve and a half percent (12.5%) upon completion of this commitment. Spohn shall be entitled to withdraw an additional twelve and a half percent (12.5%) of the Escrow Funds balance upon the Shoreline hospital campus obtaining official designation from the Texas Department of State Health Services as a Level II Trauma facility. In addition, Spohn will reduce its subsequent Escrow Funds deposits by twelve and a half percent (12.5%) upon completion of this commitment.

- iv. Spohn shall be entitled to withdraw twelve and a half percent (12.5%) of the Escrow Funds balance upon completing the demolition of the Memorial hospital building. In addition, Spohn will reduce its subsequent Escrow Funds deposits by twelve and a half percent (12.5%) upon completion of this commitment. Spohn shall be entitled to withdraw an additional twelve and a half percent (12.5%) of the Escrow Funds balance upon the restoration of the resulting “green space” from the Memorial demolition to the standard Spohn currently provides on the existing “green space” encompassed by the suspended Lease agreement. In addition, Spohn will reduce its subsequent Escrow Funds deposits by an additional twelve and a half percent (12.5%) upon completion of this commitment.
- v. Any remaining Escrow Funds balance as of September 30, 2026 shall be disbursed to the District, and Spohn’s obligation to make Escrow Funds deposits will cease on that date.
- e. Spohn will continue to maintain the “green space” at Memorial, and will maintain the land at least in the same condition as the other green space on the Memorial campus.
- f. The District will own the new Dr. Hector P. Garcia – Memorial Family Health Center, which shall be constructed by Spohn as a leasehold improvement on the Memorial campus.
- g. The District will secure (as, applicable, at Spohn’s expense) either:
  - i. Baptist Foundation of Texas’ written affirmation that the new Dr. Hector P. Garcia – Memorial Health Center complies with the current restrictive covenant contained in the existing grant deed from Baptist Foundation of Texas;
  - ii. A written amendment to the Baptist Foundation of Texas’ grant deed expanding the restrictive covenant to allow the Memorial campus to be used for “hospital, healthcare, healthcare education, and/or related activities or purposes including, without limitation, an outpatient

primary care clinic or any other inpatient or outpatient/ambulatory facility or facilities used to provide healthcare or related services to the community;” or

- iii. a variance/written release from the Baptist Foundation of Texas regarding the restrictive covenant contained in the grant deed from Baptist Foundation of Texas to the District granting title to the real property free and clear of such restrictive covenant.

**III. *Terms to be included in the Schedule 1 of the Membership Agreement and the Suspended Lease.***

- a. Spohn will have the right to erect a new building as a leasehold improvement on the land encompassed by the amendments to Schedule 1 of the Membership Agreement and the suspended Lease and then, following the District’s Board of Managers’ authorization to close the Memorial hospital facility and subject to Texas Health & Safety Code §§ 285.051 and 285.052, to demolish the existing Memorial hospital facility on the Memorial campus.
- b. Spohn will pay for the new construction costs (i) to erect and equip a fully-operational Dr. Hector P. Garcia – Memorial Family Health Center as a leasehold improvement on the Memorial campus and, following the District’s Board of Managers’ authorization to close the Memorial hospital facility and subject to Texas Health & Safety Code §§ 285.051 and 285.052, (ii) to demolish the existing Memorial facility as a leasehold improvement on the Memorial campus.
- c. The new Dr. Hector P. Garcia – Memorial Family Health Center will belong to the District, ensuring that the community has a new, viable infrastructure for providing care to Nueces Aid Beneficiaries, regardless of Spohn’s continued presence.
- d. The lease amount will be adjusted to \$1 million beginning in October 2026.

**IV. *Terms to be Included in the Memorandum of Understanding between Spohn and the District regarding Spohn’s commitments related to the refurbishment and expansion of its Shoreline hospital facility and the construction of the new Dr. Hector P. Garcia – Memorial Family Health Center.***

- a. Spohn will continue to provide the current levels of inpatient and outpatient services necessary to meet the needs of the Nueces Aid Beneficiaries. Spohn will add approximately 196 new inpatient beds to Shoreline, which will result in a total of 406 staffed beds at Shoreline. In addition, Spohn’s expansion of Shoreline will include shelled space for future growth if needed.

