**NEW ISSUE—BOOK-ENTRY ONLY**

**RATING:**
**S&P: "A-"**
**(See "RATING" herein)**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel to the District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the portion of the 2011 Installment Payments, designated as and comprising interest and received by the owners of the 2011 Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Special Counsel, the portion of the 2011 Installment Payments designated as and comprising interest and received by the owners of the 2011 Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such portion of the 2011 Installment Payments is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Special Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of the 2011 Certificates, or the accrual or receipt of the portion of the 2011 Installment Payments, designated as and comprising interest and received by the owners of the 2011 Certificates. See "TAX MATTERS" herein.

DOCTORS MEDICAL CENTER

# $40,000,000
## CERTIFICATES OF PARTICIPATION
**(2011 Financing Program)**
**Evidencing the Direct, Undivided Fractional Interests of the Owners Thereof in Installment Payments to be Made by the**
**WEST CONTRA COSTA HEALTHCARE DISTRICT**
**(Contra Costa County, California)**
**As the Purchase Price for Certain Property Pursuant to an Installment Sale Agreement with the WCCHD Financing Corporation II**

**Dated: As of the Date of Delivery** **Due: July 1, as shown below**

The captioned Certificates of Participation (the "2011 Certificates") are being executed and delivered to provide funds to (i) finance and refinance working capital expenses and operating losses of the West Contra Costa Healthcare District (the "District"), (ii) pay certain equipment and facilities improvements costs, and (iii) pay costs of the financing, all as more fully described herein. See "PLAN OF FINANCE" herein. The 2011 Certificates will evidence the direct, undivided fractional interests of the registered owners thereof (the "Owners") in installment payments (the "2011 Installment Payments") to be made by the District from 2004 Parcel Tax Revenues, as described herein, as the purchase price for certain property pursuant to an installment sale agreement, dated as of December 1, 2011 (the "2011 Installment Sale Agreement") with the WCCHD Financing Corporation II (the "Corporation").

The 2011 Certificates will be executed and delivered pursuant to a trust agreement, by and among the Corporation, the District and U.S. Bank National Association, San Francisco, California, as trustee (the "Trustee"), dated as of December 1, 2011 (the "Trust Agreement"). Interest with respect to the 2011 Certificates is payable semiannually on each January 1 and July 1, commencing July 1, 2012. Principal is payable on the dates set forth below. The 2011 Certificates are being delivered in fully registered form and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the 2011 Certificates. Individual purchases of interests in the 2011 Certificates will be made in book-entry form only, in the principal amount of $5,000 or any integral multiple thereof. Purchasers of such interests will not receive securities representing their interests in the 2011 Certificates. Payments of principal, redemption premium, if any, and interest with respect to the 2011 Certificates are payable by the Trustee directly to DTC, which is obligated in turn to remit such principal, redemption premium, if any, and interest to DTC Participants for subsequent disbursement to the Beneficial Owners of the 2011 Certificates, as described herein. Principal of the 2011 Certificates will be payable upon surrender at the principal corporate trust office of the Trustee in San Francisco, California.

**The 2011 Certificates are subject to optional and mandatory redemption prior to maturity as described herein.**

The District is legally required under the 2011 Installment Sale Agreement to make 2011 Installment Payments, equal to the principal and interest due represented by the 2011 Certificates, from a first and prior lien on the 2004 Parcel Tax Revenues. The "2004 Parcel Tax Revenues" are the annual amounts collected by Contra Costa County (the "County") on behalf of the District from the 2004 Parcel Tax. The "2004 Parcel Tax" is the special parcel tax approved by 84% of the voters of the District at a special election held on June 8, 2004. The obligations of the District under the 2011 Installment Sale Agreement are on parity with the District's obligations under an installment sale agreement executed in 2004 (the "2004 Installment Sale Agreement") to secure the 2004 Certificates (defined herein), also secured by the 2004 Parcel Tax. *Section 5451.5 of the California Government Code (the "Lien Statute"), imposes a lien on the 2004 Parcel Tax Revenues to secure the District's obligations under the 2004 Installment Sale Agreement and the 2011 Installment Sale Agreement. Pursuant to the Lien Statute, the 2004 Parcel Tax Revenues are immediately subject to such lien and the lien attaches to the 2004 Parcel Tax Revenues and is effective, binding and enforceable against the District, its successors, purchasers of the 2004 Parcel Tax Revenues, creditors and others asserting rights therein, irrespective of whether those parties have notice of the lien and without the need for any physical delivery, recordation, filing or further act.*

See "RISKS TO OWNERS OF 2011 CERTIFICATES" for a discussion of certain factors that should be considered, in addition to other matters set forth herein, in evaluating an investment in the 2011 Certificates.

THE OBLIGATION OF THE DISTRICT TO MAKE THE 2011 INSTALLMENT PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE DISTRICT FOR WHICH THE DISTRICT IS REQUIRED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION OTHER THAN THE 2004 PARCEL TAX REVENUES. THE OBLIGATION OF THE DISTRICT TO PAY 2011 INSTALLMENT PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE DISTRICT, THE COUNTY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

## MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND PRICES OR YIELDS

### $735,000 Serial Certificates

CUSIP† Prefix: 952341

| Maturity Date (July 1) | Principal Amount | Interest Rate | Price or Yield | CUSIP† Suffix | Maturity Date (July 1) | Principal Amount | Interest Rate | Yield | CUSIP† Suffix |
|---|---|---|---|---|---|---|---|---|---|
| 2013 | $70,000 | 3.00% | 1.50% | AR6 | 2018 | $85,000 | 3.50% | 3.75% | AW5 |
| 2014 | 75,000 | 3.00 | 2.00 | AS4 | 2019 | 85,000 | 3.75 | 4.00 | AX3 |
| 2015 | 80,000 | 3.00 | 2.50 | AT2 | 2020 | 90,000 | 4.00 | 4.25 | AY1 |
| 2016 | 75,000 | 3.00 | 100 | AU9 | 2021 | 95,000 | 4.25 | 4.50 | AZ8 |
| 2017 | 80,000 | 3.25 | 3.50 | AV7 | | | | | |

**$525,000 5.00% Term Certificates maturing July 1, 2026; Price: 97.483% to Yield 5.25%—CUSIP†: 952341 BA2**

**$6,890,000 6.00% Term Certificates maturing July 1, 2032; Price: 101.810%c to Yield 5.75%—CUSIP†: 952341 BB0**

**$13,635,000 5.75% Term Certificates maturing July 1, 2037; Price: 96.755% to Yield 6.00%—CUSIP†: 952341 BC8**

**$18,215,000 6.25% Term Certificates maturing July 1, 2042; Price: 100%—CUSIP†: 952341 BD6**

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY. IT IS NOT INTENDED TO BE A SUMMARY OF THE SECURITY OR TERMS OF THIS ISSUE. INVESTORS ARE ADVISED TO READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The 2011 Certificates will be offered when, as and if delivered and received by the Underwriters, subject to approval by Orrick Herrington & Sutcliffe LLP, San Francisco, California, Special Counsel. Certain legal matters will be passed on for the District by Archer Norris, Walnut Creek, California, District Counsel, and for the District by Quint & Thimmig LLP, San Francisco, California, Disclosure Counsel. G.L. Hicks Financial, LLC, Provo, Utah, has acted as financial advisor to the District. It is anticipated that the 2011 Certificates, in book-entry form, will be available for delivery through the facilities of DTC on or about December 29, 2011.

**Piper Jaffray®** **Stone & Youngberg** **Wedbush Securities**
**A Division of Stifel Nicolaus**

Dated: December 15, 2011

† Copyright 2011, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by the CUSIP Service Bureau, operated by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the District and are included solely for the convenience of the registered owners of the 2011 Certificates. The District is not responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the 2011 Certificates or as included herein. The CUSIP number for a specific maturity is subject to being changed after the delivery of the 2011 Certificates as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the 2011 Certificates.

c Priced to the 7/1/2021 par call date.

## GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

*Use of Official Statement*. This Official Statement is submitted in connection with the initial sale of the 2011 Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the 2011 Certificates. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

*Estimates and Forecasts*. When used in this Official Statement and in any continuing disclosure by the District, in any press release and in any oral statement made with the approval of an authorized officer of the District, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend," "budget" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward looking statements include but are not limited to certain statements under the caption "RISKS TO OWNERS OF 2011 CERTIFICATES."

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The District does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

*Limit of Offering*. No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations in connection with the offer or sale of the 2011 Certificates other than those contained herein and if given or made, such other information or representation must not be relied upon as having been authorized by the District or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2011 Certificates by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

*Involvement of Underwriters*. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

*Information Change and Document References*. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. All summaries of the documents referred to in this Official Statement, are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

THE PRICES AT WHICH THE 2011 CERTIFICATES ARE OFFERED TO THE PUBLIC BY THE UNDERWRITERS (AND THE YIELDS RESULTING THEREFROM) MAY VARY FROM THE INITIAL PUBLIC OFFERING PRICES OR YIELDS APPEARING ON THE COVER PAGE HEREOF. IN ADDITION, THE UNDERWRITERS MAY ALLOW CONCESSIONS OR DISCOUNTS FROM SUCH INITIAL PUBLIC OFFERING PRICES TO DEALERS AND OTHERS. IN ORDER TO FACILITATE DISTRIBUTION OF THE 2011 CERTIFICATES, THE UNDERWRITERS MAY ENGAGE IN TRANSACTIONS INTENDED TO STABILIZE THE PRICE OF THE 2011 CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

**THE 2011 CERTIFICATES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE 2011 CERTIFICATES HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY A FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

## TABLE OF CONTENTS


INTRODUCTION ....1
General ....1
Purpose ....1
Security and Sources of Payment for the 2011 Certificates ....2
Risk Factors ....2
Redemption ....2
Other Features of the 2011 Certificates ....2
The District ....3
Continuing Disclosure ....3
Other Matters ....3
ESTIMATED SOURCES AND USES OF FUNDS ....4
PLAN OF FINANCE ....4
THE 2011 CERTIFICATES ....4
General Provisions ....4
Optional Redemption ....5
Mandatory Sinking Fund Redemption ....6
Selection of 2011 Certificates for Redemption ....7
Notice of Redemption ....7
Rescission of Notice ....8
Effect of Redemption ....8
SOURCE OF PAYMENT FOR THE 2011 CERTIFICATES ....9
General ....9
Statutory Lien ....10
Application of 2004 Parcel Tax Revenues ....10
Limitations on Future Obligations Secured by 2004 Parcel Tax Revenues ....10
Additional Payments ....11
2011 Installment Payments ....12
THE 2004 PARCEL TAX AND RELATED MATTERS ....14
Parcel Tax Measure D ....14
2004 Parcel Tax Collection History ....15
Historical 2004 Parcel Tax Collection and Debt Service Coverage ....16
Projected 2004 Parcel Tax Collection and Debt Service Coverage ....16
Deposit of 2004 Parcel Tax and Flow of Funds ....16
THE CORPORATION ....17
RISKS TO OWNERS OF 2011 CERTIFICATES ....17
No Assurance of Secondary Market for the 2011 Certificates ....17
Impact of Market Turmoil ....18
Parity Debt ....18
Factors That Could Affect the Enforceability of the Trust Agreement ....18
Bankruptcy of the District ....18
Tax Exempt Status of Interest with respect to the 2011 Certificates ....19
CONTINUING DISCLOSURE ....20
TAX MATTERS ....20
INDEPENDENT ACCOUNTANTS ....22
CERTAIN LEGAL MATTERS ....22
ABSENCE OF LITIGATION ....23
RATING ....23
UNDERWRITING ....23
AVAILABILITY OF DOCUMENTS ....24
MISCELLANEOUS ....24

APPENDIX A INFORMATION CONCERNING WEST CONTRA COSTA HEALTHCARE DISTRICT AND THE HOSPITAL
APPENDIX B AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
APPENDIX C SUMMARY OF PRINCIPAL LEGAL DOCUMENTS
APPENDIX D FORM OF SPECIAL COUNSEL OPINION
APPENDIX E FORM OF CONTINUING DISCLOSURE CERTIFICATE
APPENDIX F BOOK-ENTRY SYSTEM

# OFFICIAL STATEMENT

**$40,000,000**
**CERTIFICATES OF PARTICIPATION**
**(2011 Financing Program)**
**Evidencing the Direct, Undivided Fractional Interests of the Owners Thereof in Installment Payments to be Made by the**
**WEST CONTRA COSTA HEALTHCARE DISTRICT**
**(Contra Costa County, California)**
**As the Purchase Price for Certain Property Pursuant to an Installment Sale Agreement with the WCCHD Financing Corporation II**

## INTRODUCTION

### General

The purpose of this Official Statement, which includes the cover page, Table of Contents and Appendices (the "Official Statement"), is to provide certain information concerning the initial sale and delivery of Certificates of Participation (2011 Financing Program) (the "2011 Certificates"), in the aggregate principal amount of $40,000,000, representing the direct, undivided fractional interests of the registered owners thereof (the "Owners") in installment payments (the "2011 Installment Payments") to be made by the West Contra Costa Healthcare District (the "District"), as the purchase price for Doctor's Medical Center—San Pablo, an existing hospital facility (the "Hospital"), pursuant to an Installment Sale Agreement, dated as of December 1, 2011 (the "2011 Installment Sale Agreement"), by and between the District and the WCCHD Financing Corporation II (the "Corporation").

Capitalized terms appearing herein and not otherwise defined have the respective meanings assigned to those terms in APPENDIX C—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—DEFINED TERMS.

The 2011 Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of December 1, 2011 (the "Trust Agreement"), by and among the District, the Corporation and U.S. Bank National Association, San Francisco, California, as trustee (the "Trustee"). Pursuant to an Acquisition Agreement, dated as of December 1, 2011, by and between the District and the Corporation, the District will sell the Hospital to the Corporation to enable the Corporation to sell the facilities back to the District pursuant to the 2011 Installment Sale Agreement. Pursuant to an Assignment Agreement, dated as of December 1, 2011 between the Corporation and the Trustee (the "Assignment Agreement") the Corporation will assign to the Trustee, for the benefit of the Owners, its rights under the 2011 Installment Sale Agreement, including (i) its right to receive 2011 Installment Payments, and (ii) its right to enforce amounts payable upon default.

### Purpose

The 2011 Certificates are being executed and delivered to (i) finance and refinance working capital expenses and operating losses of the District, (ii) pay certain equipment and facilities improvements costs, and (iii) pay costs of the financing. See "PLAN OF FINANCE."

**Security and Sources of Payment for the 2011 Certificates**

The District is required to pay to the Trustee, from the 2004 Parcel Tax Revenues, the 2011 Installment Payments, in which the 2011 Certificates represent undivided factional interests. The "2004 Parcel Tax Revenues" are the amounts collected by Contra Costa County (the "County") on behalf of the District from the 2004 Parcel Tax. The "2004 Parcel Tax" is an annual special parcel tax on each taxable parcel of real property within the District (exclusive of parcels for which exemptions have been granted). The 2004 Parcel Tax measure was approved by approximately 84% of the voters of the District at a special election held on June 8, 2004. See "SOURCE OF PAYMENT FOR THE 2011 CERTIFICATES."

The obligation of the District to make 2011 Installment Payments under the 2011 Installment Sale Agreement is on parity with the District's payment obligations (the "2004 Installment Payments") under an installment sale agreement executed in 2004 (the "2004 Installment Sale Agreement"). In 2004, the District caused the execution and sale of $26,000,000 of certificates of participation representing the direct, undivided fractional interests of the registered owners thereof in the 2004 Installment Payments (the "2004 Certificates"). The proceeds of the 2004 Certificates were applied to provide funds to finance a portion of working capital expenses and operating losses of the District arising from the District's operation of the Hospital. The 2004 Certificates are currently outstanding in the principal amount of $21,645,000.

The District may, under certain circumstances, pledge the 2004 Parcel Tax Revenues to secure Parity Debt and Subordinate Debt. See "SOURCE OF PAYMENT FOR THE 2011 CERTIFICATES—Limitations on Future Obligations Secured by 2004 Parcel Tax Revenues." There are no restrictions in the 2011 Installment Sale Agreement on the District's use of its revenues other than the 2004 Parcel Tax Revenues and no restrictions on the District granting additional liens on its other revenues.

For certain financial and other information concerning the 2004 Parcel Tax Revenues, see THE 2004 PARCEL TAX AND RELATED MATTERS.

For certain financial and other information concerning the District and revenues of the District other than the 2004 Parcel Tax Revenues, see APPENDIX A—INFORMATION CONCERNING WEST CONTRA COSTA HEALTHCARE DISTRICT AND THE HOSPITAL and APPENDIX B—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009.

**Risk Factors**

Investment in the 2011 Certificates involves risks. See "RISKS TO OWNERS OF THE 2011 CERTIFICATES" for a discussion of certain of these risks.

**Redemption**

The 2011 Certificates are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. For further information concerning redemption of the 2011 Certificates, see "THE 2011 CERTIFICATES—Redemption."

**Other Features of the 2011 Certificates**

The 2011 Certificates are being delivered in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company. New York, New York ("DTC"). Individual purchases of interests in the 2011 Certificates will be made in book-entry form only, in the principal amount of $5,000 or any integral multiple thereof.

Purchasers of such interests will not receive securities representing their interests in the 2011 Certificates but will receive a credit balance on the records of DTC.

Interest with respect to the 2011 Certificates is payable semiannually on each January 1 and July 1, commencing July 1, 2012, and the principal thereof is payable on the dates set forth on the cover page hereof or upon the earlier redemption thereof by the Trustee to DTC, which is obligated in turn to remit such principal and interest to the DTC Participants for subsequent disbursements to the Beneficial Owners.

For further information concerning the terms of the 2011 Certificates, see "THE 2011 CERTIFICATES—General Description" and APPENDIX F—BOOK-ENTRY SYSTEM.

**The District**

The District, a local health care district formed in 1948, is a political subdivision of the State of California organized pursuant to the State's Local Health Care District Law. The geographic area of the District encompasses the western portion of the County, which is located on the east side of San Francisco Bay, approximately 20 miles northeast of the City of San Francisco. For information relating to the District and the Hospital, including statistical, demographic and financial information, see APPENDIX A—INFORMATION CONCERNING WEST CONTRA COSTA HEALTHCARE DISTRICT AND THE HOSPITAL.

**Continuing Disclosure**

The District has covenanted in a continuing disclosure certificate (the "Continuing Disclosure Certificate") to provide, or cause to be provided, for purposes of Rule 15c2–12(b)(5) adopted by the Securities and Exchange Commission (the "Rule") certain annual financial information and operating data of the type set forth herein including, but not limited to, the amount of 2004 Parcel Tax Revenue received during each year, its audited financial statements and, in a timely manner, notice of certain enumerated events. See "CONTINUING DISCLOSURE" and APPENDIX E—FORM OF CONTINUING DISCLOSURE CERTIFICATE for a description of the specific nature of the annual report and notices of material events and a summary description of the terms of the Continuing Disclosure Certificate pursuant to which such reports and notices are to be made. The District has represented to the Underwriters that the District never failed to comply, in any material respect, with its prior continuing disclosure obligations.

**Other Matters**

This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the 2011 Certificates to potential investors is made only by means of the entire Official Statement.

This Official Statement speaks only as of its date, and the information and expressions of opinion contained herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

All references to and summaries of provisions of the 2011 Installment Sale Agreement, Assignment Agreement and the Trust Agreement are qualified in their entirety by reference to the complete 2011 Installment Sale Agreement and Trust Agreement, copies of which are

available for inspection at the offices of the District in San Pablo, California, or at the office of the Trustee in San Francisco, California.

## ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the 2011 Certificates are anticipated to be applied as follows:

| | |
|---|---|
| **SOURCES:** | |
| Par Amount of 2011 Certificates | $40,000,000.00 |
| Less: Net Original Issue Discount | (333,239.10) |
| Less: Underwriters' Discount | (274,000.00) |
| Total Sources of Funds | $39,392,760.90 |
| **USES:** | |
| Deposit to Program Fund [1] | $38,891,760.90 |
| Deposit to Delivery Costs Fund [2] | 501,000.00 |
| Total Uses of Funds | $39,392,760.90 |

(1) Amounts deposited in the Program Fund will be used (i) finance and refinance working capital expenses and operating losses of the District and (ii) pay certain equipment and facilities improvements costs. This fund may also be used to pay for equipment purchases and improvements to the Hospital and other District health care facilities. See "PLAN OF FINANCE."

(2) Amounts deposited in the Delivery Costs Fund will be applied to the payment of all items of expense directly or indirectly payable by or reimbursable to the District relating to the financing, including but not limited to initial fees and charges and first year's administration fee of the Trustee, Trustee's counsel fees and expenses, legal fees and charges, financial and other professional consultant fees and costs of rating agencies.

## PLAN OF FINANCE

The proceeds of the 2011 Certificates will be used to (i) finance and refinance working capital expenses and operating losses of the District, (ii) pay certain equipment and facilities improvements costs, and (iii) pay costs of the financing. See APPENDIX A—INFORMATION CONCERNING WEST CONTRA COSTA HEALTHCARE DISTRICT AND THE HOSPITAL. The proceeds of the 2011 Certificates will also be used to pay the expenses of the 2011 Certificate financing transaction, and may be used to finance the acquisition of equipment and to make improvements for the Hospital and other District health care facilities.

## THE 2011 CERTIFICATES

### General Provisions

The 2011 Certificates will be dated as of their date of delivery, will be entitled to the interest portion of the 2011 Installment Payments at the rates per annum set forth on the cover page hereof, payable semiannually on each January 1 and July 1, commencing July 1, 2012 (each, an "Interest Payment Date"), and will be payable as to principal on July 1 in each year of the designated years set forth on the cover page hereof.

The 2011 Certificates will be executed and delivered in fully registered form without coupons, in the denomination of $5,000 each or any integral multiple thereof. Principal of the 2011 Certificates will be payable upon surrender at the principal corporate trust office of the Trustee in San Francisco, California. Interest with respect to the 2011 Certificates will be payable

by check or draft mailed by first class mail to the Owners at the addresses listed on the registration books maintained by the Trustee for such purpose or, upon written request of an owner of at least $1,000,000 in aggregate principal amount of the 2011 Certificates, by wire transfer to an account in the United States of America at said Owner's sole cost and expense.

The 2011 Certificates, when delivered, will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York ("DTC," together with any successor securities depository, the "Securities Depository"). DTC will act as Securities Depository for the 2011 Certificates so purchased. Individual purchases will be made in book-entry-only form. Purchasers will not receive a certificate representing their beneficial ownership interest in 2011 Certificates. So long as Cede & Co. is the registered owner of the 2011 Certificates, as nominee of DTC, references herein to the Owners, holders or registered owners shall mean Cede & Co. as aforesaid, and shall not mean the "Beneficial Owners" of the 2011 Certificates. In this Official Statement, the term "Beneficial Owner" shall mean the person for whom a Participant (as defined herein) acquires an interest in the 2011 Certificates. See APPENDIX F—BOOK-ENTRY SYSTEM.