- b. Spohn will maintain a Level II Trauma Services Center in Corpus Christi. Currently, the Memorial campus includes an Emergency Department (“ED”) and a Level II Trauma Center. Before ceasing operations at Memorial, the ED services and trauma services and program will transfer to Shoreline and enable Spohn to provide at least the same or enhanced level of ED services and Trauma Center services at Shoreline as currently exist at Shoreline and Memorial. The initial refurbishment and enhancement of Shoreline’s ED will target the construction or renovation of 39 ED treatment beds / ED beds, subject to no less than a 10% variance, following Spohn’s architectural patient flow assessment and related design considerations. Spohn will evaluate and, as appropriate, modify such number of ED treatment beds / ED beds in the future based on patient demand and community need.
  - i. Spohn will not cease operations at or demolish the Memorial hospital facility until it has completed the construction to the Shoreline ED / Trauma Center, ensuring that the community will have constant access to an ED equipped to provide Level II Trauma services.
  - ii. There may be a short period of time that Shoreline is designated as “in active pursuit” of Level II Trauma status, based on timing restrictions at the State and the American College of Surgeons. However, the “in active pursuit” designation means that Shoreline will be operating as a Trauma II center while official certification is pending. Spohn will not cease operations at or demolish Memorial until Shoreline has received, or is “in active pursuit” of, Level II Trauma status. Again, the level of trauma service will not be interrupted.
  - iii. As part of Spohn’s renovation of the Shoreline ED, Spohn will employ a more effective design for trauma services. The trauma surgeons and team will be an integral part of the design.
- c. Spohn will monitor community needs and consider several factors as part of its redesign of the Shoreline ED, including the growing population in the County, the increased number of freestanding EDs serving the community, the increasing availability of primary care in the community, and other factors that may impact patients served by Spohn’s Shoreline ED.
- d. Per hospital regulatory requirements, Spohn will at all times maintain disaster preparedness, leveraging resources within and outside of the Coastal Bend Region in case of a large-scale emergency, and enlisting emergency resources from other communities in the case of a catastrophic event. Spohn reviews its Emergency Preparedness Plans and conducts drills locally, regionally and at a state level to ensure systemic knowledge of the standard operating procedures during an emergency.
- e. Spohn will maintain at least two Graduate Medical Education (“GME”) programs.

- i. Spohn will maintain, support, and fill at least the number of residents slots needed to obtain Medicare payment at its current annual Medicare allowable full-time-equivalent (“FTE”) GME cap.
  - ii. Spohn will provide office space and a training center for the residents within the redesigned Shoreline campus.
  - iii. Resident training will continue to occur at various care sites, in order to ensure a comprehensive training experience.
- f. Spohn will provide adequate space within the new Dr. Hector P. Garcia – Memorial Family Health Center for District’s current level of enrollment counselors. The parties will evaluate the future need for such space for District enrollment counselors and, if appropriate, modify such space in the future, including potentially providing space within Shoreline for District enrollment counselors.
- g. The current clinic services at Memorial will continue to be available in the new minimum 40,000 building gross square-foot family health center to be named Dr. Hector P. Garcia – Memorial Family Health Center. These include the current and expanded services listed below:
  - i. extended Health Center hours to include operating 24 hours on Thursday, Friday and Saturday for non-scheduled visits. Spohn will evaluate and, as appropriate, modify such hours of operation in the future based on patient demand and community need, including potentially operating 24 hours in the Health Center on Sunday, Monday, Tuesday, and Wednesday;
  - ii. faculty and residency clinic focused on primary care services (family medicine);
  - iii. the specialty clinics, including: urology, cardiology, neurology, endocrinology, orthopedics, and post-trauma;
  - iv. clinic outpatient pharmacy services and medication counseling education;
  - v. X-ray and laboratory services;
  - vi. social services;
  - vii. community health / transition care workers to assist patients and families in navigating needed healthcare services;
  - viii. behavioral health counselors;
  - ix. wellness and prevention education for both patient and families including help with appropriate diet and lifestyle;
  - x. management of ongoing diseases such as diabetes, heart conditions, and high blood pressure;
  - xi. NCHD enrollment counselors; and,
  - xii. support of spiritual needs through availability of onsite chapel.

***V. Spohn's Optional Right of Termination***

Spohn shall have the option to terminate this Letter of Intent by providing written notice to the District within 45 days of the Board of Managers' resolution ordering the closure of the Memorial facility in the event that:

- A petition is filed with the District objecting to the closure of the Memorial facility and it is determined within such 45-day period that there are a sufficient number of signatures of qualified voters to require an election under Texas Health & Safety Code §§ 285.051 and 285.052; or
- A petition is filed with the District objecting to the closure of the Memorial facility and it is not determined during such 45-day period as to whether there are a sufficient number of signatures of qualified voters to require an election under Texas Health & Safety Code § 285.051 and 285.052. Spohn may at its sole option extend the 45-day period hereunder for up to two additional 15-day periods by providing the District written notice of such extension(s).

If the foregoing correctly sets forth our intentions, please sign the duplicate copy of this letter in the space provided and return it to the undersigned on. Subject to Texas Health & Safety Code §§ 285.051 and 285.052, based on the consideration set forth herein on behalf of both parties, the undersigned, through execution of this Letter of Intent, understand and agree that this Letter of Intent and the commitments of the parties set forth herein shall constitute a written agreement legally binding upon each party.

Very truly yours,

Pamela Robertson  
CEO  
CHRISTUS Spohn Health System Corporation

AGREED TO AND ACCEPTED this \_\_\_\_ day of September, 2014

**NUECES COUNTY HOSPITAL DISTRICT**

By: \_\_\_\_\_  
Jonny Hipp, Administrator/CEO

**APPROVED BY THE NUECES COUNTY  
COMMISSIONERS COURT**

By: \_\_\_\_\_  
S. Loyd Neal, Jr., County Judge