So long as Cede & Co. is the registered owner of the 2011 Certificates, principal of, premium (if any) and interest on the 2011 Certificates are payable by wire transfer of same-day funds by the Trustee to Cede & Co., as nominee for DTC. DTC is obligated, in turn, to remit such amounts to DTC Participants for subsequent disbursement to the Beneficial Owners. See APPENDIX F—BOOK-ENTRY SYSTEM.

In the event the use of the book-entry-only system is discontinued, principal of the 2011 Certificates will be payable upon surrender thereof at the principal corporate trust office of the Trustee in San Francisco, California. Interest payable on the 2011 Certificates will be paid by check mailed on the Interest Payment Date to the person in whose name each 2011 Certificate is registered in the registration books maintained by the Trustee as of the Regular Record Date for such Interest Payment Date; provided that registered Owners of $1,000,000 or more in aggregate principal amount of 2011 Certificates may request payment by wire transfer, such request to be submitted in writing to the Trustee on or before the Regular Record Date for such Interest Payment Date in accordance with the provisions set forth in the Trust Agreement.

**Optional Redemption**

The 2011 Certificates maturing on or before July 1, 2021, are not subject to optional redemption prior to their respective stated maturities. The 2011 Certificates maturing on or after July 1, 2022, are subject to optional redemption in whole or in part on any date on or after July 1, 2021, from the proceeds of optional Prepayments made by the District pursuant to the 2011 Installment Sale Agreement, at a redemption price equal to the principal amount of the 2011 Certificates to be redeemed, together with accrued interest to the date fixed for redemption, without premium.

**Mandatory Sinking Fund Redemption**

The 2011 Certificates maturing on July 1, 2026, are subject to mandatory redemption on July 1 of each year commencing July 1, 2022, in the respective principal amounts set forth below, from the scheduled principal components of 2011 Installment Payments due in such years, at a redemption price equal to the principal amount thereof to be redeemed, without premium, together with accrued interest and unpaid thereon to the date fixed for redemption:

| Mandatory Redemption Date (July 1) | Principal Amount |
|---|---|
| 2022 | $ 95,000 |
| 2023 | 100,000 |
| 2024 | 105,000 |
| 2025 | 110,000 |
| 2026† | 115,000 |

†Maturity

The 2011 Certificates maturing on July 1, 2032, are subject to mandatory redemption on July 1 of each year commencing July 1, 2027, in the respective principal amounts set forth below, from the scheduled principal components of 2011 Installment Payments due in such years, at a redemption price equal to the principal amount thereof to be redeemed, without premium, together with accrued interest and unpaid thereon to the date fixed for redemption:

| Mandatory Redemption Date (July 1) | Principal Amount |
|---|---|
| 2027 | $ 120,000 |
| 2028 | 130,000 |
| 2029 | 140,000 |
| 2030 | 2,040,000 |
| 2031 | 2,165,000 |
| 2032† | 2,295,000 |

†Maturity

The 2011 Certificates maturing on July 1, 2037, are subject to mandatory redemption on July 1 of each year commencing July 1, 2033, in the respective principal amounts set forth below, from the scheduled principal components of 2011 Installment Payments due in such years, at a redemption price equal to the principal amount thereof to be redeemed, without premium, together with accrued interest and unpaid thereon to the date fixed for redemption:

| Mandatory Redemption Date (July 1) | Principal Amount |
|---|---|
| 2033 | $2,430,000 |
| 2034 | 2,570,000 |
| 2035 | 2,720,000 |
| 2036 | 2,875,000 |
| 2037† | 3,040,000 |

†Maturity

The 2011 Certificates maturing on July 1, 2042, are subject to mandatory redemption on July 1 of each year commencing July 1, 2038, in the respective principal amounts set forth below,

from the scheduled principal components of 2011 Installment Payments due in such years, at a redemption price equal to the principal amount thereof to be redeemed, without premium, together with accrued interest and unpaid thereon to the date fixed for redemption:

| Mandatory Redemption Date (July 1) | Principal Amount |
|---|---|
| 2038 | $3,215,000 |
| 2039 | 3,415,000 |
| 2040 | 3,630,000 |
| 2041 | 3,855,000 |
| 2042† | 4,100,000 |

†Maturity

In the event the Trustee redeems 2011 Certificates in part but not in whole pursuant to the optional redemption provisions, the amount of the 2011 Certificates, maturing on July 1, 2026, July 1, 2032, July 1, 2037, and July 1, 2042, to be redeemed will be reduced *pro rata* to correspond to the principal components of the 2011 Installment Payments prevailing following such redemption.

**Selection of 2011 Certificates for Redemption**

Whenever less than all Outstanding 2011 Certificates are called for redemption pursuant to the Trust Agreement, the Trustee will select 2011 Certificates for redemption in any order of maturity as selected in writing by the District (and if not selected by the District, pro rata among maturities) and by lot within a maturity. The Trustee will promptly notify the District and the Corporation in writing of the 2011 Certificates so selected for redemption.

**Notice of Redemption**

Notice of any such redemption will be given by the Trustee on behalf and at the expense of the District by mailing a copy of a redemption notice by first class mail at least thirty (30) days and not more than sixty (60) days prior to the date fixed for redemption to such Owner of the 2011 Certificate or 2011 Certificates (Cede & Co., as long as DTC acts as the securities depository of the 2011 Certificates) to be redeemed at the address shown on the 2011 Certificate Register maintained by the Trustee; provided, however, that neither the failure to receive such notice nor any defect in any notice will affect the sufficiency of the proceedings for the redemption of the 2011 Certificates.

All notices of redemption will be dated and will state: (i) the redemption date, (ii) the redemption price, (iii) if less than all Outstanding 2011 Certificates are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the 2011 Certificates to be redeemed, (iv) that on the redemption date the redemption price will become due and payable with respect to each such 2011 Certificate or portion thereof called for redemption, and that interest with respect thereto will cease to accrue from and after said date, (v) the place where such 2011 Certificates are to be surrendered for payment of the redemption price, which place of payment will be the principal corporate trust office of the Trustee.

In addition to the foregoing notice, notice will be given by the Trustee by telecopy, registered, certified or overnight mail, to all Securities Depositories one Business Day prior to the date of mailing of notice to the Owners and to an Information Service on the date such notice is mailed to the Owners, which will state the information set forth above, but no defect in

said notice nor any failure to give all or any portion of such further notice will in any manner defeat the effectiveness of a call for redemption if notice thereof is given as prescribed above.

Neither the District nor the Trustee will have any responsibility for a defect in the CUSIP number that appears on any 2011 Certificate or in the redemption notice. The redemption notice may provide that the CUSIP numbers have been assigned by an independent service and are included in the notice solely for the convenience of 2011 Certificate Owners and that the Trustee and the District will not be liable in any way for inaccuracies in said numbers.

With respect to any notice of optional redemption of 2011 Certificates, unless, upon the giving of such notice, such 2011 Certificates are deemed to have been paid as provided in the Trust Agreement, such notice will state that such redemption is conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of amounts sufficient to pay the principal of, and premium, if any, and interest on, such 2011 Certificates to be redeemed, and that if such amounts have not been so received said notice will be of no force and effect and the District will not be required to redeem such 2011 Certificates. In the event that such notice of redemption contains such a condition and such amounts are not so received, the redemption will not be made and the Trustee will within a reasonable time thereafter give notice to the Owners to the effect that such amounts were not so received and such redemption was not made, such notice to be given by the Trustee in the manner in which the notice of redemption was given.

**Rescission of Notice**

Any notice given as described in "—Notice of Redemption" may be rescinded by written notice given to the Trustee by the District and the Trustee will give notice of such rescission as soon thereafter as practicable in the same manner, and to the same persons, as notice of such redemption was given.

**Effect of Redemption**

Notice having been given as aforesaid, and the moneys for the redemption, including interest to the applicable redemption date and premium, if any, having been set aside in the Installment Payment Fund, the 2011 Certificates to be redeemed will become due and payable on said redemption date, and, upon presentation and surrender thereof at the office or offices specified in said notice, said 2011 Certificates will be paid at the unpaid principal amount with respect thereto, plus redemption premium, if any, and any unpaid and accrued interest to said redemption date. Installments of interest due on or prior to the redemption date will be payable as provided in the Trust Agreement for payment of interest.

If, on said redemption date, moneys for the redemption of all the 2011 Certificates to be redeemed, together with interest to said redemption date, will be held by the Trustee so as to be available therefor on such redemption date, and, if notice of redemption thereof will have been given as described in "THE 2011 CERTIFICATES—Notice of Redemption," then, from and after said redemption date, interest with respect to the 2011 Certificates to be redeemed will cease to accrue and become payable. If said moneys will not be so available on said redemption date, interest with respect to such 2011 Certificates will continue to be payable at the same rates as it would have been payable had the 2011 Certificates not been called for redemption. All moneys held by or on behalf of the Trustee for the redemption of particular 2011 Certificates will be held in trust for the account of the Owners of the 2011 Certificates so to be redeemed. The Trustee will not be liable for any interest earned on the amounts so held. All 2011 Certificates which have been redeemed will be canceled by the Trustee, will not be reissued and will be destroyed pursuant to the Trust Agreement.

Upon surrender of any 2011 Certificate redeemed in part only, the Trustee will execute and deliver to the Owner thereof, at the expense of the District, a new 2011 Certificate or 2011 Certificates of authorized denominations equal in aggregate principal amount to the unredeemed portion of the 2011 Certificate surrendered and of the same interest rate and the same maturity.

## SOURCE OF PAYMENT FOR THE 2011 CERTIFICATES

### General

Each 2011 Certificate represents a direct, undivided fractional interest in 2011 Installment Payments to be made under the 2011 Installment Sale Agreement by the District to the Trustee, as assignee of the Corporation. The Corporation, pursuant to the Assignment Agreement, will assign certain of its rights under the 2011 Installment Sale Agreement to the Trustee for the benefit of the Owners, including (i) its right to receive 2011 Installment Payments and prepayments made under the 2011 Installment Sale Agreement; and (ii) its rights to enforce payment of the 2011 Installment Payments when due in the event of a default by the District. The obligation of the District to make 2011 Installment Payments, on parity with the obligation of the District to make 2004 Installment Payments, is secured by a first and prior lien on the 2004 Parcel Tax Revenues created pursuant to section 5451.5 of the California Government Code (the "Lien Statute") and subject to any existing or future liens or encumbrances thereon. See THE 2004 PARCEL TAX AND RELATED MATTERS. Payment of the 2011 Installment Payments will be made solely from the 2004 Parcel Tax Revenues and not from any other revenues or funds of the District.

The obligation of the District to pay the 2011 Installment Payments does not constitute an obligation of the District for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation, other than the 2004 Parcel Tax Revenues. The obligation of the District to pay 2011 Installment Payments does not constitute a debt of the District, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation.

The obligation of the District to make the 2011 Installment Payments from 2004 Parcel Tax Revenues, to deliver or caused to be delivered to the Trustee the 2004 Parcel Tax Revenues and to perform and observe the other agreements contained in the 2011 Installment Sale Agreement, will be absolute and unconditional and will not be subject to any defense or any right of set-off, counterclaim or recoupment arising out of any breach of the District, the Corporation or the Trustee of any obligation to the District, or otherwise with respect to the Hospital, whether under the 2011 Installment Sale Agreement or otherwise, or out of indebtedness or liability at any time owing to the District by the Corporation or the Trustee. Until such time as all of the 2011 Installment Payments have been fully paid or prepaid, the District (a) will not suspend, abate, or discontinue any payments provided for in the 2011 Installment Sale Agreement, (b) will perform and observe all other agreements contained in the 2011 Installment Sale Agreement, and (c) will not terminate the term of the 2011 Installment Sale Agreement for any cause, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Hospital, the taking by eminent domain of title to or temporary use of any or all of the Hospital, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either thereof or any failure of the Corporation or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Trust Agreement, the Assignment Agreement or the 2011

Installment Sale Agreement, or on account of the sale, lease or closure of the Hospital or change in health care services provided at the Hospital.

**Statutory Lien**

The Lien Statute imposes a lien on the 2004 Parcel Tax Revenues to secure the District's obligations under the 2004 Installment Sale Agreement and the 2011 Installment Sale Agreement. Pursuant to the Lien Statute, the 2004 Parcel Tax Revenues are immediately subject to such lien and the lien immediately attaches to the 2004 Parcel Tax Revenues and is effective, binding and enforceable against the District, its successors, purchasers of the 2004 Parcel Tax Revenues, creditors and others asserting rights therein, irrespective of whether those parties have notice of the lien and without the need for any physical delivery, recordation, filing or further act. In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel, (i) the Lien Statute constitutes a valid and binding "statutory lien" on the Parcel Tax Revenues within the meaning of the Bankruptcy Code and (ii) such lien is not subject to termination pursuant to section 552(a) of the Bankruptcy Code if the District were to file a bankruptcy petition under chapter 9 of the Bankruptcy Code. Such opinion is subject to a number of qualifications and assumptions. See "RISKS TO OWNERS OF THE CERTIFICATES – Bankruptcy of the District" herein.

**Application of 2004 Parcel Tax Revenues**

*Transfer to Pay Installment Payments*. In order to provide for the payment of the 2011 Installment Payments when due, the District will direct the County, so long as the 2011 Certificates are Outstanding, to transfer to the Trustee, as collected by the County, all 2004 Parcel Tax Revenues. The Trustee will apply all 2004 Parcel Tax Revenues for deposit into the Installment Payment Fund established under the 2004 Installment Payment Agreement and into the Installment Payment Fund established under the 2011 Installment Sale Agreement on a *pari passu* basis, to pay the 2011 Installment Payments and the 2004 Installment Payments due on the next occurring Interest Payment Dates, as required under the 2004 Installment Sale Agreement and the 2011 Installment Sale Agreement. The District is obligated to make 2011 Installment Payments sufficient to pay all principal and interest due with respect to the 2011 Certificates (whether at a scheduled payment date, redemption, acceleration or otherwise). Any 2004 Parcel Tax Revenues received by the District from the County shall be immediately transferred to the Trustee.

*Transfer to District*. In each Fiscal Year, upon receipt by the Trustee of 2004 Parcel Tax Revenues sufficient for the payment of the 2011 Installment Payments, the 2004 Installment Payments and payments with respect to any Parity Debt due on the next succeeding July 1 and January 1 Interest Payment Dates, all excess 2004 Parcel Tax Revenues shall be transferred to the District and may be used by the District for any lawful purpose. Notwithstanding the foregoing, if the District determines, or is required, to close or discontinue use of the Facilities, the 2004 Parcel Tax Revenues relating to the then current Fiscal Year and all subsequent Fiscal Years shall not be transferred to the District but shall continue to be held by the Trustee until sufficient 2004 Parcel Tax Revenues shall have been received by the Trustee to provide for the prepayment of all remaining 2011 Installment Payments and 2004 Installment Payments on the next available prepayment date.

**Limitations on Future Obligations Secured by 2004 Parcel Tax Revenues**

*No Obligations Superior to 2011 Installment Payments*. In order to protect the availability of the 2004 Parcel Tax Revenues and the security for the 2011 Installment Payments, the 2004 Installment Payments and any Parity Debt, the District agrees that the District will not, so long as any 2004 Certificates or 2011 Certificates are outstanding, issue or incur any obligations

payable from 2004 Parcel Tax Revenues superior to the 2011 Installment Payments, the 2004 Installment Payments or any Parity Debt.

*Parity Debt*. The District further covenants that, except for obligations issued or incurred to prepay the 2011 Installment Payments in full pursuant to the 2011 Installment Sale Agreement or to prepay the 2004 Installment Payments in full pursuant to the 2004 Installment Sale Agreement, the District will not issue or incur any Parity Debt unless:

(a) The District is not in default under the terms of the 2011 Installment Sale Agreement or the 2004 Installment Sale Agreement.

(b) 2004 Parcel Tax Revenues, calculated pursuant to generally accepted accounting principles, as shown by the audited financial statements of the District for the latest Fiscal Year, shall have amounted to at least 1.25 times the sum of the maximum 2011 Installment Payments, the maximum 2004 Installment Payments and the maximum annual debt service on all Parity Debt coming due and payable in that and any future Fiscal Year to be outstanding immediately subsequent to the incurring of such additional obligations.

(c) Interest with respect to such Parity Debt shall be paid on January 1 and July 1.

(d) Principal with respect to such Parity Debt shall be paid on July 1.

*Subordinate Debt*. The District further covenants that the District shall not issue or incur any Subordinate Debt unless:

(a) The District is not in default under the terms of the 2011 Installment Sale Agreement or the 2004 Installment Sale Agreement.

(b) 2004 Parcel Tax Revenues, calculated pursuant to generally accepted accounting principles, as shown by the audited financial statements of the District for the latest Fiscal Year shall have amounted to at least 1.00 times the sum of the maximum 2011 Installment Payments, the maximum 2004 Installment Payments, the maximum annual debt service on all Parity Debt and the maximum annual debt service on all Subordinate Debt coming due and payable in that and any future Fiscal Year to be outstanding immediately subsequent to the incurring of such additional obligations.

(c) Interest with respect to such Subordinate Debt shall be paid on January 1 and July 1.

(d) Principal with respect to such Subordinate Debt shall be paid on July 1.

**Additional Payments**

In addition to the 2011 Installment Payments, the District will pay when due, from 2004 Parcel Tax Revenues, all costs and expenses incurred by the Corporation to comply with the provisions of the Trust Agreement and the 2011 Installment Sale Agreement, including, without limitation, compensation due to the Trustee for its fees, costs and expenses incurred under the Trust Agreement and the Assignment Agreement and all costs and expenses of attorneys, auditors, engineers and accountants.

**2011 Installment Payments**

2011 Installment Payments are required to be made by the District under the 2011 Installment Sale Agreement in amounts equal to principal and interest represented by the 2011 Certificates. The Trust Agreement requires that 2011 Installment Payments be deposited in the Installment Payment Fund maintained by the Trustee. Pursuant to the Trust Agreement, the Trustee will apply such amounts in the Installment Payment Fund as are necessary to make principal and interest payments due with respect to the 2011 Certificates on January 1 and July 1 of each year sufficient to meet the following semi-annual amortization schedule:

| Interest Payment Date | Principal Component | Interest Component | Semi-Annual Total | Annual Total |
|---|---|---|---|---|
| 7/1/12 | — | $1,207,013.89 | $1,207,013.89 | $1,207,013.89 |
| 1/1/13 | — | 1,193,750.00 | 1,193,750.00 | — |
| 7/1/13 | $ 70,000.00 | 1,193,750.00 | 1,263,750.00 | 2,457,500.00 |
| 1/1/14 | — | 1,192,700.00 | 1,192,700.00 | — |
| 7/1/14 | 75,000.00 | 1,192,700.00 | 1,267,700.00 | 2,460,400.00 |
| 1/1/15 | — | 1,191,575.00 | 1,191,575.00 | — |
| 7/1/15 | 80,000.00 | 1,191,575.00 | 1,271,575.00 | 2,463,150.00 |
| 1/1/16 | — | 1,190,375.00 | 1,190,375.00 | — |
| 7/1/16 | 75,000.00 | 1,190,375.00 | 1,265,375.00 | 2,455,750.00 |
| 1/1/17 | — | 1,189,250.00 | 1,189,250.00 | — |
| 7/1/17 | 80,000.00 | 1,189,250.00 | 1,269,250.00 | 2,458,500.00 |
| 1/1/18 | — | 1,187,950.00 | 1,187,950.00 | — |
| 7/1/18 | 85,000.00 | 1,187,950.00 | 1,272,950.00 | 2,460,900.00 |
| 1/1/19 | — | 1,186,462.50 | 1,186,462.50 | — |
| 7/1/19 | 85,000.00 | 1,186,462.50 | 1,271,462.50 | 2,457,925.00 |
| 1/1/20 | — | 1,184,868.75 | 1,184,868.75 | — |
| 7/1/20 | 90,000.00 | 1,184,868.75 | 1,274,868.75 | 2,459,737.50 |
| 1/1/21 | — | 1,183,068.75 | 1,183,068.75 | — |
| 7/1/21 | 95,000.00 | 1,183,068.75 | 1,278,068.75 | 2,461,137.50 |
| 1/1/22 | — | 1,181,050.00 | 1,181,050.00 | — |
| 7/1/22 | 95,000.00 | 1,181,050.00 | 1,276,050.00 | 2,457,100.00 |
| 1/1/23 | — | 1,178,675.00 | 1,178,675.00 | — |
| 7/1/23 | 100,000.00 | 1,178,675.00 | 1,278,675.00 | 2,457,350.00 |
| 1/1/24 | — | 1,176,175.00 | 1,176,175.00 | — |
| 7/1/24 | 105,000.00 | 1,176,175.00 | 1,281,175.00 | 2,457,350.00 |
| 1/1/25 | — | 1,173,550.00 | 1,173,550.00 | — |
| 7/1/25 | 110,000.00 | 1,173,550.00 | 1,283,550.00 | 2,457,100.00 |
| 1/1/26 | — | 1,170,800.00 | 1,170,800.00 | — |
| 7/1/26 | 115,000.00 | 1,170,800.00 | 1,285,800.00 | 2,456,600.00 |
| 1/1/27 | — | 1,167,925.00 | 1,167,925.00 | — |
| 7/1/27 | 120,000.00 | 1,167,925.00 | 1,287,925.00 | 2,455,850.00 |
| 1/1/28 | — | 1,164,325.00 | 1,164,325.00 | — |
| 7/1/28 | 130,000.00 | 1,164,325.00 | 1,294,325.00 | 2,458,650.00 |
| 1/1/29 | — | 1,160,425.00 | 1,160,425.00 | — |
| 7/1/29 | 140,000.00 | 1,160,425.00 | 1,300,425.00 | 2,460,850.00 |
| 1/1/30 | — | 1,156,225.00 | 1,156,225.00 | — |
| 7/1/30 | 2,040,000.00 | 1,156,225.00 | 3,196,225.00 | 4,352,450.00 |
| 1/1/31 | — | 1,095,025.00 | 1,095,025.00 | — |
| 7/1/31 | 2,165,000.00 | 1,095,025.00 | 3,260,025.00 | 4,355,050.00 |
| 1/1/32 | — | 1,030,075.00 | 1,030,075.00 | — |
| 7/1/32 | 2,295,000.00 | 1,030,075.00 | 3,325,075.00 | 4,355,150.00 |
| 1/1/33 | — | 961,225.00 | 961,225.00 | — |
| 7/1/33 | 2,430,000.00 | 961,225.00 | 3,391,225.00 | 4,352,450.00 |
| 1/1/34 | — | 891,362.50 | 891,362.50 | — |
| 7/1/34 | 2,570,000.00 | 891,362.50 | 3,461,362.50 | 4,352,725.00 |
| 1/1/35 | — | 817,475.00 | 817,475.00 | — |
| 7/1/35 | 2,720,000.00 | 817,475.00 | 3,537,475.00 | 4,354,950.00 |

Continued on the following page

| Interest Payment Date | Principal Component | Interest Component | Semi-Annual Total | Annual Total |
|---|---|---|---|---|
| 1/1/36 | — | $739,275.00 | $ 739,275.00 | — |
| 7/1/36 | $2,875,000.00 | 739,275.00 | 3,614,275.00 | $4,353,550.00 |
| 1/1/37 | — | 656,618.75 | 656,618.75 | — |
| 7/1/37 | 3,040,000.00 | 656,618.75 | 3,696,618.75 | 4,353,237.50 |
| 1/1/38 | — | 569,218.75 | 569,218.75 | — |
| 7/1/38 | 3,215,000.00 | 569,218.75 | 3,784,218.75 | 4,353,437.50 |
| 1/1/39 | — | 468,750.00 | 468,750.00 | — |
| 7/1/39 | 3,415,000.00 | 468,750.00 | 3,883,750.00 | 4,352,500.00 |
| 1/1/40 | — | 362,031.25 | 362,031.25 | — |
| 7/1/40 | 3,630,000.00 | 362,031.25 | 3,992,031.25 | 4,354,062.50 |
| 1/1/41 | — | 248,593.75 | 248,593.75 | — |
| 7/1/41 | 3,855,000.00 | 248,593.75 | 4,103,593.75 | 4,352,187.50 |
| 1/1/42 | — | 128,125.00 | 128,125.00 | — |
| 7/1/42 | 4,100,000.00 | 128,125.00 | 4,228,125.00 | 4,356,250.00 |

The following table shows the annual installment payments requirements of the District for the 2004 Installment Payments and the 2011 Installment Payments.

| Year Ending July 1 | 2004 Installment Payments | 2011 Installment Payments | Total |
|---|---|---|---|
| 2012 | $ 1,894,103.76 | $ 1,207,013.89 | $ 3,101,117.65 |
| 2013 | 1,896,103.76 | 2,457,500.00 | 4,353,603.76 |
| 2014 | 1,896,016.26 | 2,460,400.00 | 4,356,416.26 |
| 2015 | 1,893,336.26 | 2,463,150.00 | 4,356,486.26 |
| 2016 | 1,897,736.26 | 2,455,750.00 | 4,353,486.26 |
| 2017 | 1,895,536.26 | 2,458,500.00 | 4,354,036.26 |
| 2018 | 1,895,006.26 | 2,460,900.00 | 4,355,906.26 |
| 2019 | 1,895,987.50 | 2,457,925.00 | 4,353,912.50 |
| 2020 | 1,894,012.50 | 2,459,737.50 | 4,353,750.00 |
| 2021 | 1,894,081.26 | 2,461,137.50 | 4,355,218.76 |
| 2022 | 1,895,925.00 | 2,457,100.00 | 4,353,025.00 |
| 2023 | 1,894,275.00 | 2,457,350.00 | 4,351,625.00 |
| 2024 | 1,894,131.26 | 2,457,350.00 | 4,351,481.26 |
| 2025 | 1,895,225.00 | 2,457,100.00 | 4,352,325.00 |
| 2026 | 1,895,475.00 | 2,456,600.00 | 4,352,075.00 |
| 2027 | 1,896,325.00 | 2,455,850.00 | 4,352,175.00 |
| 2028 | 1,897,500.00 | 2,458,650.00 | 4,356,150.00 |
| 2029 | 1,893,725.00 | 2,460,850.00 | 4,354,575.00 |
| 2030 | — | 4,352,450.00 | 4,352,450.00 |
| 2031 | — | 4,355,050.00 | 4,355,050.00 |
| 2032 | — | 4,355,150.00 | 4,355,150.00 |
| 2033 | — | 4,352,450.00 | 4,352,450.00 |
| 2034 | — | 4,352,725.00 | 4,352,725.00 |
| 2035 | — | 4,354,950.00 | 4,354,950.00 |
| 2036 | — | 4,353,550.00 | 4,353,550.00 |
| 2037 | — | 4,353,237.50 | 4,353,237.50 |
| 2038 | — | 4,353,437.50 | 4,353,437.50 |
| 2039 | — | 4,352,500.00 | 4,352,500.00 |
| 2040 | — | 4,354,062.50 | 4,354,062.50 |
| 2041 | — | 4,352,187.50 | 4,352,187.50 |
| 2042 | — | 4,356,250.00 | 4,356,250.00 |
| Total | $34,114,501.34 | $99,600,863.89 | $133,715,365.23 |

## THE 2004 PARCEL TAX AND RELATED MATTERS

### Parcel Tax Measure D

The Board of Directors of the District (the "Board") adopted a resolution on March 9, 2004, proposing a special tax (the "2004 Parcel Tax") for specified purposes of the District. Those purposes are to ensure continued local access to emergency room care, acute hospital care and other medical services for residents of the District and visitors to the area. The revenues raised by the 2004 Parcel Tax (the "2004 Parcel Tax Revenues") can only be used to defray operating expenses, capital improvement expenditures and debt repayment to accomplish the foregoing purposes. The ballot measure (Measure D) asked voters to decide whether the 2004 Parcel Tax should be imposed on taxable parcels of real property within the District. On June 8, 2004, 84% of the residents of the District voted to approve Measure D.

Under Measure D, a taxable parcel is any unit of real property in the District that appears on the annual secured County property tax roll. The 2004 Parcel Tax is collected by the County Treasurer-Tax Collector at the same time, in the same manner and subject to the same penalties as secured *ad valorem* property taxes collected by the County Treasurer-Tax Collector, as described in APPENDIX A—INFORMATION CONCERNING WEST CONTRA COSTA HEALTHCARE DISTRICT AND THE HOSPITAL—PROPERTY TAX—Property Tax Collection Procedures." Measure D requires the assessment of the 2004 Parcel Tax to be based upon the use code for each taxable parcel of property located within the District. The 2004 Parcel Tax is collected at the following annual rates and on the following use codes used by the County Assessor's Office to identify and categorize property:

| Use Code | Rate |
|---|---|
| Single-family Residential/Vacant/Misc. (Use Codes 10-19, 61-62, 69, 81-85, 88-89) | $52 |
| Small Multi-unit Residential (Use Codes 20-24, 29) | $104 |
| Small Commercial/Industrial (Use Codes 25, 30-32, 34-37, 40, 48, 56, 63, 67, 80) | $312 |
| Medium Commercial/Industrial (Use Codes 26, 33, 43-47, 49-50, 53, 64) | $520 |
| Large Commercial/Industrial (Use Codes 27-28, 38-39, 41-42, 51-52, 54-55, 68, 70, 76, 86) | $1,040 |

The 2004 Parcel Tax Revenues are deposited into a separate account held by the County Treasurer-Tax Collector, in accordance with section 50075.1 of the California Government Code, and are remitted to the Trustee until all of the 2011 Certificates and the 2004 Certificates are fully repaid, pursuant to the provisions of the Trust Agreement and written direction from the District to the County Assessor, as described below. The District files an annual report with the Board, which report includes the amount of 2004 Parcel Tax Revenues collected and expended, and which otherwise complies with the accountability measures established in section 50075.1, *et seq* of the California Government Code.

The following table provides a five-year history of the number of parcels located within the District segregated by property use code, in addition to providing the historical growth rate of the number of parcels in each category over the same five-year period.

| Parcel Tax Category | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | Percentage Increase (2008-2012) |
|---|---|---|---|---|---|---|
| Single Family Residential/Vacant/Misc. | 59,625 | 59,812 | 60,265 | 60,411 | 60,509 | 1.48% |
| Small Multi-Unit Residential | 9,936 | 9,939 | 9,939 | 9,942 | 9,948 | 0.12% |
| Small Commercial/Industrial | 2,275 | 2,276 | 2,281 | 2,290 | 2,291 | 0.70% |
| Medium Commercial/Industrial | 1,431 | 1,433 | 1,434 | 1,434 | 1,434 | 0.21% |
| Large Commercial/Industrial | 426 | 432 | 432 | 436 | 437 | 2.58% |
| Total | 73,693 | 73,892 | 74,351 | 74,513 | 74,619 | 1.25% |

Source: California Municipal Statistics, Inc.

## 2004 Parcel Tax Collection History

The following tabulation shows a five-year history of the 2004 Parcel Tax levy, the tax amount delinquent and the percentage of taxes delinquent each year as of June 30.

| | 2004 Parcel Tax Charge | Amount Delinquent June 30 | Percent Delinquent June 30 |
|---|---|---|---|
| 2006-07 | $5,685,160.00 | $289,354.00 | 5.09% |
| 2007-08 | $5,716,984.00 | $368,862.00 | 6.45% |
| 2008-09 | $5,717,114.00 | $342,238.00 | 5.99% |
| 2009-10 | $5,724,004.00 | $297,752.00 | 5.20% |
| 2010-11 | $5,689,528.00 | $249,288.00 | 4.38% |

Source: California Municipal Statistics, Inc.

The 2004 Parcel Tax is not levied on the basis of the assessed valuation of property, but is levied annually on the basis of a fixed amount for each of the five use code categories referenced above. However, the 2004 Parcel Tax is collected by the County at the same time as secured *ad valorem* property taxes are levied and collected. Unless and until the Board of Supervisors of the County orders discontinuance of the Teeter Plan with respect to the 2004 Parcel Tax, the District is credited with 100% of the scheduled 2004 Parcel Tax payments without regard to actual amounts collected. If the Teeter Plan is discontinued, only the 2004 Parcel Tax Revenues actually collected would be allocated to the District; however, the District would realize the benefit of interest and penalties collected from delinquent taxpayers, pursuant to law. See APPENDIX A—INFORMATION CONCERNING THE WEST CONTRA COSTA HEALTHCARE DISTRICT AND THE HOSPITAL—PROPERTY TAX—Teeter Plan for a discussion of the Teeter Plan.

### Historical 2004 Parcel Tax Collection and Debt Service Coverage

The following table provides a five-year history of the 2004 Parcel Tax Revenues, debt service requirements of the 2004 Certificates and the debt service coverage ratio.

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| 2004 Parcel Tax Revenue | $5,620,000 | $5,641,000 | $5,651,000 | $5,654,000 | $5,643,000 |
| 2004 Certificate Debt Service | 1,897,524 | 1,893,824 | 1,898,186 | 1,894,596 | 1,897,696 |
| 2004 Revenue Bonds Debt Service | 716,481 | 1,213,962 | 1,213,962 | 1,213,962 | 1,213,962 |
| Total Debt Service | 2,614,005 | 3,107,786 | 3,112,148 | 3,108,558 | 3,111,658 |
| Debt Service Coverage Ratio | 2.15x | 1.82x | 1.82x | 1.82x | 1.81x |

Source: District Records.

### Projected 2004 Parcel Tax Collection and Debt Service Coverage

The following table indicates the estimated total amount of 2004 Parcel Tax Revenues expected to be received by the District for five years beginning with 2011, debt service requirements of the 2004 Certificates and the 2011 Certificates and the debt service coverage ratio.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| 2004 Parcel Tax Revenue [1] | $5,643,000 | $5,643,000 | $5,643,000 | $5,643,000 | $5,643,000 |
| 2004 Certificate Debt Service | $1,894,291 | $1,894,104 | $1,896,104 | $1,896,016 | $1,893,336 |
| 2004 Revenue Bonds Debt Service | 1,213,962 | — | — | — | — |
| 2011 Certificate Debt Service | — | 1,207,014 | 2,457,500 | 2,460,400 | 2,463,150 |
| Total Debt Service | $3,108,253 | $3,101,118 | $4,353,604 | $4,356,416 | $4,356,486 |
| Debt Service Coverage Ratio | 1.82x | 1.82x | 1.30x | 1.30x | 1.30x |

[1] Projected 2004 Parcel Tax Revenues assumes the 2010 receipts are constant for future years.

### Deposit of 2004 Parcel Tax and Flow of Funds

Pursuant to the Trust Agreement, the 2011 Installment Sale Agreement and the Agreement for Collection of Special Taxes, Fees, Charges and Assessments between the District and the County (the "Tax Collection Agreement"), the District and the County agree as follows:

Pursuant to the Tax Collection Agreement, the County agrees to collect on its tax rolls the 2004 Parcel Tax and other special taxes, fees, charges or assessments to be collected for the benefit of the District. So long as the 2011 Certificates or the 2004 Certificates are outstanding, the District is required, and has, directed the County to remit all 2004 Parcel Tax Revenues upon collection to the Trustee.

Pursuant to the Trust Agreement, the Trustee agrees to deposit in the Installment Payment Fund all 2004 Parcel Tax Revenues remitted by the County or the District to the Trustee. Furthermore, the Trustee agrees to use all amounts contained in the Installment Payment Fund for the sole purpose of paying principal, interest and redemption premiums, if any, with respect to the 2011 Certificates, the 2004 Certificates and any Parity Debt. In each Fiscal Year upon receipt by the Trustee of 2004 Parcel Tax Revenues sufficient for the payment of 2011 Installment Payments, 2004 Installment Payments and any Parity Debt due on the next

succeeding January 1 and July 1 Interest Payment Dates, all excess 2004 Parcel Tax Revenues are required to be transferred to the District for any lawful purpose of the District. Notwithstanding the foregoing, if the District closes or discontinues use of the Hospital, 2004 Parcel Tax Revenues relating to the then current Fiscal Year and all subsequent Fiscal Years may not be so transferred but shall be subject to the lien of the 2011 Installment Sale Agreement and the 2004 Installment Sale applied to the prepayment of all remaining 2011 Installment Payments and 2004 Installment Payments on the next available prepayment date.

The County collects the 2004 Parcel Tax at the same time, in same manner and subject to the same penalties as secured *ad valorem* property taxes. See APPENDIX A—INFORMATION CONCERNING WEST CONTRA COSTA HEALTHCARE DISTRICT AND THE HOSPITAL—PROPERTY TAX.

## THE CORPORATION

The Corporation is a California nonprofit public benefit corporation. The Corporation was formed in 2011 at the request of the District for the specific and primary purpose of providing assistance to the District by financing, refinancing, acquiring, constructing, improving, leasing, and selling buildings, improvements, equipment and any other real and personal property for and on behalf of the District. The directors of the Corporation, who are the same as the board of directors of the District, receive no compensation. The Corporation has no financial liability to the Owners of the 2011 Certificates with respect to the payment of 2011 Installment Payments by the District or with respect to the performance by the District of the other agreements and covenants it is required to perform.

## RISKS TO OWNERS OF 2011 CERTIFICATES

*The following section describes certain special considerations and risk factors affecting the risk of nonpayment, timely payment, the security for, or the market price of, the 2011 Certificates. The following discussion is not meant to be an exhaustive or definitive description of the risks associated with a purchase of any 2011 Certificate and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following special factors regarding the 2011 Certificates, together with all other information in this Official Statement in order to make an informed investment decision with respect to the 2011 Certificates. There can be no assurance that other risk factors are not or will not become material in the future.*

### No Assurance of Secondary Market for the 2011 Certificates

It is the present practice of each Underwriter to make a secondary market in the issues that it underwrites. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon their prevailing circumstances. Such prices could be substantially lower than the original purchase price. There can be no guarantee that there will be a secondary market for the 2011 Certificates or, if a secondary market exists, that the 2011 Certificates can be sold for any particular price. Accordingly, purchasers of the 2011 Certificates should be prepared to have their funds committed until the 2011 Certificates mature.

**Impact of Market Turmoil**

The domestic and international financial crisis experienced over the past few years has had and may continue to have negative repercussions upon the national and global economies, including a scarcity of credit, lack of confidence in the financial sector, extreme volatility in the financial markets, potential increase in interest rates, reduced business activity, increased consumer bankruptcies and increased business failures and bankruptcies.

The financial crisis has had a particularly acute impact upon the financial sector and credit markets, and has caused many banks and other financial institutions to seek additional capital, to merge, and in some cases, to fail. One of the results of this financial crisis has been increased volatility in the municipal bond marketplace. Additionally, from time-to-time substantial amounts have been withdrawn from tax-exempt mutual funds and from hedge funds, traditionally some of the largest purchasers of municipal bonds. There has been a general weakening of the economy which also could have a material adverse effect upon the District. There can be no assurance that continued turmoil in the financial and bond markets will not negatively impact the marketability of the 2011 Certificates in the secondary market.

**Parity Debt**

As described in "SOURCE OF PAYMENT FOR THE 2011 CERTIFICATES" above, the 2011 Installment Sale Agreement permits the District to issue or incur Parity Debt which would be secured on a parity with the 2011 Installment Payments by a lien on 2004 Parcel Tax Revenues. In the event of a decline in 2004 Parcel Tax Revenues available to pay the 2011 Installment Payments, the incurrence of additional Parity Debt could adversely affect the District's ability to pay the 2011 Installment Payments.

**Factors That Could Affect the Enforceability of the Trust Agreement**

The legal right and practical ability of the Trustee to enforce its rights and remedies against the District under the Trust Agreement and related documents may be limited by laws relating to bankruptcy, insolvency, reorganization, fraudulent conveyance or moratorium and by other similar laws affecting creditors' rights. In addition, the Trustee's ability to enforce such terms will depend upon the exercise of various remedies specified by such documents which may in many instances require judicial actions that are often subject to discretion and delay or that otherwise may not be readily available or may be limited.

**Bankruptcy of the District**

In the event the District files a bankruptcy petition under the United States Bankruptcy Code (the "Bankruptcy Code"), the rights and remedies of the Owners of 2011 Certificates could be impacted by various provisions of the Bankruptcy Code. Given the status of the District as a governmental entity, such a petition would be eligible to be filed only under chapter 9 of the Bankruptcy Code.

*Automatic Stay*. Pursuant to the "automatic stay" of section 922 of the Bankruptcy Code, the filing of a chapter 9 petition by the District would automatically operate as an injunction against, among other things, (i) the commencement or continuation of any judicial or other proceedings against the District and its property, (ii) all acts to recover on preexisting claims against the District, (iii) acts to enforce a lien or otherwise obtain possession of, or exercise control over, property of the District, or (iv) setoff of any obligations against preexisting claims held by the District, unless the consent of the bankruptcy court is first obtained. The bankruptcy court is not required to give its consent. Specifically, this prohibition may prohibit the Trustee and the holders of the 2011 Certificates from taking action against the District to enforce the

terms of the 2011 Certificates, the Trust Agreement, the Acquisition Agreement, the 2011 Installment Sale Agreement or any other agreement relating to the 2011 Certificates. This prohibition may prohibit the Trustee from making payments on the 2011 Certificates with funds in its possession or 2004 Parcel Tax Revenues that are paid to the Trustee by the County, and thus there may be delays in payments on the 2011 Certificates. The County may be prohibited from paying 2004 Parcel Tax Revenues to the Trustee.

*Statutory Lien*. The District's obligation to make payments on the 2011 Certificates and the 2004 Certificates is secured by a lien on the 2004 Parcel Tax Revenues created by the Lien Statute. Special Counsel will render an opinion that, subject to all the assumptions, qualifications, and limitations set forth therein, if the District were to become a debtor in a case under the Bankruptcy Code commenced after the date of delivery of the 2011 Certificates, and the matter were properly briefed and presented to a federal court with jurisdiction over such bankruptcy case, the court, exercising reasonable judgment after full consideration of all relevant factors, would hold that the lien on the 2004 Parcel Tax Revenues described in the Lien Statute as securing the 2011 Certificates is a "statutory lien" within the meaning of section 101(53) of the Bankruptcy Code so that section 552(a) of the Bankruptcy Code would not cause 2004 Parcel Tax Revenues acquired by the District after the commencement of such case to not be subject to such lien. This opinion will be based on an analysis of existing laws and court decisions and will cover certain matters not directly addressed by such authorities. There are no court decisions directly on point, there are court decisions that could be viewed as contrary to the conclusions expressed in the opinion, and the matter is not free from doubt. Accordingly, no assurance can be given that a court would not hold that the lien is not a statutory lien or that such lien does not apply to 2004 Parcel Tax Revenues acquired by the District after the commencement of a bankruptcy case by the District. This opinion does not address whether payments on the 2011 Certificates would be delayed by reason of the automatic stay.

*Debtor In Possession Financing*. In bankruptcy, the District may be able to borrow additional money that is secured by a lien on the 2004 Parcel Tax Revenues, which lien could have priority over the lien provided by the Lien Statute as long as the bankruptcy court determines that the rights of the holders of the 2011 Certificates will be adequately protected within the meaning of the Bankruptcy Code.

*Potential Modification of Terms*. The District may be able, without the consent and over the objection of the Trustee and the holders of the 2011 Certificates, to alter the priority, interest rate, payment terms and amount, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the 2011 Certificates, the Trust Agreement, the Acquisition Agreement, the 2011 Installment Sale Agreement or any other agreement relating to the 2011 Certificates, as long as the alterations are fair and equitable as determined by the bankruptcy court.

*Other Matters*. There may be other possible effects of a bankruptcy of the District that could result in delays or reductions in payments on, or other losses with respect to, the 2011 Certificates. Regardless of any specific adverse determinations in a bankruptcy proceeding, the fact of a bankruptcy proceeding by the District could have an adverse effect on the liquidity and value of the 2011 Certificates.

**Tax Exempt Status of Interest with respect to the 2011 Certificates**

The Internal Revenue Code of 1986, as amended (the "Code") imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the 2011 Certificates, to be excludable from gross income for Federal income tax purposes. These requirements include, among others, limitations on the use of 2011 Certificate proceeds, limitations on the investment earnings of 2011 Certificate proceeds prior to expenditure, a

requirement that certain investment earnings on 2011 Certificate proceeds be paid periodically to the United States, and a requirement that the issuer of the 2011 Certificates file an information report with the Internal Revenue Service. The District has covenanted in certain of the documents referred to herein that it will comply with such requirements. Failure by the District to comply with the requirements stated in the Code and related regulations, rulings and policies may subject interest on the 2011 Certificates to Federal income taxation, retroactively to the date of issuance.

## CONTINUING DISCLOSURE

Pursuant to Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), the District has entered into an agreement with U.S. Bank National Association, as Dissemination Agent (the "Dissemination Agent"), for the benefit of holders of the 2011 Certificates to provide certain financial information and operating data relating to the District, by not later than September 30 of each fiscal year commencing with the report for calendar year 2011 (the "Annual Information"), and to provide notices of the occurrence of certain enumerated events, if deemed by the District to be material. The Annual Information and notices of material events will be filed by the District or the Dissemination Agent, with the Municipal Securities Rulemaking Board (the "MSRB"), via its Electronic Municipal Market Access system. The nature of the information to be provided in the Annual Information and the notices of material events is set forth in APPENDIX F—"FORM OF CONTINUING DISCLOSURE CERTIFICATE."

The District has never failed, in any material respect, to comply with prior undertakings to provide continuing disclosure.

## TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel to the District, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the portion of the 2011 Installment Payments designated as and comprising interest and received by the Owners of the 2011 Certificates (hereafter "interest on the 2011 Certificates") is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Special Counsel is of the further opinion that interest on the 2011 Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Special Counsel is set forth in APPENDIX D—FORM OF SPECIAL COUNSEL OPINION.

To the extent the issue price of any maturity of the 2011 Certificates is less than the amount to be paid at maturity of such 2011 Certificates (excluding amounts stated to be interest on the 2011 Certificates and payable at least annually over the term of such 2011 Certificates), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Owner thereof, is treated as interest on the 2011 Certificates which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the 2011 Certificates is the first price at which a substantial amount of such maturity of the 2011 Certificates is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2011 Certificates accrues daily over the term to maturity of such 2011

Certificates on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2011 Certificates to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2011 Certificates. Owners of the 2011 Certificates should consult their own tax advisors with respect to the tax consequences of ownership of 2011 Certificates with original issue discount, including the treatment of Owners who do not purchase such 2011 Certificates in the original offering to the public at the first price at which a substantial amount of such 2011 Certificates is sold to the public.

2011 Certificates purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium 2011 Certificates") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of 2011 Certificates, like the Premium 2011 Certificates, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and an Owner's basis in a Premium 2011 Certificate, will be reduced by the amount of amortizable bond premium properly allocable to such Owner. Owners of Premium 2011 Certificates should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2011 Certificates. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2011 Certificates will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2011 Certificates being included in gross income for federal income tax purposes, possibly from the date of original execution and delivery of the 2011 Certificates. The opinion of Special Counsel assumes the accuracy of these representations and compliance with these covenants. Special Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Special Counsel's attention after the date of execution and delivery of the 2011 Certificates may adversely affect the value of, or the tax status of interest on, the 2011 Certificates. Accordingly, the opinion of Special Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Special Counsel is of the opinion that interest on the 2011 Certificates is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the 2011 Certificates may otherwise affect an Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Owner or the Owner's other items of income or deduction. Special Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2011 Certificates to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Owners from realizing the full current benefit of the tax status of such interest on the 2011 Certificates. As one example, on September 12, 2011, the Obama Administration announced a legislative proposal entitled the American Jobs Act of 2011. For tax years beginning on or after January 1, 2013, the American Jobs Act of 2011 generally would limit the exclusion from gross income of interest on obligations like the 2011 Certificates to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or

otherwise affect, the exclusion from gross income of interest on obligations like the 2011 Certificates. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the 2011 Certificates. Prospective purchasers of the 2011 Certificates should consult their own tax advisers regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Special Counsel expresses no opinion.

The opinion of Special Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Special Counsel's judgment as to the proper treatment of the 2011 Certificates for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Special Counsel cannot give and has not given any opinion or assurance about the future activities of the District, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Special Counsel's engagement with respect to the 2011 Certificates ends with the issuance of the 2011 Certificates, and, unless separately engaged, Special Counsel is not obligated to defend the District or the Owners regarding the tax-exempt status of the 2011 Certificates in the event of an audit examination by the IRS. Under current procedures, parties other than the District and their appointed counsel, including the Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2011 Certificates for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2011 Certificates, and may cause the District or the Owners to incur significant expense.

## INDEPENDENT ACCOUNTANTS

The audited financial statements of the District, as of December 31, 2009 and 2010, and for the fiscal years then ended were audited by Moss Adams LLP, independent auditors, as stated in their reports included herein, and are included in APPENDIX B—FINANCIAL STATEMENTS OF THE DISTRICT FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009. Moss Adams LLP has not been engaged to perform and has not performed, since the date of the reports included herein, any procedures on the audited financial statements addressed in those reports.

## CERTAIN LEGAL MATTERS

Legal matters incident to the execution and delivery of the 2011 Certificates are subject to the approving the opinion of Orrick Herrington & Sutcliffe LLP, San Francisco, California, Special Counsel. See APPENDIX D—FORM OF OPINION OF SPECIAL COUNSEL. Certain legal matters will be passed upon for the District by Quint & Thimmig LLP, San Francisco, California, as Disclosure Counsel. Certain matters will be passed upon by for the District and the Corporation by Archer Norris, Walnut Creek, California, as District and Corporation Counsel.

## ABSENCE OF LITIGATION

There is no litigation pending against the District or the Corporation, nor, to the knowledge of the officers or attorneys of the District or the Corporation, threatened, in any court or other tribunal of competent jurisdiction, state or federal, in any way (i) restraining or enjoining the execution, sale or delivery of any of the 2011 Certificates, or (ii) questioning or affecting the validity of the 2011 Certificates or (iii) questioning or affecting the validity of any of the proceedings for the authorization, sale, execution or delivery of the 2011 Certificates, or (iv) questioning or affecting the validity or enforceability of the 2011 Installment Sale Agreement, Assignment Agreement or Trust Agreement, or (v) questioning the legality of the 2004 Parcel Tax Revenues or the status of the statutory lien thereon, or the collection of the 2004 Parcel Tax Revenues payments to be made pursuant to the 2011 Installment Sale Agreement.

## RATING

Standard and Poor's Ratings Services ("S&P") has assigned its municipal bond rating of "A-" to the 2011 Certificates. No application was made to any other rating agency for the purpose of obtaining additional ratings on the 2011 Certificates. Such rating reflects only the views of S&P and an explanation of the significance of such rating may be obtained from it as follows: S&P, 55 Water Street, New York, NY 10041, (212) 208-8000. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the 2011 Certificates.

## UNDERWRITING

The 2011 Certificates are being purchased by Piper Jaffray & Co., and Stifel, Nicolaus & Company, Incorporated, DBA Stone & Youngberg, a Division of Stifel Nicolaus, and Wedbush Securities Inc., (the "Underwriters"). The Underwriters have agreed to purchase the 2011 Certificates at a price of $39,392,760.90 (representing the principal amount of the Certificates of $40,000,000, less net original issue discount of $333,239.10, less $274,000.00 of Underwriters' discount). The purchase agreement relating to the 2011 Certificates provides that the Underwriters will purchase all of the 2011 Certificates at the price indicated above if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in such purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

The Underwriters may offer and sell 2011 Certificates to certain dealers and others at a price lower than the offering price stated on the cover page hereof. The offering price may be changed from time to time by the Underwriter.

Piper Jaffray & Co. ("Piper") and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, entered into an agreement (the "Agreement") which enables Pershing LLC to distribute certain new issue municipal securities underwritten by or allocated to Piper, including the 2011 Certificates. Under the Agreement, Piper will share with Pershing LLC a portion of the fee or commission paid to Piper.

## AVAILABILITY OF DOCUMENTS

Copies of the 2011 Installment Sale Agreement, the Trust Agreement and the Assignment Agreement are available, upon written request, from the Chief Executive Officer of the West Contra Costa Healthcare District, 2000 Vale Avenue, San Pablo, CA 94806.

## MISCELLANEOUS

The foregoing and subsequent summaries or descriptions of provisions of the 2011 Certificates, 2011 Installment Sale Agreement, Assignment Agreement and Trust Agreement, and all references to other materials not purporting to be quoted in full are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof. Reference is made to said documents for full and complete statements of their provisions.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or Owners of any of the 2011 Certificates.

The District has approved this Official Statement and has authorized its execution and delivery.

WEST CONTRA COSTA HEALTHCARE
DISTRICT

By /s/ Dawn Gideon
Chief Executive Officer

# APPENDIX A

## INFORMATION CONCERNING THE WEST CONTRA COSTA HEALTHCARE DISTRICT AND THE HOSPITAL

***The information in this Appendix A is for information only.***

***Investors are advised that the security for the 2011 Installment Payments and, therefore, the principal and interest with respect to the 2011 Certificates, is the levy and collection of the 2004 Parcel Tax Revenues and no other revenues or funds of the District.***

The information contained in this Appendix A has been obtained from West Contra Costa Healthcare District.

TABLE OF CONTENTS

THE DISTRICT ..... 3
THE DISTRICT BOARD OF DIRECTORS AND HOSPITAL GOVERNING BOARD ..... 3
Tax Exchange Agreement ..... 4
THE HOSPITAL ..... 5
Other District Facilities ..... 6
Hospital Senior Management ..... 6
Employees and Labor Relations ..... 7
Affiliates ..... 8
Services ..... 8
Accreditations and Memberships ..... 9
Bed Complement ..... 10
Medical Staff ..... 10
Historical Utilization Statistics ..... 10
Sources of Patient Revenue ..... 11
Management's Discussion of Hospital Operations ..... 11
Other Information ..... 16
Employees' Retirement and Deferred Compensation Plans ..... 17
Capital Expenditures ..... 17
SB 1953 Seismic Evaluation ..... 17
Service Area and Competition ..... 18
DISTRICT FINANCIAL INFORMATION ..... 21
Budget ..... 21
Financial Statements ..... 21
Total Unrestricted Funds ..... 22
Direct and Overlapping Bonded Debt ..... 22
PROPERTY TAX ..... 24
Property Tax Collection Procedures ..... 24
Assessed Valuations ..... 25
Tax Levies and Delinquencies ..... 26
Teeter Plan ..... 27
RISKS OF HOSPITAL OPERATIONS ..... 28
Health Care Reform ..... 28
The Medicare Program ..... 31
The Medicaid Program ..... 35
California Medi-Cal Program ..... 35
Indigent Care ..... 37
Private Health Plans and Managed Care ..... 37
Physician Alliances and Affiliation ..... 38
Affiliation, Merger, Acquisition and Disposition ..... 39
Other Acquisitions and Affiliations ..... 39
Antitrust ..... 40
Referral Laws ..... 40
Risks in Health Care Delivery ..... 41
Licensing, Surveys, Investigations and Audits ..... 43
Seismic Requirements ..... 44
Environmental Laws and Regulations ..... 44
Future Risks ..... 45

## THE DISTRICT

The West Contra Costa Healthcare District (the "District"), a local health care district formed in 1948, is a political subdivision of the State of California (the "State") organized pursuant to the State's Local Health Care District Law (formerly The Local Hospital District Law) as set forth in Section 32000 of the State's Health and Safety Code. The geographic area that composes the District (the residents of which elect the District's Board of Directors) encompasses a majority of the western portion of Contra Costa County (the "County") and includes the cities of Richmond, San Pablo, El Cerrito, Hercules and Pinole, as well as neighboring unincorporated areas including Crockett, Rodeo, North Richmond and El Sobrante, among others. The 2011 estimated population of the cities and communities encompassing the District was approximately 250,000.

The District owns and operates Doctor's Medical Center—San Pablo (formerly known as Brookside Hospital), an acute care hospital located at 2000 Vale Road in the city of San Pablo, California (the "Hospital"). From January 24, 1997 to July 31, 2004, the Hospital was operated by Tenet Health System Hospitals, Inc. ("Tenet"). Effective August 1, 2004, the District resumed operation of the Hospital. The Hospital and related information is described below under "THE HOSPITAL."

## THE DISTRICT BOARD OF DIRECTORS AND HOSPITAL GOVERNING BOARD

The governing body of the District is its Board of Directors (the "Board"), which consists of five members elected at large to four-year terms. No election is required if a candidate for election to the Board is unopposed and vacancies of the Board are filled by appointment by the remaining members of the Board. Members of the Board must be registered voters residing within the District.

Pursuant to the Amended and Restated Bylaws of the District adopted April 29, 2011, a duly authorized standing committee of the Board (the "Hospital Governing Body") was established. The powers of the Hospital Governing Body are delegated and specified by the Board pursuant to the District's Bylaws and the terms of a Tax Exchange Agreement between the County and the District, dated April 5, 2011. See "Tax Exchange Agreement" below. The purpose of the Hospital Governing Board is to further the District's purpose of protecting and promoting the public health and general welfare by furnishing and enhancing healthcare services to all of the residents within the District as well as others who find themselves needing healthcare services within the District. The Hospital Governing Body is composed of eleven members including the five members of the Board who serve ex officio, two members who are representatives of the Hospital's medical staff nominated by the District's Medical Executive Committee and approved by a majority of the remainder of the Board and four County representatives (a representative from the County Board of Supervisors, the County Health Services Officer, the County Public Health Director and the County Health Services Chief Financial Officer or his/her designees).

The Board has delegated the operations and governance of the Hospital to the Hospital Governing Body including overall administrative and professional responsibility for the Hospital with the exception of (i) a change in the Hospital's mission statement, (ii) any change in the Hospital's charity care policy, (iii) any change in the name of the Hospital, (iv) the establishment of any affiliates of the Hospital or the District, or affiliations with other entities representing a change in any ownership or management control, (v) the incurrence of new debt, or encumbrances upon District assets, by the District in excess of $5,000,000, (vi) the transfer or disposal of the District's real property and disposal or transfer of District assets with a value in excess of $1,000,000, other than equipment being replaced or in the ordinary course of Hospital

budgeted operations, (vii) the closure of the Hospital, (viii) any change in the use of District tax revenues, and (ix) the ratification of the employment of the Hospital Chief Executive Officer.

The current members of the Board and the Hospital Governing Body, their principal occupations, their offices held and the dates on which their terms expire are shown in the following tables.

District Board members include the following:

| Name | Position | Principal Occupation | Term Expires |
|---|---|---|---|
| Irma Anderson | Chair | Retired Nurse | November 2014 |
| Eric Zell | Vice Chair | Consultant/Lobbyist | November 2012 |
| Beverly Wallace | Treasurer | Retired | November 2014 |
| Deborah Campbell, RN | Secretary | Nurse | November 2012 |
| Nancy Casazza, RN | Assistant Secretary | State Public Health Officer | November 2012 |

Source: District records.

Hospital Governing Body members include the following:

| Name | Position | Principal Occupation | Term Expires |
|---|---|---|---|
| John Gioia [(1)] | Chair | Member of County Board of Supervisors | Not applicable |
| Eric Zell | Vice Chair | Consultant/Lobbyist | November 2012 |
| Irma Anderson | Member | Retired Nurse | November 2014 |
| Wendel Brunner, M.D. [(1)] | Member | County Public Health Director | Not applicable |
| Deborah Campbell, RN | Member | Nurse | November 2012 |
| Nancy Casazza, RN | Member | State Public Health Officer | November 2012 |
| Sharon Drager, M.D. [(2)] | Member | Hospital Chief of Staff | January 2014 |
| Pat Godley [(1)] | Member | County Health Services CFO and COO | Not applicable |
| Richard Stern, M.D. [(2)] | Member | Cardiology Physician | January 2012 |
| William Walker, M.D. [(1)] | Member | County Director of Health Services | Not applicable |
| Beverly Wallace | Member | Retired | November 2014 |

Source: District records.
[(1)] County members.
[(2)] Hospital medical staff members who serve one-year terms.

The Hospital Governing Body is required to establish three standing committees, including the Finance Committee, the Quality, Patient Safety and Professional Affairs Committee and the Planning and General Affairs Committee but has not yet done so.

**Tax Exchange Agreement**

In October 2006, the District and the County entered into "The West Contra Costa Healthcare District Agreement for Property Tax Transfer to Contra Costa County" (the "2006 Agreement"). As part of this transaction, the County provided $10,000,000 for the benefit of the District. In return, the District agreed to provide for the allocation and transfer to the County of the entirety of the general *ad valorem* property tax revenues that otherwise would be collected and allocated to the District, commencing July 1, 2007, and continuing until $11,500,000 had been allocated and transferred to the County. As a further condition of the advance of the $10,000,000, the County and the District entered into a "Joint Power Agreement Establishing Doctors Medical Center Management Authority," creating the Doctors Medical Center Management Authority (the "Authority"), to provide for County and District joint management oversight of the Hospital. In March 2011, the entire $11,500,000 amount owing to the County was paid.

In April 2011, the "Second Agreement for Property Tax Transfer from West Contra Costa Healthcare District to Contra Costa County" (the "2011 Agreement") was executed between the County and the District, whereby an additional $10,000,000 tax advance was provided under terms and conditions similar to the 2006 Agreement and will continue until $11,500,000 is collected and transferred to the County. The 2011 Agreement provided for the termination of the Authority and resulted in the creation of the Hospital Governing Body as outlined above.

## THE HOSPITAL

The Hospital was constructed and commenced operations in 1954 with the most recent expansions being completed in 1992, 1995, 1998, 1999, 2000, 2001 and 2003. The main Hospital patient tower was constructed in 1954, followed by a southwestern addition in 1961, the laboratory addition in 1963 and an east wing addition in 1975. The most recent addition to the Hospital occurred in 1995 with the construction of a cancer center.

From 1954 until 1997, the District operated the Hospital as an independent acute care hospital facility. Effective January 24, 1997, the District leased the Hospital to Tenet pursuant to the terms of a 30-year Lease Agreement. In order to generate funds sufficient to retire all then outstanding debt of the District, Tenet agreed to fully prepay the lease through a lump-sum payment to the District at the time it entered into the Lease Agreement.

In January 2004, under the terms of the Lease Agreement, Tenet provided a six-month termination notice to the District of the Lease Agreement effective July 31, 2004. Accordingly, the District again began operation of the Hospital effective August 1, 2004.

The Hospital is currently licensed for 189 acute care beds and is one of only eight acute care medical facilities located in the County. The Hospital campus is located on the east side of San Francisco Bay in San Pablo, California, approximately 20 miles northeast of the City of San Francisco just west of Interstate 80. The Hospital is situated on an approximate 11.8-acre campus that consists of several adjoining buildings ranging from one to seven stories, containing approximately 303,000 square feet of gross floor area. The estimated fair market value of the Hospital ranges from approximately $22,000,000 to $33,000,000 based upon a recent MAI appraisal of land and buildings owned by the District.

The Hospital provides a range of primary and secondary inpatient acute care services (including specialized services in wound care, cardiology, cardiovascular intervention, oncology, renal services, orthopedic and spinal surgery), a critical care unit that includes surgical and medical, a step-down unit, a wound center and comprehensive emergency, outpatient, ambulatory care and ancillary services. Ancillary services provided at the Hospital currently include a clinical lab, diagnostic imaging (CT, ultrasound, nuclear medicine, invasive radiology and a cardiac cath lab), respiratory therapy, physical, occupational and speech therapy, cardiac rehabilitation, dialysis and a cancer center that includes chemotherapy, radiation therapy, mammography and brachytherapy.

To meet the needs of residents of its service area, the Hospital's services, programs and facilities have been adjusted over time. Over the past thirty-five years, the District and Tenet made the following additions and improvements to the Hospital:

- In 1975, the District completed the construction of an east wing addition to the Hospital which included a new emergency room, surgical suites and nuclear medicine department.

- In 1995, the District completed the construction and equipping of a new cancer center.
- In 1998, Tenet completed the renovation and expansion of the Hospital's emergency department and laboratory.
- In 1999, Tenet completed the reconstruction of the wound care unit on the 7th floor of the Hospital and installed a new emergency generator.
- In 2000, Tenet completed the renovation and equipping (including a new cardiac cath lab, a new 4-slice CT scanner, a new stage 1 mammogram unit, updated the interventional radiology procedure room and updated the nuclear medicine-gamma camera room) of the Hospital's radiology department.
- In 2001, Tenet built out the second stage of the cancer center, remodeled the women's center and remodeled data processing and elevators at the Hospital.
- In 2003, Tenet completed the construction of a new 16-bed medical intensive care unit on the 2nd floor of the Hospital.
- In 2010, the District renovated clinic space at its leased facility located near the Hospital.

Tenet donated all of the above-referenced facility improvements to the District in connection with its termination of the Lease Agreement with the District on August 1, 2004.

**Other District Facilities**

In addition to the Hospital, the District owns a one-story medical office building and a two-story medical office building both located adjacent to the Hospital, totaling approximately 33,000 in square feet of gross floor area. The one-story building was constructed in 1963 and the two-story building was constructed in 1968, with both buildings leased primarily to physicians who practice at the Hospital and to other health care related enterprises. The estimated fair market value of the two medical office buildings is approximately $6,800,000 based upon a recent MAI appraisal of land and buildings owned by the District.

The District also operates a health clinic from leased space (approximately 14,000 square feet) located approximately one-half mile from the Hospital.

**Hospital Senior Management**

The District's bylaws provide that its Chief Executive Officer shall direct and coordinate the ongoing operations of the District. Senior management personnel of the District responsible for the operations of the Hospital are profiled below:

**Dawn Gideon**, *Interim President and Chief Executive Officer*. Ms. Gideon has been the Interim Chief Executive Officer of the District since March, 2011. She is a Managing Director of Huron Consulting Group ("Huron") and has specialized in healthcare organization restructuring and turnarounds, operations management, strategic planning and business development over the past 30 years. A few of the facilities where Ms. Gideon has worked are Forbes Health System in Pittsburgh, Pennsylvania, Allegheny University Hospitals in Pittsburgh, Pennsylvania, CareGroup in Boston, Massachusetts, Caritas Christi Healthcare System of Boston, Massachusetts and Saint Vincent Catholic Medical Centers of New York.

Ms. Gideon's management and turnaround services are provided to the District through an engagement agreement executed between the District and Huron on March 16, 2011, and extended on June 22, 2011. It is anticipated that Huron and Ms. Gideon will transition to a permanent management team in early 2012. The District has retained the executive search services of Korn Ferry in connection with the President/CEO recruitment which is anticipated to begin in January 2012.

**Kathy White, RN, MS**, *Interim Chief Operations Officer/Chief Nursing Officer*. Ms. White has been the Chief Operations Officer of the District since August 2011, and additionally assumed the role of Chief Nursing Officer in November 2011. Ms. White's career began as a critical care nurse that developed into several senior executive leadership positions. She received her Bachelor of Science degree in Nursing from the University of Pittsburgh, Pennsylvania, and earned a Masters of Science degree from the State University of New York at Stony Brook, New York, where she was also a Clinical Assistant Professor. She is a member of the American Organization of Nurse Executives and has served on the national board and on various strategic committees. She is a founding member and consultant of the Critical Care Management Consultants. Ms. White has authored several articles in healthcare publications and is a national presenter on issues related to the clinical environment, workforce and executive leadership.

**Jim Boatman**, *Chief Financial Officer*. Mr. Boatman has been Chief Financial Officer of the District since June 2011. Prior to serving as Chief Financial Officer at the District, Mr. Boatman was employed as the Controller at the District since 2007. Prior to his employment at the District, Mr. Boatman was a healthcare consultant in the Bay Area and held the position of Controller at Valley Care Health System from 1997 to 2006, St. Luke's Hospital from 1988 to 1997 and Alta Bates Corporation from 1980 to 1988. Mr. Boatman has over 31 years of experience as either a Controller or Chief Financial Officer at various healthcare facilities. Mr. Boatman earned a Bachelor of Science degree in Accounting from California State University, Sacramento, California. He earned a Master of Business Administration degree in Management from Golden Gate University, San Francisco, California.

**Employees and Labor Relations**

The District believes its employee compensation package is competitive and that its relations with employees are good. The District is a party to five agreements with four collective bargaining organizations (the Public Employees Union, Local One has two separate agreements, one for clinical laboratory scientists and one for business office and clerical employees) that cover its operation of the Hospital.

The California Nurse Association (with approximately 313 members as of November 1, 2011) represents registered nurses. Its most recent 21-month contract with the District terminates on June 30, 2012.

The National Union of Healthcare Workers (with approximately 326 employees as of November 1, 2011) represents housekeeping, dietary, some clerical and licensed vocational nurses. Its most recent 12-month contract terminating on July 31, 2012.

Local One of the Public Employees Union, represents business office employees (approximately 110 employees as of November 1, 2011) and laboratory employees (approximately 24 employees as of November 1, 2011) with the most recent 24-month contract with the District terminated on June 30, 2011, but was extended through August 31, 2011. A further extension is presently under negotiation.

International Union of Operating Engineers, Stationary Local 39 (approximately 17 employees as of November 1, 2011) represents engineers. The most recent 60-month contract with the District terminated on December 31, 2010, and is currently renewing annually.

Registered nurses represented by the California Nurse Association went on strike at the Hospital when under Tenet ownership from November of 2002 to December of 2003. No strikes or work stoppages have occurred at the Hospital since 2003. Management of the District believes that current relations between Hospital management and unions representing employees of the District are good.

**Affiliates**

The District is affiliated with the following organizations that are not obligated nor are their revenues or assets pledged or otherwise available for repayment of the 2011Certificates and Parity Debt. The District plans for and evaluates potential affiliations as part of its overall strategic planning process where there are strategic or operational benefits to be realized.

*Brookside Community Health Center*. Brookside Community Health Center (the "Health Center"), a nonprofit public benefit corporation, was created by the District in 1994 as a department of the Hospital, and in 1996 the Health Center was spun off as a Federally Qualified Health Center. From 1997 to 2004, the District directly supported the Health Center with annual subsidies to assist in the funding of its operations. Initially the District funded approximately $150,000 annually with the amount of funding increasing to approximately $800,000 in 2003. In 2004, with the operation and management of Doctors Medical Center returning to the District, the District discontinued financial support to the Health Center. The Health Center will soon merge into another Federally Qualified Health Center at which time the formal affiliation with the District will cease. The Hospital will continue to serve as the outpatient testing and inpatient provider to Health Center patients.

*Brookside Foundation*. The Brookside Foundation (the "Foundation"), a nonprofit public benefit corporation, was created by the District in 1980 to conduct charitable fundraising for the benefit of the District and its healthcare facilities located within the District. The Foundation has not been a significant contributor to the District in recent years, and is currently inactive.

In response to continued changes in the healthcare market, the District has initiated a review of strategic actions that it could take to enhance its ability to serve patients who utilize its facilities and operate the Hospital more efficiently. This may lead management over the next several years to consider entering into joint ventures or affiliations with other healthcare providers.

**Services**

A wide range of patient care services are provided at the Hospital, including general acute care for medical and surgical patients, inpatient and outpatient surgery services, critical care for medical, surgical and cardiac patients, physical, occupational and radiation therapy, social services, respiratory care, speech pathology and emergency services, among others. The Hospital's emergency room includes 24 beds that provide care 24 hours a day, seven days a week. In 2011, the Hospital's emergency department served approximately 40,000 patients and is the busiest hospital emergency room in west Contra Costa County and the second busiest countywide.

The Hospital currently provides a variety of specialized services, including the following:

*J.C. Robinson, M.D. Regional Cancer Center*. Oncology care and radiation therapy are provided at the Hospital's regional cancer center, which offers diagnosis and state-of-the-art radiation therapy, surgical oncology, medical oncology, cancer research, free screening, consultative tumor board conference, tissue bank, rehabilitation clinic and three support groups. The cancer center is one of a few such California cancer treatment facilities accredited by the American College of Surgeons – Commission on Cancer. Both inpatient and outpatient radiation services are provided, including mammography and linear accelerator, among other services. Specialized services are also provided through integrated programs at the breast care center, the cancer registry, and the women's cancer center.

*Cardiac Services*. The Hospital's cardiac program provides a wide range of cardiovascular treatments and technologies including interventional cardiology and electrophysiology to residents of the Hospital's service area and the surrounding counties. Its cardiac catheterization laboratory provides invasive procedures, and other services include implanting permanent pacemakers and defibrillators, rotational artherectomy, intracoronary stenting, artherectomy and angioplasty procedures. The cardiac program also provides electrocardiology, diagnostic cardiology and comprehensive rehabilitation and aftercare programs.

*Orthopedic Services*. The orthopedics medical team includes orthopedic surgeons, nurses and physical therapists. JointWorks, the Hospital's arthritis treatment and joint replacement program, integrates patient education with a sophisticated medical approach for the treatment of debilitating pain and loss of mobility.

*Wound Center*. The Hospital provides needed services to area residents through its wound center. Services are delivered in the areas of grafting techniques, hydrotherapy, skin grafting, infection control, nutritional support, pain management and hyperbaric treatment. Specialists in the program include physicians, nurses, occupational and physical therapists, dieticians, respiratory therapists and psychologists who work together to plan for the treatment and recovery of each patient.

**Accreditations and Memberships**

The Hospital has been fully accredited since it was opened in 1954. The Hospital's most recent three-year accreditation from The Joint Commission expires in January 2013. In addition to The Joint Commission accreditation, the Hospital's regional cancer center program is accredited by the American College of Surgeons – Commission on Cancer and its sleep disorders center program is accredited by the American Academy of Sleep Medicine.

The Hospital is an eligible provider under Medicare, Medi-Cal, Blue Cross and other commercial insurance programs and holds memberships in the California Healthcare Association and other professional health care related and community-based organizations. The District is a member of the Association of California Healthcare Districts.

## Bed Complement

Currently the Hospital has a licensed capacity of 189 beds, based upon the current State of California Department of Health Services license. The current licensed bed count for the Hospital, classified by service type, is as follows:

| | Licensed Beds |
|---|---|
| General Acute Care | 154 |
| Intensive Care | 35 |
| Total Licensed Beds | 189 |

Source: State of California Department of Health Services license.

## Medical Staff

As of November 1, 2011, the District's medical staff totaled 254 physicians, including 120 active staff, and 134 total courtesy, consulting, provisional and honorary staff. Of the 120 active medical staff physicians, approximately 90% are board certified. The average age of the active staff physicians is approximately 51 years. A total of 33 physician specialties and subspecialties are represented on the medical staff.

The Hospital uses a "Hospitalist" model of care, whereby the majority of physicians refer their patients to a group of physicians who exclusively manage the inpatient hospitalization on behalf of the referring physician. This model of care is rapidly becoming the best practice standard in the industry, and helps to ensure standardization of care, greater coordination with specialists, reduction in unnecessary testing, lowered length of stay, and improved outcomes.

## Historical Utilization Statistics

Selected historical utilization statistics and staffing information for the Hospital for each of the four years ended December 31, 2007, 2008, 2009 and 2010, is as follows.

| | For the Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 |
| Admissions | 5,884 | 6,413 | 6,283 | 6,155 |
| Emergency Room Inpatient Admissions | 4,874 | 5,254 | 5,282 | 5,269 |
| Discharges | 5,869 | 6,381 | 6,293 | 6,158 |
| Patient Days | 30,087 | 30,953 | 30,305 | 31,552 |
| Average Daily Census | 82 | 85 | 83 | 86 |
| Average Length of Stay | 5.13 | 4.85 | 4.82 | 5.12 |
| Outpatient Visits (inclusive of emergency outpatient visits) | 75,542 | 74,749 | 72,871 | 74,713 |
| Surgeries | 3,086 | 2,439 | 2,385 | 2,216 |
| Full Time Equivalents Worked | 586 | 562 | 610 | 633 |

Source: District records.

As shown above, utilization of the Hospital has remained relatively stable over the past four years, with modest increases over 2007 volume (except for outpatient visits and surgeries which declined) despite increased penetration of Kaiser Health Plan insurance within the Hospital's market. Kaiser Health Plan patients are contractually obligated through their insurance plan to seek services only at a Kaiser hospital, including one in close proximity to the

Hospital. However, during the same period total surgeries declined by approximately 28% due primarily to the elimination in 2006 of the obstetrical program and associated surgery, and the closing of the open heart surgery program.

See "Recent Financial and Operational Information" below.

**Sources of Patient Revenue**

The District currently receives payment for the services it provides to patients from commercial insurers and other private payors, the federal government under the Medicare program, the federal government and the State under the Medi-Cal program and directly from patients. For the year ended December 31, 2010, the Hospital received approximately 49% of its net patient service revenues from Medicare and Medicare Managed Care Plan, approximately 16% of its net patient service revenues from Medi-Cal and Medi-Cal Managed Care Plans, approximately 28% of its net patient service revenues from commercial and commercial managed care payors and approximately 1% of its net patient service revenues from private pay and all other payors.

Medicare is a federal program, administered by the Centers for Medicare and Medicaid Services, available to individuals age 65 or over and certain disabled persons. Medicaid is a federal and state program, known as Medi-Cal in California, under which the Hospital furnishes services to program-eligible persons. See "RISKS OF HOSPITAL OPERATIONS—The Medicare Program" and "The Medicaid Program" in this Appendix A.

See also, "RISKS OF HOSPITAL OPERATIONS—Federal and State Legislation and Actions," "RISKS OF HOSPITAL OPERATIONS—The Medicare Program," "RISKS OF HOSPITAL OPERATIONS—California Medi-Cal Program" and "RISKS OF HOSPITAL OPERATIONS—Private Health Plans and Managed Care" in this Appendix A.

**Management's Discussion of Hospital Operations**

The Hospital is a safety net hospital, one of only two facilities in the County contracted with the State to provide care to the Medi-Cal population. The Hospital has historically experienced negative cash flow and operating losses—the direct result of the nature of the population served—the elderly and indigent. In 2010, approximately 85% of the Hospital's patients were government pay or uninsured.

| Payor | % of Total Patient Volume 2010 | % of Net Patient Revenue 2010 |
|---|---|---|
| Medicare/Medicare Managed Care | 47% | 49% |
| Medi-Cal/Medi-Cal Managed Care | 27 | 16 |
| Commercial/Commerical Managed Care | 15 | 28 |
| Self Pay/Charity Care | 8 | 1 |
| Other Governmental | 3 | 6 |
| TOTAL | 100% | 100% |

None of these payers reimburse the full cost of providing care. Other hospitals offset these losses by charging more to commercial/HMO payers – essentially cost shifting. The Hospital does not have a sufficient volume of HMO patients to close the gap – and it is not practical to believe that sufficient HMO volume will be realized in the near future. Instead, the gap has most recently been closed through special funding provided by the State and federal governments, and with grants from other area providers. In 2008 and 2009, this outside funding totaled approximately $17 million annually. In 2010, that amount fell to less than $10 million

with changes in the funding approach at the State and Federal levels. In 2011, these changes were formalized with the passage of a new law governing the distribution of special or extraordinary funds, and funding from the State to the Hospital dropped from $12 million annually to a projected $1.2 million annually. At the same time, the funding from Kaiser Permanente and John Muir Health came to an end. Combined, these changes resulted in a 93% decline in external support.

With this decline in external funding, the District and other providers moved quickly to 1) assess the community impact of the closure of the Hospital and 2) develop a plan to replace/reduce the need for outside support and therefore avoid a closure.

The Contra Costa EMS Agency commissioned an independent analysis of the impact of a potential closure or downsizing of the Hospital. That study found that:

- the loss would be catastrophic to West Contra Costa County;
- closure of the Hospital would have a substantial, harmful effect on local healthcare providers and to the general public in West Contra Costa County;
- the other hospital in the region, Kaiser Permanente in Richmond, would be inundated by new patient volume and West Contra Costa County emergency department waiting times would likely reach 10-12 hours;
- the region already does not have enough emergency department treatment rooms or intensive care beds (even with the Hospital open today) and the current shortage would become significantly worse; and
- additional ambulance hours needed to maintain current EMS performance would cost $2.5M annually and critical infrastructure would be eliminated to support a disaster.

With the need for continued operations clear, the District completed its plan to address the loss of nearly $16 million in funding. This plan includes:

- *Operational improvements/expense reduction initiatives*. The District's 2012 budget includes a reduction in expenses of approximately $5.6 million on a normalized basis (before inflation). These reductions include, but are not limited to:
    - Elimination of 40+ positions (including salary and benefit cost savings),
    - Changes to employee health benefits plan, including increase in employee contributions to coverage,
    - Select vendor contract renegotiation and/or elimination,
    - Expansion of 340b pharmacy purchasing program, and
    - Change in employee staffing patterns to reduce employee call-coverage payment.
- *Collaboration with County Health Services and others to gain economies of scale*. Through collaboration with other providers, including the County, John Muir Health and Kaiser Permanente, a goal of $6 million in operating improvement has been targeted, with $5 million expense savings included in the 2012 budget. Such saving will come from a number of initiatives, including:
    - Participation in VHA/Novation's Western Purchasing Coalition, along with John Muir Health and several other hospitals: Currently, the District uses this same

purchasing program, but receives only modest discounts because of its small volume and low purchasing power. Participation at the John Muir Health affiliation level will drive savings of $1.0 million annually, with a range of opportunity from $750,000 (low estimate) to $1.25 million (high estimate) on an annual basis,

- Shared physician call coverage: The District presently spends in excess of $6 million annually on physician services, including payment to specialists for coverage of pathology, radiology and specialist coverage of uninsured or Medi-Cal insured emergency department patients. Both Kaiser Permanente and the County employ physicians within their systems to provide these services, and options for expansion of those existing contracts to the Hospital are underway. Shared coverage is anticipated to reduce expenses by $500,000 annually, with a range of opportunity of $250,000 to $750,000,
- Disproportionate Share Payments: The District provides care to a large number of indigent patients and is therefore eligible to receive Disproportionate Share (DSH) Payments from the Medi-Cal program. However, the California State Plan under Title XIX of the Social Security Act requires that hospitals meet the low income inpatient utilization criteria, and also has "at least two obstetricians with staff privileges at the hospital who have agreed to provide obstetric services to individuals entitles to such services under the State Medicaid Plan." The District does not currently have such obstetrician coverage. The County Health Services employed obstetricians are currently completing staff applications to allow the District to meet the qualification criteria. The annual positive financial impact is projected to be in excess of $500,000,
- Ambulance receiving payments: The practice of ambulance payments to hospitals that receive a disproportionate share of uninsured or government insured patients is a standard practice in many communities but has not historically been done in the County. In 2012, that practice will change and the County contracted provider will initiate a support program to Medi-Cal providers. This program is anticipated to provide $2 million in annual fees to the District, and
- Clinical program integration: The County Health Services does not provide several clinical services, including radiation oncology, which are provided on a profitable basis at the Hospital. Presently those patients are lost or referred out to other hospitals in the region. Through redirection of that population to the District there is a projected revenue opportunity of nearly $2 million annually.

- *Parcel tax increase*. On November 15, 2011, the District voters overwhelmingly approved a new parcel tax that will generate $5.1 million per year in additional tax funding. This measure passed with nearly seventy-four percent (74%) voter approval. Unlike the 2004 Parcel Tax measure, this parcel tax will sunset if the Hospital closes. The 2011 parcel tax will not be collateral for the 2011 Certificates.

- *Aggressive payer contract negotiations*. The District has been able to achieve rate increases above normal inflation rates for most of its commercial payers, many resulting in rate increases in excess of 10%. In addition, it received over a 20% rate increase from its largest Managed Medi-Cal payer.

While each of these initiatives provides for more secured liquidity in the future, the District realizes that a new model for care is necessary to ensure continued future viability and to address the changing landscape as a result of Federal healthcare reform. As a result, a collaborative committee including the County Health Services, Kaiser Permanente, John Muir Health, the Hospital Counsel, the Alameda-Contra Costa Medical Association and the Board,

management and medical staff of the District came together in July 2011 to initiate a planning process focused on the development of a long term strategy to redefine the business and delivery system models for the District. In doing so, the goal was to provide a model that continues to meet the healthcare needs of area residents in a financially sustainable fashion. The specific objectives outlined at the beginning of the project included:

- Investigate multiple options for the provision of care in West Contra Costa County;
- Evaluate the impact of each option on healthcare access for local residents;
- Understand the impact of each option on other area providers; and
- Develop options that are feasible and sustainable.

The committee reviewed a number of potential models. In each instance, they evaluated the impact on healthcare access for local residents and the impact on other area providers. Options evaluated included:

- Conversion to/creation of:
    - a free standing emergency department, with and without additional ancillary services (including cancer services)
    - an urgent care center, with and without additional ancillary services (including cancer services)
    - a smaller hospital footprint: 50, 75, 100 beds
- Creation of a management agreement with other provider(s) to gain efficiencies and economies of scale
- Construction of a new hospital in an alternate location, combined with management agreement and shared services with other providers (see above):
    - In a northern area of the District
    - In San Pablo adjacent to the new County Health Clinic – shared ancillary services, urgent care, etc
    - Others
- Construction of a new facility with limited number of beds (approximately 14) in San Pablo adjacent to the new County Health Clinic, shared ancillary services, urgent care, etc. Inpatients transferred to receiving hospitals in the County
- Merger of the Hospital with other area providers, including those participating in this planning process, or sale to another area provider and national/regional party.

The above models warrant exploring in more detail. Beginning in early 2012, the District will initiate a more intensive planning process to further investigate each of these outlined options.

**2006 Bankruptcy**

The District filed a voluntary petition in bankruptcy on October 1, 2006. At that time, the District was experiencing estimated operating losses of $3,000,000 each month and had been

forced to impose an emergency 10% salary reduction for all employees, divert ambulances to other hospitals and reduce many critical services.

The District operated the Hospital at an annual loss until 1997 when it leased the Hospital to Tenet. Tenet changed the name of the Hospital to "Doctors Medical Center – San Pablo" and combined it with a second Tenet-operated Doctors Medical Center—Pinole, located approximately 5 miles north of Doctors Medical Center—San Pablo. Tenet operated the two hospitals until August 1, 2004, when it terminated its lease agreement with the District and returned control of Doctors Medical Center – San Pablo back to the District and at the same time the District assumed Tenet's lease (20-year remaining term) of Doctors Medical Center - Pinole.

Even before the dissolution of Tenet's hospital lease with the District, the two hospitals were losing millions of dollars. Following the 2004 transition, the District was unable to stem the losses which exceeded $22 million in 2005. The projected deficit for 2006 was over $35 million. The District's actual loss was $29.7 million. The loss was less than expected due to the filing of the bankruptcy case.

In addition, when Tenet terminated its hospital lease with the District, it permitted the District to use the Tenet computer system only until June 2006. The District was required to commit to the purchase of replacement technology to replace 27 separate computer systems. The District's reduced staff could not be trained in time to operate the new system properly and began to fall behind in billing, collections, and the posting and payment of creditor invoices. As of the date of filing of the bankruptcy petition, accounts payable posting was 90 days' in arrears. Therefore, although management was reducing operating costs, it was unable to track those costs accurately.

Many of the District's major creditors had placed the Hospital on cash only status and certain of these creditors told management that they would be more comfortable continuing to provide goods and services to the Hospital if it filed for bankruptcy protection because applicable bankruptcy law requires full payment of all obligations that arise in the ordinary course of business after the filing of a bankruptcy case.

Kaiser Foundation Hospitals ("Kaiser") made a $3,000,000 loan to the District in July of 2006 which enabled the Hospital to meet operating expenses. (Kaiser generously forgave the debt after the bankruptcy filing). On September 11, 2006, the Hospital's Chief Executive Officer announced the immediate need for an additional cash infusion of approximately $8,000,000 and subsidies of up to $1,500,000 per month in order to continue the existing service levels. At its public meeting that week, the District's governing board authorized management to borrow up to $6,000,000 secured by certain of the District's assets. Unfortunately, the potential lender subsequently informed the District of its decision not to make the loan and the District was unable to find another lender.

During this same period, Medicare conducted its annual fall audit during which it suspended its normal monthly payments to the Hospital. The prospective interruption in cash receipts forced the District to make an immediate emergency 10% salary reduction for all employees, divert ambulances to other hospitals, and reduce or eliminate many critical services.

Finally, at its regular public meeting in September 2006, in order to suspend creditor collection efforts, obtain the time needed to assess the long-term viability of the Hospital and attempt to devise a comprehensive business plan, and to provide a legal forum for the equal treatment of creditors, the District's governing board authorized the District to file a chapter 9 bankruptcy case on October 1, 2006.

Shortly after the bankruptcy filing, the District and the County entered into a Joint Powers Agreement that created the Doctors Medical Center Joint Management Authority (the "JPA"). The JPA was composed of two representatives of the District, four representatives of the County with political or health services experience and one representative of the Hospital medical staff. The JPA had primary responsibility for the District's operational and financial directives. See "THE DISTRICT BOARD OF DIRECTORS AND HOSPITAL GOVERNING BOARD—Tax Exchange Agreement."

Concurrently with the creation of the JPA, the District received $10,000,000 in a tax advance from the County. This amount allowed the District to receive matching funds through a federal intergovernmental transfer resulting in a $20,000,000 cash infusion. The District was obligated to repay the $10,000,000 to the County plus costs and interest of an additional $1,500,000 (for a total repayment of $11,500,000) from *ad valorem* tax revenues in 2008, 2009, and 2010. The transaction was approved by the Bankruptcy Court's order entered on October 26, 2006, although the Bankruptcy Court set a further hearing in November to permit parties in interest with additional time to raise objections to the transaction. No objections were raised.

On January 22, 2007, the Bankruptcy Court filed its order providing for notice of the chapter 9 case, the order for relief which had been entered on December 4, 2006, and the deadlines for creditors to file claims in the case.

In early 2007, in order to facilitate the Hospital's reorganization, the District (with the JPA's approval) retained Wellspring Management Services, LLC ("Wellspring"), a subsidiary of Huron Consulting Group, to perform a comprehensive review of the Hospital's business operations and identify potential sources of increased revenue and collections, potential expense reductions and operational improvement initiatives.

In the spring of 2007, Wellspring completed an assessment of operations, a high-level review of strategic options, and a portfolio analysis of all inpatient and outpatient clinical programs. Wellspring prepared the outline of a turnaround/business plan and, on May 17, 2007, provided the District and the JPA with a series of planning options (the "Planning Options"). In July 2007, the JPA and the District approved certain of the Planning Options. The District's reorganization of its business and financial operations was based on the recommendations included in the Planning Options. With the detailed analysis provided in the Planning Options, and additional implementation tools and assistance provided by Wellspring, the District and JPA believe they had created a stronger, more predictable and better managed operational model for the Hospital. Wellspring continued to manage the hospital through 2008 when permanent management was recruited.

In June 2008, the Plan for Reorganization and related documents were filed with the Bankruptcy court, and in August of that same year the creditors and court approved the Plan. In summary that Plan provided for an average 40% payment to unsecured creditors over a four year period. Secured creditors were not impaired. All payments to unsecured creditors have been made under the terms of the Plan created Trust, with the final payment made in August 2011.

**Other Information**

*Medical Malpractice Insurance*. The District maintains professional liability insurance on a claims-made basis with liability limits of $10,000,000 per claim, subject to a $25,000 deductible.

*Workers' Compensation Insurance*. The District is self-insured for workers' compensation claims with a self-insured retention of $350,000 per occurrence and excess insurance coverage for the portion of each occurrence in excess of $350,000.

*Medical Benefits Insurance*. The District is self-insured for employee health benefits.

*Property Damage Insurance*. Property damage liability is covered by various commercial insurance policies.

**Employees' Retirement and Deferred Compensation Plans**

The District offers two defined contribution savings plans intended to qualify under section 457(b) of the Internal Revenue Code. The plans cover both former and current employees of the District who meet certain eligibility requirements. Under the plans employer contributions are discretionary. The District has not contributed to the plans since 2007. All benefit obligations are fully vested.

The District also provides a non-contributory single employer defined benefit pension plan. This pension plan covers all eligible employees of the previous Brookside Hospital. The pension plan provides retirement and death benefits to plan members and beneficiaries based on each employee's years of service and annual compensation. No new employees have been enrolled in the pension plan since 1996 and no current District employees participate in the pension plan. As of December 31, 2010, the pension plan was underfunded by $3,988,000.

The District also administers two Employer Contributory Tax Deferred Annuity plans that qualify under section 403(b) and 457 of the Internal Revenue Code. Employees with a minimum of one year of service are eligible to participate. Participants may defer a portion of their compensation, subject to annual limitations, which is fully vested and held in individual participant accounts. The District's matching contribution consists of 5.00% of the annual employee compensation and totaled $3,527,000 and $3,568,000 for the years ended December 31, 2009 and 2010, respectively.

**Capital Expenditures**

The District has spent approximately $3,800,000 annually in recent years for routine capital expenditures at the Hospital. Management anticipates annual expenditures of approximately $1,200,000 will be required for the next several years to replace and update existing Hospital equipment.

In 2011, the District went through an IT system conversion, moving to a platform that is compatible with utilizing electronic medical records. The District is on schedule to be able to demonstrate and meet the meaningful use requirement which will allow it to receive enhanced reimbursement from Medicare and Medi-Cal. The cost estimate for the electronic medical record technology and implementation is estimated to be $3,500,000 to $4,000,000. Current estimates of the associated enhanced reimbursement matches or exceeds the cost of the new technology.

**SB 1953 Seismic Evaluation**

In March 2010 the District submitted to the Office of Statewide Health Planning and Development ("OSHPD") a Seismic Evaluation and Compliance Plan. There are seven buildings on the Hospital campus that are subject to SB 1953 and all were evaluated. There are three strategies suggested in the compliance plan that include retrofits of the existing noncompliant buildings and/or the construction of new Hospital facilities, by the deadline of 2020, after having received an extension by OSHPD. The potential capital costs and negative operating effects of such a retrofit and/or new construction could be material and adverse.

**Service Area and Competition**

*Service Area*. District management regards the Hospital's primary service area to include an area of the western portion of the County encompassing Richmond, San Pablo, El Sobrante, El Cerrito, Pinole, Rodeo and Hercules. This primary service area accounts for approximately 85% of the Hospital's inpatient discharges. The Hospital's secondary service area includes the cities of Vallejo, Albany and other portions of the unincorporated area of the County and portions of Solano and Alameda Counties.

The Hospital is located in and serves the city of San Pablo and surrounding metropolitan area. Census figures for 2010 indicate that San Pablo has a population of 29,139. Other cities in the County located within the District include the city of El Cerrito with a population of 23,549, the city of Hercules with a population of 24,060, the city of Pinole with a population of 18,390 and the city of Richmond, the second largest city in the county, with a population of 103,701, all as of April 1, 2010. Other cities in the County located outside the District include the city of Concord with a population of 122,067, the city of Antioch with a population of 102,372 and the city of Walnut Creek with a population of 64,173. No other city within the County had a population in excess of 60,000, as of the 2010 census. According to the State Department of Finance estimates for 2011, the County has experienced considerable population growth in recent years. Since 1990, the resident population of the city of Richmond is estimated to have grown 19% to 104,220. The 2010 United States census showed the population of the County to be 1,049,025. During the past twenty-one years the population of the County has increased 31% while the population of the State of California has increased just 26% over the same period. Population figures as reported for the 1990, 2000 and 2010 census reports for the City of San Pablo, the City of Richmond, the County and the State of California and the population estimates for 2011 are as follows:

| | 1990 | 2000 | 2010 | 2011 | 1990-2011 % Change |
|---|---|---|---|---|---|
| City of San Pablo | 25,158 | 30,256 | 29,139 | 28,931 | 15% |
| City of Richmond | 87,425 | 99,216 | 103,701 | 104,220 | 19% |
| Contra Costa County | 803,732 | 948,816 | 1,049,025 | 1,056,064 | 31% |
| State of California | 29,760,021 | 33,871,648 | 37,253,956 | 37,510,766 | 26% |

Source: California State Department of Finance. The 1990, 2000 and 2010 figures are census figures reported as of April 1, in each of those years. The 2011 figures are population estimates as of January 1.

*Competition*. Management of the District estimates that most of the remaining acute care discharges for service area residents originate from (i) Kaiser Hospital, located approximately 2 miles southwest of the Hospital in the city of Richmond, (ii) Alta Bates/Summit Medical Center (a member of the Sutter Health system), located approximately 11 miles southeast of the Hospital in the city of Berkeley and (iii) Contra Costa Regional Medical Center (the County owned and operated hospital), located approximately 16 miles east of the Hospital in the city of Martinez.

*Largest Employers*. The County enjoys a diverse labor pool as a result of its role as a regional manufacturing, service and retail center. Because of the need to retrain workers as the economy evolves, the County utilizes a network of job training providers to ensure the maintenance of an abundant and qualified work force. The following table summarizes the ten largest employers in the County.

**CONTRA COSTA COUNTY**
**Largest Employers**

| Company | Product/Service | Employees |
|---|---|---|
| AT&T Corp | Telecommunications Resellers | 8,570 |
| Summerville Management LLC | Nursing Care Facilities | 4,000 |
| Pacpizza LLC | Limited | 3,620 |
| AT&T Services Inc | Telecommunications Resellers | 3,500 |
| John Muir Health | General Medical & Surgical Hospitals | 3,100 |
| Safeway Inc | Supermarkets & Other Grocery Stores | 2,529 |
| West Contra Costa Unified School | Elementary & Secondary Schools | 2,452 |
| Convenience Retailers LLC | Convenience Stores | 2,000 |
| Kaiser Foundation Hospitals | General Medical & Surgical Hospitals | 2,000 |
| Diablo Valley College Foundation | College Support Services | 2,000 |

Source: Contra Costa Chamber of Commerce as of 2010, and individual employers.

*Employment and Unemployment*. Unemployment in the City of Richmond is generally higher than other areas of the San Francisco bay area, the County and the state of California. The table below summarizes annual average labor force, employment, and unemployment figures for the years 2008 through 2010 for the City of Richmond, the County and the State.

**City of Richmond, Contra Costa County and State of California**
**Labor Force, Employment and Unemployment Annual Averages [(1)]**

| Year and Area | Labor Force | Employment | Unemployment | Unemployment Rate |
|---|---|---|---|---|
| **2008** | | | | |
| City of San Pablo | 13,500 | 11,800 | 1,700 | 12.7% |
| City of Richmond | 52,000 | 46,700 | 5,300 | 10.2% |
| Contra Costa County | 524,200 | 492,000 | 32,200 | 6.1% |
| California | 18,191,000 | 16,883,400 | 1,307,600 | 7.2% |
| **2009** | | | | |
| City of San Pablo | 14,200 | 11,300 | 2,900 | 20.4% |
| City of Richmond | 53,500 | 44,700 | 8,800 | 16.4% |
| Contra Costa County | 524,800 | 471,300 | 53,500 | 10.2% |
| California | 18,204,200 | 16,141,500 | 2,062,700 | 11.3% |
| **2010** | | | | |
| City of San Pablo | 14,300 | 11,100 | 3,200 | 22.3% |
| City of Richmond | 53,600 | 44,000 | 9,600 | 17.9% |
| Contra Costa County | 522,400 | 463,700 | 58,700 | 11.2% |
| California | 18,176,200 | 15,916,300 | 2,259,900 | 12.4% |

Source: California Employment Development Department.
[(1)] Data not seasonally adjusted.

*Commercial Activity*. The City of Richmond experienced a 17% decline in retail sales over the past three years while the County experienced a similar 16% reduction in retail sales over the same period. The following table summarizes taxable sales and total outlets (sales tax

permits) occurring in the City of Richmond and the County for the years 2007, 2008 and 2009. Information is not yet available for the full year of 2010 and therefore is not presented herein.

**City of Richmond and Contra Costa County**
**Total Outlets and Taxable Transactions**

| | 2007 | 2008 | 2009 |
|---|---|---|---|
| City of San Pablo: | | | |
| Total Outlets | 457 | 465 | 430 |
| Taxable Sales | $151,789,000 | $155,280,000 | $139,345,000 |
| City of Richmond: | | | |
| Total Outlets | 1,924 | 1,968 | 1,827 |
| Taxable Sales | $1,228,740,000 | $1,160,972,000 | $1,016,242,000 |
| Contra Costa County: | | | |
| Total Outlets | 23,181 | 23,149 | 21,395 |
| Taxable Sales | $14,086,295,000 | $13,307,681,000 | $11,883,049,000 |

Source: State Board of Equalization.

## DISTRICT FINANCIAL INFORMATION

### Budget

The fiscal year of the District begins on the first day of January each year and ends on the thirty-first day of December of the same year. The District will prepare and adopt a final budget on or before December 31 for each year. Operating and capital budgets will be adopted each year to reflect estimated revenues, expenditures and capital investments. At the close of each year, the District engages certified public accountants to audit the District's financial statements.

### Financial Statements

The following summaries of the statements of revenue, expenses and changes in net assets of the District are qualified by reference to and should be read in conjunction with the District's audited financial statements, set forth in APPENDIX B—AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE YEAR ENDED DECEMBER 31, 2010, including the notes thereto. The statements of revenue, expenses and changes in net assets of the District for the years ended December 31, 2008, 2009 and 2010, are derived from the District's audited financial statements. The statements of revenue, expense and changes in net assets of the District for the ten months ended October, 2010 and 2011, are derived from the District's internally prepared unaudited financial statements, which in the opinion of management of the District, reflect all adjustments for a fair presentation.

| | Dollars in Thousands | | | | |
|---|---|---|---|---|---|
| | Year Ended December 31, | | | Ten Months Ended October 31, | |
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| | (audited) | (audited) | (audited) | (unaudited) | (unaudited) |
| Operating Revenue: | | | | | |
| Net Patient Service Revenue | $116,110 | $122,576 | $130,185 | $108,180 | $ 98,296 |
| Other | 1,117 | 1,149 | 1,130 | 957 | 1,022 |
| Total Operating Revenue | 117,227 | 123,725 | 131,315 | 109,137 | 99,318 |
| Total Operating Expenses | 136,015 | 136,952 | 146,771 | 120,338 | 123,958 |
| Operating Losses | (18,788) | (13,227) | (15,456) | (11,201) | (24,640) |
| Nonoperating Revenue (Expense) | | | | | |
| District Tax Revenue | 8,955 | 8,591 | 8,492 | 7,713 | 7,123 |
| Investment Income | 390 | 198 | 92 | 83 | 39 |
| Noncapital Grants and Contributions | 16,500 | 17,000 | 10,813 | 9,476 | 5,443 |
| Interest Expense | (1,624) | (1,514) | (1,396) | (1,164) | (1,261) |
| Total Net Nonoperating Revenues | 24,221 | 24,275 | 18,001 | 16,108 | 11,344 |
| Excess (Deficit) of Revenues Over Expenses | 5,433 | 11,048 | 2,545 | 4,907 | (13,296) |
| Extraordinary Gain—Bankruptcy Settlement | 12,645 | 0 | 0 | 0 | 0 |
| Increase (Decrease) in Net Assets | 18,078 | 11,048 | 2,545 | 4,907 | (13,296) |
| Net Assets (Deficit) Beginning of Year | (3,271) | 14,807 | 25,855 | 25,855 | 28,400 |
| Net Assets End of Year | $14,807 | $25,855 | $28,400 | $30,762 | $15,104 |

Source: District's audited and unaudited financial statements as indicated above.

The District's tax revenue includes the 2004 Parcel Tax Revenues remitted to the District after payments of principal and interest with respect to the 2004 Certificates, the 2011 Certificates and any Parity Debt are made. On November 15, 2011, voters of the District authorized a new parcel tax (the "2011 Parcel Tax") expected to provide additional annual revenues to the District of approximately $5,100,000. The 2011 Parcel Tax is not pledged to the payment of principal and interest with respect to the 2004 Certificates, the 2011 Certificates or any Parity Debt but will be applied solely to the operational needs of the District. The 2004 Parcel Tax has no sunset provision. The 2011 Parcel Tax will cease to be collected if the Hospital (or the Hospital's Emergency Room) is closed.

In November 2011, Gemino Healthcare Finance provided a three year, $8,000,000 revolving credit facility to the District. The credit facility is secured by Hospital's patient accounts receivable and will provide additional working capital and cash management flexibility for the District. The credit facility is payable at the greater of 4.95% + 2% or the LIBOR rate, whichever is higher.

**Total Unrestricted Funds**

The following table provides the total unrestricted funds for the District as of December 31, 2008, 2009 and 2010 and as of October 31, 2010 and 2011. Cash and cash equivalents and board designated assets consist of highly liquid investments, including money market accounts and investment-grade debt instruments, many of which are Federally insured or collateralized by government agency securities. Marketable securities are carried at fair market value.

| | Dollars in Thousands | | | | |
|---|---|---|---|---|---|
| | As of December 31, | | | As of October 31, | |
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| | (audited) | (audited) | (audited) | (unaudited) | (unaudited) |
| Cash and Cash Equivalents | $7,218 | $7,666 | $5,229 | $4,400 | $2,749 |
| Board Designated Assets | 0 | 2,264 | 993 | 984 | 994 |
| Total Unrestricted Funds | $7,218 | $9,930 | $6,222 | $5,384 | $3,743 |

Source: District's audited and unaudited financial statements as indicated above.

**Direct and Overlapping Bonded Debt**

Set forth below is a direct and overlapping debt report (the "Debt Report") in the form prepared by California Municipal Statistics, Inc., and dated November 1, 2011. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representations in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District in whole or in part. Such long-term obligations generally are not payable from future revenues of the District nor are they necessarily obligations secured by land within the District. In many cases long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

**WEST CONTRA COSTA HEALTHCARE DISTRICT AND THE COUNTY**
**Direct and Overlapping Bonded Debt**

| | |
|---|---|
| 2011-12 Assessed Valuation: | $24,465,958,317 |
| Redevelopment Incremental Valuation: | 5,027,838,464 |
| Adjusted Assessed Valuation: | $19,438,119,853 |

| DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT: | % Applicable | Debt 11/1/11 | |
|---|---|---|---|
| Bay Area Rapid Transit District | 4.457% | $ 18,386,908 | |
| Contra Costa Community College District | 15.608 | 35,576,875 | |
| John Swett Unified School District | 77.733 | 21,885,348 | |
| West Contra Costa Unified School District | 99.924 | 722,409,400 | |
| **West Contra Costa Healthcare District Parcel Tax Obligations** | **100.000** | **21,645,000** | (1) |
| East Bay Municipal Utility District, Special District No.1 | 5.149 | 1,263,822 | |
| Eat Bay Regional Park District | 6.923 | 9,044,553 | |
| City of El Cerrito Parcel Tax Obligations | 100.000 | 2,685,000 | |
| City of Richmond Community Facilities District No. 1998-1 | 100.000 | 3,420,000 | |
| 1915 Act Bonds | 100.000 | 31,836,390 | |
| TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT | | $868,153,296 | |
| | | | |
| OVERLAPPING GENERAL FUND DEBT: | | | |
| Contra Costa County General Fund Obligations | 15.538% | $ 49,665,493 | |
| Contra Costa County Pension Obligations | 15.538 | 62,127,139 | |
| Alameda-Contra Costa Transit District Certificates of Participation | 8.889 | 3,065,372 | |
| Contra Costa Community College District Certificates of Participation | 15.608 | 144,374 | |
| West Contra Costa Unified School District Certificates of Participation | 99.924 | 18,975,568 | |
| City of El Cerrito General Fund Obligations | 100.000 | 9,225,000 | |
| City of Hercules General Fund Obligations | 99.227 | 17,518,527 | |
| City of Pinole Pension Obligations | 100.000 | 5,344,171 | |
| City of Richmond General Fund Obligations | 100.000 | 135,995,000 | |
| City of Richmond Pension Obligations | 100.000 | 113,260,133 | |
| Contra Costa Fire Protection District Pension Obligations | 3.938 | 4,394,611 | |
| TOTAL GROSS OVERLAPPING GENERAL FUND DEBT | | $419,715,388 | |
| Less: Contra Costa County supported obligations | | 18,839,840 | |
| City of Richmond obligations supported by port revenues | | 49,776,550 | |
| TOTAL NET OVERLAPPING GENERAL FUND DEBT | | $351,098,998 | |
| | | | |
| GROSS COMBINED TOTAL DEBT | | $1,287,868,684 | (2) |
| NET COMBINED TOTAL DEBT | | $1,219,252,294 | |

(1) Excludes issue to be sold.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2011-12 Assessed Valuation:
**Direct Debt ($21,645,000) ..... 0.09%**
Total Direct and Overlapping Tax and Assessment Debt .. 3.55%

Ratios to Adjusted Assessed Valuation:
Gross Combined Total Debt ..... 6.63%
Net Combined Total Debt..... 6.27%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/11: $0

The table above does not include the delivery of the 2011 Certificates by the District nor the issuance or incurrence of any other debt the District or other agencies listed above subsequent to November 1, 2011.

## PROPERTY TAX

*The following discussion of ad valorem property tax revenues and collection procedures for ad valorem taxes is included as background information only. The Certificates are not secured by a pledge of any ad valorem taxes. However, the County will collect the 2004 Parcel Tax at the same time, in same manner and subject to the same penalties as secured ad valorem property taxes, described below.*

### Property Tax Collection Procedures

The Contra County Assessor assesses all taxable real property in the District for ad valorem tax purposes except public utility property, which is assessed Countywide by the State Board of Equalization. In California, property which is subject to ad valorem taxes is classified as "secured" or "unsecured." The "secured roll" is that part of the assessment roll containing state-assessed public utilities' property and locally assessed real property, the taxes on which are a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. A tax placed on unsecured property does not become a lien against such unsecured property, but may become a lien on certain other property owned by the taxpayer. Every tax which becomes a lien on secured property has priority over all other liens arising pursuant to State law on such secured property, regardless of the time of the creation of the other liens. Secured and unsecured properties are entered separately on the assessment roll maintained by the County assessor. The method of collecting delinquent taxes is substantially different for the two classifications of property.

Ad valorem property taxes on the secured roll are due in two installments, on November 1 and February 1 of each year. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. Such property may thereafter be redeemed by payment of the delinquent taxes and a delinquency penalty, plus a redemption penalty of 1-1/2% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County tax collector. The exclusive means of enforcing the payment of delinquent taxes with respect of property on the secured roll is the sale of the property securing the taxes for the amount of taxes which are delinquent.

Generally, *ad valorem* property taxes are levied for each fiscal year on taxable real and personal property situated in the taxing jurisdiction as of the preceding January 1. California Revenue & Tax Code Sections 75.10 et seq., however, provide for the supplemental assessment and taxation of property as of the occurrence of a change of ownership or completion of new construction.

Ad valorem property taxes on the unsecured roll are due on the January 1 lien date and become delinquent, if unpaid, on the following August 31. A 10% penalty is also attached to delinquent taxes in respect of property on the unsecured roll, and further, an additional penalty of 1-1/2% per month accrues with respect to such taxes beginning the first day of the third month following the delinquency date. The taxing authority has four ways of collecting unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency of record in the County recorder's office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

## Assessed Valuations

The District has a 2011-12 assessed valuation of $24,465,958,317, which accounts for approximately 17% of the County's assessed valuation of $142,880,293,662, as of the same period. Assessed values of property within the District have increased by approximately 48% over the ten-year period ended 2011-12, while assessed values for the County have increased by approximately 53% over the same period. The summary below shows a ten-year history of the total secured and unsecured assessed property valuations for the District and total assessed valuations for the County.

**WEST CONTRA COSTA HEALTHCARE DISTRICT AND THE COUNTY**
**Assessed Valuations**

| Fiscal Year Ended June 30 | Local Secured | Utility | Unsecured | Total Before Redevelopment Increment | County Assessed Valuation (1) |
|---|---|---|---|---|---|
| 2001-02 | $15,552,560,555 | $51,906,615 | $ 858,360,206 | $16,462,827,376 | $ 93,437,663,121 |
| 2002-03 | 16,508,223,229 | 49,129,982 | 884,748,668 | 17,442,101,879 | 100,865,991,593 |
| 2003-04 | 17,829,279,873 | 48,735,048 | 872,877,625 | 18,750,892,546 | 109,011,845,537 |
| 2004-05 | 20,146,249,279 | 36,204,693 | 979,403,001 | 21,161,856,973 | 118,685,014,091 |
| 2005-06 | 22,496,143,498 | 36,533,285 | 974,912,701 | 23,507,589,484 | 131,052,763,852 |
| 2006-07 | 25,062,366,606 | 34,213,191 | 1,031,699,111 | 26,128,278,908 | 146,407,238,208 |
| 2007-08 | 27,839,379,495 | 13,340,851 | 1,022,002,692 | 28,874,723,038 | 159,300,160,608 |
| 2008-09 | 27,839,361,268 | 13,316,185 | 1,117,741,767 | 28,970,419,220 | 159,782,934,683 |
| 2009-10 | 24,291,829,321 | 12,545,546 | 1,352,892,707 | 25,657,267,574 | 148,644,213,766 |
| 2010-11 | 22,612,543,647 | 13,394,058 | 1,248,347,577 | 23,874,285,282 | 144,144,610,273 |
| 2011-12 | 23,058,612,543 | 11,476,129 | 1,395,869,645 | 24,465,958,317 | 142,880,293,662 |

Source: California Municipal Statistics, Inc.
(1) Before redevelopment increment adjustment. Includes unitary utility valuation.

California law exempts from ad valorem taxation $7,000 of the assessed valuation of an owner-occupied dwelling. State law exempts 100% of the value of business inventories from taxation. State law also provides for reimbursements to local agencies based on their share of the revenues derived from the application of the maximum tax rate applied to business inventories, with adjustments to reflect increases in population and the consumer price index.

Revenue estimates to be lost to local taxing agencies due to such exemptions are reimbursed from State sources. Such reimbursements are based upon total taxes due upon such exempt values and are not reduced by any amount for estimated delinquencies.

Approximately 79% of the District, based upon assessed values of property, falls within the incorporated cities of Richmond, El Cerrito, Hercules, Pinole and San Pablo, with the remaining 21% lying within the unincorporated areas of the County. Approximately 45% of assessed valuation of all taxable property located within the District's boundaries lies within the city of Richmond. The following table provides a summary of assessed values of property located within the District's boundaries and the percentage of property of each jurisdiction located within the District, based upon assessed value of property for each jurisdiction for the 2011-12 tax year.

**WEST CONTRA COSTA HEALTHCARE DISTRICT**
**2011-12 Assessed Valuation by Jurisdiction [1]**

| Jurisdiction | Assessed Valuation in the District | Percent of the District | Assessed Valuation of Jurisdiction | Percent of Jurisdiction in the District |
|---|---|---|---|---|
| City of Richmond | $10,928,282,886 | 44.67% | $10,928,282,886 | 100.00% |
| City of El Cerrito | 2,919,955,318 | 11.93 | $2,919,955,318 | 100.00% |
| City of Hercules | 2,563,392,922 | 10.48 | $2,576,145,212 | 99.50% |
| City of Pinole | 1,742,147,028 | 7.12 | $1,742,147,028 | 100.00% |
| City of San Pablo | 1,189,432,247 | 4.86 | $1,189,432,247 | 100.00% |
| Unincorporated Contra Costa County | 5,122,747,916 | 20.94 | $29,470,710,768 | 17.38% |
| Total District | $24,465,958,317 | 100.00% | | |

Source: California Municipal Statistics, Inc.
[1] Before deduction of redevelopment incremental valuation.

## Tax Levies and Delinquencies

Ad valorem property taxes are collected by the County Tax Collector for property falling within the District's taxing boundaries. The ad valorem property taxes and assessments on the secured roll are payable in two installments on November 1 and February 1 of each fiscal year, and become delinquent on December 10 and April 10, respectively. Taxes on unsecured property are assessed and payable as of the January lien date and become delinquent the following August 31.

The following tabulation shows a five-year history of secured tax charge, the tax amount delinquent and the percentage of taxes delinquent each year as of June 30,

**WEST CONTRA COSTA HEALTHCARE DISTRICT**
**Secured Tax Charges and Delinquencies**

| | Secured Tax Charge | Amount Delinquent June 30 | Percentage Delinquent June 30 |
|---|---|---|---|
| 2006-07 | $3,685,953.10 | $125,270.62 | 3.40% |
| 2007-08 | $4,061,129.70 | $194,617.51 | 4.79% |
| 2008-09 | $4,042,477.69 | $161,496.68 | 3.99% |
| 2009-10 | $3,586,902.13 | $96,009.16 | 2.68% |
| 2010-11 | $3,368,144.86 | $57,843.00 | 1.72% |

Source: California Municipal Statistics, Inc.

**Teeter Plan**

In 1951, the County Board of Supervisors (the "Board of Supervisors") approved implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 et seq. of the California Revenue and Taxation Code, both as to general and special taxes entered and collected on the secured tax roll. Under the Teeter Plan, the County apportions secured property taxes on an accrual basis (irrespective of actual collections) to local political subdivisions, for which the County acts as the tax-levying or tax-collecting agency. The Teeter Plan remains in effect unless the Board of Supervisors orders discontinuance. The County policy provides that it may order discontinuance of the Teeter Plan as to special taxes for the next year if the rate of delinquency for a taxing district exceeds 3% in any fiscal year. As such, no assurance can be given that the Teeter Plan will be continued in future years.

The County Treasurer's cash position is protected by a special fund, known as the "Tax Loss Reserve Fund," which accumulates moneys from interest and penalty collections. Amounts in the tax loss reserve fund above a statutory defined threshold may be credited to the County's general fund. Amounts in the tax loss reserve fund may only be used to cover the losses that may occur in the amount of tax liens as a result of special tax-defaulted property.

**WEST CONTRA COSTA HEALTHCARE DISTRICT**
**Largest 2011-12 Local Secured Taxpayers**

| | Property Owner | Primary Land Use | 2011-12 Assessed Valuations | Percentage of Total [1] |
|---|---|---|---|---|
| 1. | Chevron USA Inc. | Heavy Industrial | $2,746,309,920 | 11.91% |
| 2. | Tosco Corporation | Heavy Industrial | 1,383,548,168 | 6.00 |
| 3. | Bio-Rad Laboratories Inc. | Heavy Industrial | 130,981,809 | 0.57 |
| 4. | Richmond Parkway Associates | Apartments | 101,776,035 | 0.44 |
| 5. | MCD-RCCA-El Cerrito LLC | Shopping Center | 85,265,342 | 0.37 |
| 6. | Lennar Emerald LLC | Residential Development | 74,534,000 | 0.32 |
| 7. | Richmond Associates LLC | Shopping Center | 64,653,573 | 0.28 |
| 8. | Berlex Laboratories Inc. | Heavy Industrial | 60,228,256 | 0.26 |
| 9. | Kaiser Foundation Health Plan | Medical Buildings | 59,462,762 | 0.26 |
| 10. | Richmond Essex LP | Apartments | 47,693,832 | 0.21 |
| 11. | Cherokee Simeon Venture I LLC | Office Building | 46,605,291 | 0.20 |
| 12. | Pacific Atlantic Terminals LLC | Heavy Industrial | 42,982,587 | 0.19 |
| 13. | DDRM Hilltop Plaza LP | Shopping Center | 42,015,000 | 0.18 |
| 14. | Dicon Fiberoptics Inc. | Industrial Park | 40,407,901 | 0.18 |
| 15. | Shore Terminals LLC | Heavy Industrial | 39,172,058 | 0.17 |
| 16. | Ford Point LLC | Light Industrial | 37,317,142 | 0.16 |
| 17. | IIT Pinole Business Park I LP | Industrial Park | 37,250,000 | 0.16 |
| 18. | Signature Properties | Residential/Shopping Center | 36,454,082 | 0.16 |
| 19. | Stephens & Stephens LLC | Light Industrial | 34,800,000 | 0.15 |
| 20. | BP West Coast Products | Heavy Industrial | 34,559,799 | 0.15 |
| | Total | | $5,146,017,557 | 22.32% |

Source: California Municipal Statistics, Inc.
[1] The 2011-12 local secured assessed valuation for the District is $23,058,612,543.

## RISKS OF HOSPITAL OPERATIONS

This section focuses primarily on the general risks associated with hospital or health system operations. *This information is for information only. The success or failure of the Hospital will not affect the security for the Certificates.*

The District is subject to a wide variety of Federal and state regulatory actions and legislative and policy changes by those governmental and private agencies that administer Medicare, Medicaid and other payors and are subject to actions by, among others, the National Labor Relations Board, The Joint Commission, the Centers for Medicare and Medicaid Services ("CMS") of the U.S. Department of Health and Human Services ("DHHS"), and other Federal, state and local government agencies. The future financial condition of the District could be adversely affected by, among other things, changes in the method and amount of payments to the District by nongovernmental payors, the financial viability of these payors, increased competition from other health care entities, the costs associated with responding to governmental inquiries and investigations, demand for health care, other forms of care or treatment, changes in the methods by which employers purchase health care for employees, capability of management, future changes in the economy, demographic changes, availability of physicians and nurses, and malpractice claims and other litigation.

The following discussion of risks is not intended to be exhaustive or an attempt to prioritize such risks.

### Health Care Reform

*Federal*. Healthcare reform legislation enacted in 2010 will have a significant impact on the healthcare industry. On December 24, 2009, the Senate passed its version of comprehensive healthcare reform legislation in the form of H.R. 3590, entitled the "Patient Protection and Affordable Care Act," a bill designed to, among other things, extend health insurance coverage to 94% of all Americans by 2019. On March 21, 2010, the House of Representatives also passed H.R. 3590, together with H.R. 4872, entitled "The Health Care and Education Affordability Reconciliation Act of 2010." President Obama signed H.R. 3590 into law on March 23, 2010. H.R. 4872, as amended, was adopted by both the Senate and the House of Representatives on March 25, 2010, and signed into law by President Obama on March 30, 2010. These acts are collectively referred to herein as the "Healthcare Reform Acts."

Some of the provisions of the Healthcare Reform Acts took effect immediately, while others will take effect later or will be phased in over time, ranging from a few months following approval to ten years. Due to the complexity of the Healthcare Reform Acts, it is likely that additional legislation will be considered and enacted. The Healthcare Reform Acts require the promulgation of regulations that will likely have significant effects on the healthcare industry and third-party payors. In response, third-party payors and suppliers and vendors of goods and services to healthcare providers are expected to impose new and additional contractual terms and conditions. Thus, the healthcare industry will be subjected to significant new statutory and regulatory requirements and contractual terms and conditions, and consequently to structural and operational changes and challenges.

The management of the District is continuing to analyze the Healthcare Reform Acts' anticipated effects on current and projected operations, financial performance and financial condition. At this time, management cannot predict with any certainty the interim or ultimate effects of the Healthcare Reform Acts and evolving related regulations. The provisions of the Healthcare Reform Acts which encourage or mandate healthcare coverage for individuals can be expected to reduce the amount of uncompensated care the District provides. However, the

revisions to the Medicare and Medicaid/Medi-Cal reimbursement program could reduce revenues.

Some of the specific provisions of the Healthcare Reform Acts that may affect hospital operations, financial performance or financial condition, including those of the District, are described below. This summary is not, is not intended to be, nor should be considered by the reader as, comprehensive.

The Healthcare Reform Acts will significantly change the methods by which consumers pay for healthcare and by which employers procure health insurance for their employees. One of the primary objectives of the Healthcare Reform Acts is to cause the extension of healthcare insurance to millions of currently uninsured (or underinsured) consumers. The Healthcare Reform Acts propose to accomplish that objective through various provisions, summarized as follows: (i) the creation of active markets (referred to as exchanges) in which individuals and small employers can purchase healthcare insurance for themselves and their families or their employees and dependents, (ii) providing subsidies for premium costs to individuals and families based upon their income relative to Federal poverty levels, (iii) mandating that individual consumers obtain and certain employers provide a minimum level of healthcare insurance, and providing for penalties or taxes on consumers and employers that do not comply with these mandates, (iv) expansion of private commercial insurance coverage generally through such reforms as prohibitions on denials of coverage for pre-existing conditions and elimination of lifetime or annual cost caps, and (v) expansion of existing public programs, including Medicaid, for individuals and families. The Congressional Budget Office (the "CBO") has estimated that in Federal fiscal year 2015, 19 million consumers who are currently uninsured will become insured, followed by an additional 11 million consumers in Federal fiscal year 2016. To the extent all or any of those provisions produce the expected result, an increase in utilization of healthcare services by those who are currently avoiding or rationing their healthcare can be expected and bad debt expenses may be reduced. Increased variable and fixed costs of providing healthcare services can be expected to accompany increased utilization, which may or may not be offset by increased revenues.

The delivery system changes in the reform legislation, among other things, increasingly link provider payments to quality and coordination of care. Hospitals will be subject to Medicare payment withholds or bonuses based on performance scores under a new value-based purchasing program, and hospitals with excess readmissions will face payment reductions. Under both Medicare and Medicaid, hospitals will not receive payments for certain hospital-acquired conditions, and hospitals with the highest rates of hospital-acquired conditions will be subject to Medicare and Medicaid payment penalties on all discharges. The Healthcare Reform Acts also impose quality-related requirements on health insurers. Health insurers will be required to include quality improvement covenants in their contracts with hospital providers, and will be required to report their progress on such actions to the Secretary of Health and Human Services. Health insurers participating in the health insurance exchanges will be allowed to contract only with hospitals that have implemented programs designed to ensure patient safety and enhance quality of care. The effect of these provisions upon the process of negotiating contracts with insurers or the costs of implementing such programs cannot be predicted.

Several provisions included to fund the cost of health reform could have an adverse impact on provider payment rates. These include: (i) reductions in Medicare market basket updates to inpatient and outpatient hospital payment rates and further reductions to these market basket updates to account for economy-wide productivity gains, (ii) reductions in payments under the "Medicare Advantage" programs (Medicare managed care), which may result in increased premiums or out-of-pocket costs to Medicare beneficiaries enrolled in

Medicare Advantage plans, and (iii) reductions in Medicare disproportionate share hospital ("DSH") payments to hospitals currently receiving those payments, including the Hospital.

In addition, there will be a new Independent Payment Advisory Board that provides to Congress and the President annual recommendations on curtailing Medicare cost growth and non-binding recommendations on constraining costs and improving quality in the private sector. Starting in 2020, the Medicare proposals related to inpatient and outpatient hospitals will be automatically implemented unless Congress passes an alternative package that meets the same savings targets.

The Healthcare Reform Acts also implement significant changes to healthcare fraud and abuse laws that will intensify the risks and consequences of enforcement actions. These include expansion of the False Claims Act by: (i) narrowing the public disclosure bar, (ii) explicitly stating that violations of the anti-kickback statute trigger false claims liability, and, (iii) applying the False Claims Act to payments under the new exchanges to the extent the payments are made with Federal funds. In addition, the Healthcare Reform Acts lessen the intent requirements under the anti-kickback statute to provide that a person may violate the statue without knowledge or specific intent. The health reform legislation also provides new funding and expanded powers to investigate fraud, including through expansion of the Medicare Recovery Audit Contractor ("RAC") program to Medicare Parts C and D and Medicaid. Finally, the legislation creates enhanced penalties for noncompliance, including increased criminal penalties and expansion of administrative penalties under Medicare and Medicaid. Also of potential cost to the District, all hospitals must establish and maintain compliance programs that satisfy certain Federal requirements as a condition of enrollment in Medicare, Medicaid and the Children's Health Insurance Program ("CHIP").

Finally, the Healthcare Reform Acts create a Center for Medicare and Medicaid Innovation to test innovative payment and service delivery models and to implement various demonstration programs and pilot projects to test, evaluate, encourage and expand new payment structures and methodologies to reduce health care expenditures while maintaining or improving quality of care, including bundled payments under Medicare and Medicaid, and comparative effectiveness research programs that compare the clinical effectiveness of medical treatments and develop recommendations concerning practice guidelines and coverage determinations. Other provisions encourage the creation of new healthcare delivery programs, such as accountable care organizations or combinations of provider organizations that voluntarily meet quality thresholds to share in the cost savings they achieve for the Medicare program. The outcomes of these projects and programs, including their effect on payments to providers and financial performance, cannot be predicted.

Because national healthcare reform has such far-reaching implications on the healthcare system in the United States and in light of the promulgation of new regulations and guidelines expected to be forthcoming, the impact of national healthcare reform on the District continues to be uncertain but may be significant and could be materially adverse to the District in both the near-term and long-term.

Moreover, there is additional uncertainty because of the challenge by 26 states to the constitutionality of the Healthcare Reform Acts and because of Congressional Republicans' announced campaign to seek repeal of the Healthcare Reform Acts. It is generally expected that the United States Supreme Court will accept the Obama administration's request to review conflicting lower court decisions on the constitutionality of the Healthcare Reform Acts.

*California*. In November 2010, the Centers for Medicare and Medicaid Services ("CMS") approved the State of California's new, 5-year, Section 1115 Medicaid Waiver which grants the State certain exemptions, exceptions and modifications from the standard Federal Medicaid

program (operated as Medi-Cal in California). Key elements of the waiver include expanding existing Medi-Cal coverage to cover as many as 500,000 uninsured individuals; expanding the existing Safety Net Care Pool to provide additional support to finance uncompensated care; providing for enrollment of seniors and persons with disabilities into managed care health plans to achieve better care coordination and management of chronic conditions; and implementing a series of improvements in public hospitals and their delivery systems to strengthen their infrastructure and prepare them for full implementation of health reform.

Separate from the aforementioned Medicaid Waiver, the State implemented the CMS-approved Hospital Quality Assurance Fee program which provides for significant new supplemental Medi-Cal payments to participating hospitals. The program provided $2.6 billion in net new payments to hospitals for the program period April 1, 2009 to December 31, 2010. The program was funded by assessing certain California hospitals with a "provider fee" and then using this fee to draw down on additional Federal matching funds. The provider fee and matching Federal funds are then distributed back to hospitals as supplemental Medi-Cal payments, reduced by an administrative fee retained by the State and by monies used to help fund children's healthcare services. Public hospitals and non-designated public hospitals were exempt from paying the fee but still received supplemental payments. For the 21-month period of this initial program, the District received approximately $12 million in supplemental payments, all of which was received by March 31, 2011. California Senate Bill 90 extended the Hospital Quality Assurance Fee program for an additional six months, from January 1, 2011 to June 30, 2011. Full implementation of Senate Bill 90 is contingent on final approval by CMS, which has not been issued as of September 30, 2011. California Senate Bill 335 will implement a 30-month Hospital Quality Assurance Fee for July 1, 2011 to December 31, 2013. Senate Bill 335 has been signed by the Governor and is being considered by CMS. This 30-month program will increase payments to California hospitals by $5.2 billion and will save the State's general fund more than $900 million.

**The Medicare Program**

The Hospital is certified as a provider for Medicare services, and the District intends to continue to participate in the Medicare program. For the year ended December 31, 2010, the District received approximately 49% of net patient service revenues from Medicare. As a result, the District has a significant dependence on Medicare as a source of revenue, and changes in the Medicare program are likely to have a material effect on the District. The requirements for Medicare certification are subject to change, and in order to remain qualified for the program, it may be necessary for the District to effect changes from time to time in the Hospital, equipment, personnel, billing processes, policies and services.

*Medicare Reimbursement*. Under the prospective payment system, Medicare pays a predetermined rate for each covered hospitalization. Each such hospitalization is classified into one of several hundred categories of possible treatments or conditions, known as "diagnostic related groups" ("DRGs"). Hospitals are paid a predetermined amount based on the DRG to which each patient is assigned. The DRG rate is not related to the actual cost to a specific hospital of treating a specific patient. It is a fixed sum, generally based on national cost data.

DRG rates may be adjusted on an annual basis as part of the Federal budget reconciliation process and are thus subject to deficit reduction activities aimed at the Federal budget generally and/or the Medicare program specifically. In fact, under the Balanced Budget Act of 1997 (the "BBA"), Congress, in order to reduce Medicare related spending, froze DRG rates for a period of time and set decreasing adjustments for Federal fiscal years 1999 to 2004. The BBA also reduced the payment rate for capital costs, reduced payments to hospitals designated as disproportionate share hospitals, reduced reimbursement for the bad debts of Medicare patients, and reduced payments to hospitals for patients with certain conditions who

are discharged from the hospital and subsequently admitted to or treated by a skilled nursing facility, a home health agency, or a hospital that does not participate in the prospective payment system. There is no guarantee that such Medicare reimbursement rates, as they change from time to time, will cover the District's actual costs of providing services to Medicare patients.

As a result of the BBA, Medicare beneficiaries have increased Medicare participation options under the Medicare Advantage Program. For example, Medicare Advantage generally allows Medicare beneficiaries to participate in the Medicare program through the traditional Medicare plan, managed care plans including health maintenance organizations and provider networks sponsored by hospitals, physicians or other providers. The District currently hold only one provider contract with a Medicare Advantage health plan. The District may enter into contracts with other Medicare Advantage health plans in the future.

*Disproportionate Share Hospitals*. The Medicare program provides additional payment for certain hospitals that serve a disproportionate share of low income patients. The Hospital qualifies as a disproportionate share hospital and the District does receive disproportionate share payments from Medicare. The reductions in these payments as a result of the BBA or other changes in the Medicare program did not have a material adverse impact on the District, however, reductions in Medicare disproportionate share payments prescribed by the Healthcare Reform Acts may have a material adverse impact on the District's revenues.

*Reimbursement for Skilled Nursing Facilities*. Historically, extended care services furnished to inpatients of a skilled nursing facility ("SNF") were reimbursed on a cost basis subject to per diem limits set by the Secretary of the DHHS for both freestanding and hospital-based SNFs. To reduce costs the BBA caused the SNF reimbursement to switch to a prospective payment system under Medicare beginning July 1, 1998. Management of the Hospital believes that this change to a prospective payment system, is unlikely to have in the future a material adverse effect on the financial condition of the District.

*Reimbursement for Medicare Outpatient Services*. Historically, most outpatient diagnostic and treatment services furnished to Medicare beneficiaries were reimbursed on a cost basis. To reduce costs the BBA caused outpatient reimbursement to switch to a prospective payment system under Medicare beginning August 1, 2000. This prospective payment system has had an adverse impact on the revenues the District receives from providing such services to Medicare beneficiaries.

*Reimbursement for Home Health Agency Services*. Historically, outpatient home health services were reimbursed on a cost basis subject to per visit limits set by the Secretary of the DHHS. To reduce costs the BBA caused the home health agency services reimbursement to switch to a per case prospective payment system under Medicare beginning October 1, 2000. Management of the Hospital believes that this change to a prospective payment system, while significant, has not had, is not currently having and is unlikely to have in the future a material adverse effect on the financial condition of the District.

*Reimbursement for Acute Inpatient Rehabilitation Services*. Historically, extended care services furnished to inpatients of an acute rehabilitation hospital or unit were reimbursed on a cost basis subject to per case limits set by the Secretary of the Department of Health and Human Services. To reduce costs the BBA caused the acute inpatient rehabilitation services reimbursement to switch to a prospective payment system under Medicare beginning July 1, 2002. Management of the Hospital believes that this change to a prospective payment system, while significant, has not had, is not currently having and is unlikely to have in the future a material adverse effect on the financial condition of the District.

*Reimbursement for Acute Inpatient Psychiatric Services*. Historically, extended care services furnished to inpatients of an acute inpatient psychiatric hospital or unit were reimbursed on a cost basis subject to per case limits set by the Secretary of the DHHS. To reduce costs the BBA caused the acute inpatient psychiatric services reimbursement to switch to a prospective payment system under Medicare beginning January 1, 2005. Management of the Hospital believes that this change to a prospective payment system, while significant, has not had, is not currently having and is unlikely to have in the future a material adverse effect on the financial condition of the District.

*Audits and Withholds*. Medicare-participating hospitals are subject to audits and retroactive audit adjustments with respect to the Medicare program. Generally, the District maintains reserves for anticipated or proposed audit adjustments which are likely to be contested based upon the best estimate of management of the Hospital. Nevertheless, such adjustments could exceed reserves and could be substantial. Medicare regulations also provide for withholding Medicare payment in certain circumstances, and such withholds, if occurring, could have a substantial adverse effect on the District's overall financial condition.

The RAC Program, mandated by the Tax Relief and Health Care Act of 2006, detects and corrects past improper payments so that the CMS, claims processing contractors, and providers can implement actions that will prevent future improper payments. The RAC operates to identify overpayments and underpayments made to providers. RACs may review the last three years of provider claims for the following types of services: hospital inpatient and outpatient, skilled nursing facility, physician, ambulance, laboratory and durable medical equipment.

Healthcare reform laws mandated the expansion of the RAC program into Medicaid requiring states to contract with one or more RACs to identify underpayments and overpayments and recoup overpayments for Medicaid services. Claims would be reviewed using state Medicaid rules and the state may use its current appeal process. Hospital providers have concern that this expanded program may result in multiple examinations of the same issues by different reviewers.

*Fraud and Abuse Enforcement*. Prosecution of health care fraud has become a significant challenge to health care payors and providers. The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") and the BBA have broadly expanded enforcement jurisdiction and funding.

Federal Bureau of Investigation ("FBI) health care investigations have increased and so has the FBI's funding for health care investigations. U.S. Attorneys are actively prosecuting a number of cases, including criminal False Claims Act cases, against health care providers, including some against exempt organizations. A number of prominent health care organizations have paid large settlements.

The Office of Inspector General ("OIG") received substantial enforcement funding through HIPAA. Each year the OIG issues a Work Plan which outlines the areas in which the OIG intends to focus its resources in the coming fiscal year.

The governmental enforcement initiatives are increasingly supplemented by qui tam False Claim Act lawsuits brought by private citizens against health care organizations. Many of the pending qui tam cases are health care related.

Failure to comply with the complex Medicare and Medi-Cal billing laws can result in exclusion from the Medicare or Medi-Cal programs as well as civil and criminal penalties. A substantial failure of the District to meet its responsibilities under the law could materially adversely affect the financial condition of the District.

To reduce the risk of being found to have violated a billing regulation, providers and payors have developed detailed compliance plans. These plans are structured to conform to the requirements in the Federal Sentencing Guidelines. The OIG has issued a compliance program guidance for hospitals. The District has adopted a compliance plan which management of the Hospital believes meets the Federal Sentencing Guidelines model.

*Capital Cost Reimbursement*. Capital costs were phased into the prospective payment system over a period of ten years ending in 2001. This phase-in has constituted an overall reduction of hospital reimbursement for capital costs. Moreover, the BBA provided that the payments under the capital prospective payment system which relate to Medicare services provided to certain Medicare beneficiaries were further reduced. Management of the Hospital believes that the changes, while significant, have not had, are not currently having and are unlikely to have in the future a material adverse effect on the financial condition of the District.

*Patient Transfers*. In response to concerns regarding inappropriate hospital transfers of emergency patients based on the patient's inability to pay for the services provided, Congress has enacted an "anti dumping" statute. Failure to comply with the law can result in exclusion from the Medicare and/or Medicaid programs, as well as civil and criminal penalties. Substantial failure of the District to meet its responsibilities under the law could materially adversely affect the financial condition of the District.

*Waiver Programs*. Some hospitals are engaged in programs which waive certain Medicare coinsurance and/or deductible amounts. Such waiver programs may be considered to be in violation of certain rules and policies applicable to the Medicare program and may be subject to enforcement action, involving fines, which could be substantial, withholding of certain Medicare payments or, in a serious case, exclusion from the Medicare program. Management of the Hospital have indicated that they have not engaged in any such waiver programs.

*Health Information*. Specific state and Federal laws govern the use and disclosure of confidential patient health information, as well as patients' rights to access and amend their own health information. The Administrative Simplification Requirements of HIPAA established national standards to facilitate the electronic exchange of Protected Health Information ("PHI") and to maintain the privacy and security of the PHI. These standards have a major effect on health care providers which transmit PHI in electronic form in connection with HIPAA standard transactions (e.g., health care claims). In particular, HIPAA established standards governing: (1) Electronic Transactions and Code Sets; (2) Privacy; (3) Security; and (4) National Identifiers. The District has developed policies, procedures and practices that it believes comply with the HIPAA standards and requirements, but if it was determined that the District was not in compliance there could be criminal and civil penalties imposed.

Title XIII of the American Recovery and Reinvestment Act of 2009, otherwise known as the Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), provides for an investment of almost $20 billion in public monies for the development of a nationwide health information technology infrastructure ("HITI"). The HITI is intended to improve health care quality, reduce costs and facilitate access to certain information. Among other things, the HITECH Act provides financial incentives, through the Medicaid (Medi-Cal) and Medicare programs, in the form of loans and grants to encourage practitioners and providers to adopt and use qualified electronic health records. Over time, Medicare payments will be reduced for providers and practitioners who do not use electronic health records. The HITECH Act also expands the scope and application of the administrative simplification provisions of HIPAA, and its implementing regulation, (i) imposing a written notice obligation upon covered entities for security breaches involving "unsecured" protected health information, (ii) expanding the scope of a provider's electronic health record disclosure tracking

obligations, (iii) substantially limiting the ability of health care providers to sell protected health information without patient authorization, (iv) increasing penalties for violations, and (v) providing for enforcement of violations by state attorneys general. While the effects of the HITECH Act cannot be predicted at this time, the obligations imposed thereunder could have a material adverse effect on the financial condition of the District.

In January 2009, California established the Office of Health Information Integrity ("OHII") pursuant to Assembly Bill 211 ("AB211") to enforce California's regulation of health and medical information of California residents under the direction of the California Department of Public Health ("DPH"). In conjunction with HIPAA and the HITECH Act, California has numerous statutes governing the collection, use and disclosure of certain patient health information, including the California Medical Information Act, Information Practices Act, Lanterman Petris-Short Act, Public Records Act, Lanterman Developmental Disabilities Services Act, Patient Access to Health Records, and Office of HIPAA Implementation / Health Information Integrity. As of January 2009, California amended its regulatory scheme governing patient health information with the enactment of AB 211 and Senate Bill 541 ("SB541") so that in certain respects California's regulatory scheme would exceed those of HIPAA. With subsequent passage of the HITECH Act it is unclear to what extent AB 211 and SB 541 may now be preempted.

It is generally understood that HIPAA and HITECH Act only preempts California's foregoing regulatory scheme to the extent the coverage, requirements and liability of HIPAA and the HITECH Act exceeds those established by California. However, incorporating the changes established by AB 211 and SB 541, California's regulatory scheme is thought to exceed those of both HIPAA and the HITECH Act in terms of (1) expanding the types of health providers and facilities covered, (2) expanding the types of patient health information subject to protection, (3) requiring written notice to DPH, (4) considerably accelerating the deadline for delivering written notice to affected persons and to DPH, (5) requiring criminal liability for certain violations, (6) providing for enforcement of violations by affected California residents, and (7) increasing penalties and fees for violations. While the effects of the AB 211 and SB 541 cannot be predicted at this time, the obligations and potential liabilities imposed thereunder could have a material adverse effect on the financial condition of the District.

**The Medicaid Program**

Medicaid is a program of medical assistance, funded jointly by the Federal government and the states, for certain needy individuals and their dependents. Under Medicaid, the Federal government provides grants to states that have medical assistance programs that are consistent with Federal standards. The attempts to balance the Federal budget through, among other things, a reduction in Medicare spending has also resulted in a reduction in spending with respect to the Medicaid program. As a result of changes and reductions made by the BBA, Federal Medicaid spending has been significantly reduced.

**California Medi-Cal Program**

*General*. Medi-Cal is the Medicaid program in California. Like Federal programs, Medi-Cal has implemented cost-cutting policies. For the year ended December 31, 2010, the District received approximately 16% of net patient service revenues from Medi-Cal. Substantial reimbursement reductions to providers, such as hospitals and physicians, implemented during California's budget crisis have been challenged in court with the United States Supreme Court set to decide that case in its current term. Further cost-cutting policies, including eligibility reductions and restrictions, may be undertaken in the future. California law provides that the State shall selectively contract with general acute care hospitals to provide acute inpatient services to Medi-Cal patients. Generally, such selective contracting is made on a flat per diem or

per discharge payment basis for all inpatient services to Medi-Cal beneficiaries, and generally such payments have not increased in relation to inflation, costs or other factors. Reductions or limitations may be imposed on payment for services rendered to Medi-Cal beneficiaries in the future. Medi-Cal contracts currently apply only to acute inpatient services, but may be extended to include outpatient services as well.

Under the above-described selective contracting rules, in most geographical areas of California, only those hospitals which enter into a Medi-Cal contract will be paid for non emergency hospital inpatient services to Medi-Cal beneficiaries. Generally, either party may terminate such contracts on 120 days' notice. The State may also terminate without notice under certain circumstances (e.g., breach by the provider or failure to remain qualified under the Medi-Cal program) and is obligated to make contractual payments only to the extent the State Legislature appropriates adequate funding.

While most California hospitals are reimbursed for inpatient Medi-Cal services under the aforementioned selective contracting rules, the District does not hold such a contract with the State and is alternatively reimbursed on a cost basis for inpatient services furnished to certain Medi-Cal beneficiaries. As such, and like hospitals participating in the Medicare program, hospitals reimbursed for Medi-Cal inpatient services on a cost basis are subject to audits and retroactive audit adjustments. No assurances can be made that the District will in the future continue to be reimbursed on a cost basis or be awarded a Medi-Cal contract in the event cost-based reimbursement is abolished by the State.

*Disproportionate Share Hospitals*. The Medi-Cal program provides additional payment for certain hospitals that serve a disproportionate share of Medi-Cal and low income patients. The Hospital qualified as a Medi-Cal disproportionate share hospital based upon the volume of indigent care provided for the first time beginning in fiscal year 2008, but has to-date failed to meet the full eligibility criteria based on its lack of obstetrical care coverage (See "THE HOSPITAL—Management Discussion of Hospital Operations"). While the State has informed the District that it has preliminarily qualified for Medi-Cal disproportionate payments in fiscal year 2012 based on the volume of indigent care provided, the Hospital does not yet meet the criteria for receipt of those payments due to the continued lack of obstetrical coverage. Further, there is no assurance that a positive final determination will be made by the State for fiscal year 2012 even if the Hospital is successful in meeting the obstetrical coverage criteria, nor is there any assurance that Medi-Cal disproportionate share funding will be available to the District in the future.

*Medi-Cal Managed Care*. In an effort to further reduce outlays for Medi-Cal spending and to better coordinate the care provided to Medi-Cal beneficiaries, the State has implemented Medi-Cal managed care plans in a number of counties, including Sutter and Yuba Counties in which the District operates, for certain aid categories of Medi-Cal beneficiaries (referred to as "Medi-Cal Managed Care"). Referred to as the "two-plan" model, the State selectively awards contracts to local-government sponsored or commercial managed care health plans to contract with local health care providers, including hospitals, for the provision of health care services to its enrolled Medi-Cal beneficiaries. The contracted health plans receive a negotiated payment rate from the State for each enrolled beneficiary and in turn the health plans contract with physicians, hospitals and other providers at negotiated per diems, case rates, fee schedules and other payment terms. A key objective of the State and its contracted managed care health plans is to reduce hospital inpatient utilization and hospital inpatient revenues per admission as more Medi-Cal beneficiaries are shifted from traditional "fee-for-service" Medi-Cal to Medi-Cal Managed Care.

*California Budget and Other Legislative Matters*. Because of well-publicized and continuing state budget problems in California there can be no guarantee that the Medi-Cal program, in the

future, will not continually become the target of State spending cuts adversely affecting the financial condition of the District.

**Indigent Care**

Hospitals often treat large numbers of "indigent" patients who, for various reasons, are unable to pay for their medical care. These hospitals may be susceptible to economic and political changes which could increase the number of indigents or their responsibility for caring for this population. General economic conditions which affect the number of employed individuals who have health coverage will similarly affect the ability of patients to pay for their care. Similarly, changes in governmental policy, which may result in coverage exclusions under local, State and Federal health care programs (including Medicare and Medi-Cal) may increase the frequency and severity of indigent treatment in such hospitals. It is also possible that future legislation could require that hospitals maintain minimum levels of indigent care as a condition to Federal income tax exemption or local property tax exemption. Thus, indigent care commitments at the Hospital could constitute a material and adverse risk in the future.

**Private Health Plans and Managed Care**

Health care, including hospital services, is increasingly paid for by various "managed care" plans which generally use discounts and other economic incentives to reduce or limit the cost and utilization of expensive health care services such as inpatient hospital care.

In many markets, including California, managed care plans, primarily health maintenance organizations ("HMOs"), have steadily replaced indemnity insurance as the prime source of nongovernmental payment for hospital services. In these markets, it is probable that hospital inpatient utilization and hospital inpatient revenues per admission will decline as managed care plans penetrate regional markets. In addition, Medicare and Medi-Cal have or are instituting managed care contracting programs in certain markets. Certain private insurance companies contract with hospitals on an "exclusive" or a "preferred" provider basis, and some insurers have introduced plans known as "preferred provider organizations" ("PPOs"). For the year ended December 31, 2010, revenue from HMOs and PPOs for commercially-insured patients constituted approximately 28% of the net patient service revenues of the Hospital. Under such plans, there may be financial incentives for subscribers to use only those hospitals which contract with the plans. Under an exclusive provider plan, which includes most HMOs, private payors limit coverage to those services provided by selected hospitals. With this contracting authority, health plans and HMOs may direct patients away from nonselected hospitals by denying coverage for services provided by them.

Most PPOs and HMOs currently pay hospitals on a discounted fee for service basis or on a discounted fixed rate per day of care. Many health care providers do not have complete and accurate information about their actual costs of providing specific types of care. Consequently, the discounts offered to HMOs and PPOs may result in payment at less than actual cost and the volume of patients directed to a hospital may vary significantly from projections. Changes in utilization of certain services may be dramatic and unexpected.

While less prevalent now than historically, some HMOs mandate a "capitation" payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HMO who is "assigned" to, or otherwise directed to receive care at, a particular hospital. In a capitation payment system, the hospital assumes an insurance risk for the cost and scope of care given to such HMO's enrollees. In some cases, the capitated payment covers total patient care provided, including physician charges. If payment under an HMO or PPO contract is insufficient to meet the hospital's costs of care, the financial condition of the hospital could erode rapidly and significantly. Often, contracts are enforceable for a stated term, regardless of

hospital losses. Further, HMO contracts may contain a requirement that the hospital care for enrollees for a certain period of time regardless of whether the HMO has funds to make payment to the hospital. The District has never held capitation-based contracts and has not derived any of its income from such contracts.

Increasingly, physician practice groups, independent practice associations and physician management companies have become a part of the process of negotiating payment rates to hospitals. This involvement has taken many forms, but typically increases the competition for limited payment resources from health plans and HMOs.

In regions where managed care is pervasive, hospitals must be capable of attracting and maintaining managed care business, often on a regional basis. To do so, regional coverage and aggressive pricing may be required. However, it is also essential that contracting hospitals be able to provide the contracted services without significant operating losses, which may require innovative cost containment efforts. There is no assurance that the District will maintain managed care contracts or obtain other similar contracts in the future. Failure to maintain contracts could have the effect of reducing the Hosipital's market share and gross patient service revenues. Conversely, participation may maintain or increase the patient base, but could result in lower net income to the District if the District is unable to adequately contain its costs. Thus, managed care poses one of the most significant business risks (and opportunities) the District faces.

As a consequence of the above factors, the effect of managed care on the District's financial condition is difficult to predict and may be different in the future than that reflected in the financial statements for the current period.

**Physician Alliances and Affiliation**

Many hospitals are pursuing strategic alliances with physicians that may be capital intensive and may create certain business and legal liabilities for the related hospital or health system. These alliances range from formalized relationships for managed care contracting to full ownership of physician practices and integration of the professional and institutional components of medical care in a unified delivery model. Such integration strategies take many forms, including management service organizations ("MSOs") or physician-hospital organizations ("PHOs"), which may provide a combination of financial and managed care assistance, as well as management, facilities and equipment to groups of physicians. Other integration structures include hospital-based clinics or medical practice foundations, which may purchase, own and operate physician practices.

Generally, the sponsoring hospital or health system will be the primary capital source for such alliances. Depending on the size and organizational characteristics of a particular development, these capital requirements may be substantial. In some cases, the sponsoring hospital or health system may be asked to provide a financial guarantee for the debt of a related entity which is carrying out the physician affiliation. In some cases, the sponsoring hospital or health system may have an ongoing financial commitment to provide growth capital or support operating deficits, which may be substantial on an annual or aggregate basis. While there are many benefits which may be derived from such alliances, most are ventures without a track record of success and outcomes are uncertain. Therefore, invested capital is subject to risk of loss.

These types of alliances are generally designed to respond to existing trends in the delivery of medicine, to increase physician availability to the community and/or to enhance the managed care capability of the affiliated hospital and physicians. However, these goals may not

be achieved, and, if the development is not successful, it may produce materially adverse results that are counterproductive to some or all of the above stated goals.

All such integrated delivery developments carry with them the potential for legal or regulatory risks in varying degrees. Such developments may call into question compliance with the anti referral laws and relevant antitrust laws (discussed below under "Antitrust" and "Referral Laws" herein). Such developments may also subject the hospital provider to state insurance department regulation. Questions of Federal or state tax exemption may arise for tax-exempt hospital providers in certain types of developments or as a result of formation, operation or future modification of such developments. Organizations which operate at a deficit over an extended period of time may raise significant risks of investigation or challenge regarding tax exemption for tax-exempt hospital providers or compliance with the anti-referral laws for all hospital providers. In addition, depending on the type of development, a wide range of governmental billing and reimbursement issues may arise, including questions of the authorization of the entity to bill or collect revenue, for or on behalf, of the physicians involved. Other legal and regulatory risks may arise, relating to employment, pension and benefits, and corporate practice of medicine, particularly in the current atmosphere of frequent and often unpredictable changes in Federal and state legal requirements regarding health care.

The District currently engages in some of the above-described activities, and the changing nature of health care delivery and general consolidation and integration within the health care industry may require the District to consider expanded and additional strategies. There can be no assurance that the issues and risks described above will not lead to material adverse consequences in the future to the District.

**Affiliation, Merger, Acquisition and Disposition**

The District plans for and evaluates potential merger and affiliation opportunities as a regular part of its overall strategic planning and development process. Generally, discussions by hospitals with respect to affiliation, merger, acquisition, disposition or change of use are held on a confidential basis with other parties and may include the execution of nonbinding letters of intent. Currently, the District is exploring potential affiliation options but concrete discussions have not yet begun. See "THE HOSPITAL— Management's Discussion of Hospital Operations" above.

**Other Acquisitions and Affiliations**

In addition to relationships with hospitals and physicians, the District may consider investments, ventures, affiliations, development and acquisition of other health care related entities. These may include home health care, long-term care entities or operations, infusion providers, pharmaceutical providers and other health care enterprises which support the overall operations of the Hospital. In addition, the District may pursue such transactions with health insurers, HMOs, preferred provider organizations, third-party administrators and other health insurance-related businesses. Because of the integration occurring throughout the health care field, the District will consider such arrangements where there is a perceived strategic or operational benefit for the Hospital.

All such initiatives may involve significant capital commitments and/or capital or operating risk (including, potentially, insurance risk) in a business in which the District may have less expertise than in hospital operations. There can be no assurance that these projects, if pursued, will not lead to material adverse consequences.

**Antitrust**

Antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, payor contracting, physician relations, joint ventures, merger, affiliation and acquisition activities and certain pricing or salary setting activities, as well as other areas of activity. The application of the Federal and state antitrust laws to health care is still evolving, and enforcement activity by Federal and state agencies appears to be increasing. Violators of the antitrust laws may be subject to criminal and/or civil enforcement by Federal and state agencies, as well as by private litigants. Common areas of potential liability are joint action among providers with respect to payor contracting and medical staff credentialing. With respect to payor contracting, the District may, from time to time, be involved in joint contracting activity with hospitals, physicians or other providers. The precise degree, if any, to which this or similar joint contracting activities may expose the participants to antitrust risk is dependent on a variety of factual matters. Physicians who are subject to adverse peer review proceedings may file Federal antitrust actions against hospitals and seek treble damages. Hospitals, regularly have disputes regarding credentialing and peer review, and therefore may be subject to liability in this area. In addition, hospitals occasionally indemnify medical staff members who are involved in such credentialing or peer review activities, and may also be liable with respect to such indemnity.

Another potential area of liability is merger and affiliation activity if a hospital's local market power in the inpatient hospital market or related health care business becomes too great. In addition, the creation of market power or monopoly power through contracting with a high percentage of physicians within a given market may result in antitrust risks. Hospitals may also work with, rely upon and sometimes invest in medical groups or physician practice management companies. If any of these medical groups or management companies is determined to have violated the antitrust laws, the hospital also may be subject to liability.

From time to time, the District may be involved with all of these types of activities, and it cannot be predicted in general when or to what extent liability may arise, if any. Liability in any of these or other trade regulation areas may be substantial, depending on the facts and circumstances of each case.

**Referral Laws**

There is an expanding body of Federal and state law which regulates and, to some extent, prohibits referrals of physicians to hospitals where there is a broadly defined economic relationship between the parties. As both economic relationships and referrals are prevalent among various types of providers, and particularly between hospitals and physicians, the potential risk of violation of these referral laws is significant.

Under Federal law, there are two statutory schemes by which referrals are regulated. These statutes are broadly drafted and complex. As a result, both their coverage and their effect on provider behavior is uncertain in many respects. Yet, failure to comply with these statutes may result in material penalties, including permanent or temporary exclusion from the Medicare or Medi-Cal programs, nonpayment for Medicare or Medi-Cal services rendered in connection with the prohibited referrals, substantial fines and criminal penalties.

Various states, including California, also have one or more bodies of law designed to prevent or regulate certain types of referrals. These restrictions are generally simpler than the Federal restrictions, but may be equally vague with respect to their coverage and effect. Generally, the state referral laws have less onerous penalties, but, as a practical matter, they could be materially adverse in certain circumstances.

The above-referenced referral laws are numerous, complex, partially overlapping, and lacking in consistency, either among themselves or with other statutory or regulatory requirements. As a result, health care managers are often unfamiliar with the requirements of these statutes, or believe they are inapplicable or unenforceable. Since many relationships which are common to health care may be covered and potentially prohibited by various provisions of the referral laws, it is possible that many existing relationships could be challenged and enforcement action might be taken.

It is not possible to accurately assess the degree of risk and the potential that many relationships may be successfully challenged. Given that an enforcement action could result in temporary or permanent exclusion from the Medicare or Medi-Cal programs, or a substantial withhold of payments from such programs, as well as fines and penalties, the risk must be assumed to be adverse and material. This risk may apply to a wide variety of common and innovative activities undertaken at the Hospital. The District is significantly dependent on Medicare and Medi-Cal payments (see "The Medicare Program" and "California Medi-Cal Program" above).

**Risks in Health Care Delivery**

*General*. Efforts by health insurers and governmental agencies to limit the cost of hospital service and to reduce utilization of hospital facilities may reduce future revenues.

Hospitals operating in the United States are generally considered to have significant excess capacity. Through various combinations of changes in governmental policy, competition, advances in technology and treatment, and changes in payment methodology to reduce incentives for inpatient hospital utilization, inpatient hospitalizations have generally decreased over the past several years. It is probable that these trends will continue, and the factors mentioned above will continue to create operational and economic uncertainty for hospitals. Hospital operations pose greater complexity and higher risk than in years past, and this trend may also continue. It is not practical to enumerate each and every operating risk which may result from hospital operations, and certain risks or combinations of risks which are now unanticipated may have material adverse results in the future. Certain risks relating to hospital operations are enumerated below.

*Competition*. Increased competition from a wide variety of potential sources, including, but not limited to, other hospitals, inpatient and outpatient health care facilities, clinics, physicians and others, may adversely and increasingly affect the utilization and/or revenues of the Hospital. Existing and potential competitors may not be subject to various regulations and restrictions applicable to the District, and may be more flexible in their ability to adapt to competitive opportunities and risks. Certain new competitors, such as home health and infusion providers, and certain niche providers, such as specialized cardiology or oncology companies, specifically target hospital patients as their prime source of revenue growth. Some of these companies have aggressive business and marketing plans, and some are well capitalized. If these competitors are successful, some of the most profitable aspects of inpatient hospital operations may be stripped away, and/or overall hospital utilization may decline further. Competition may, in the future, arise from new sources not currently anticipated or prevalent. In addition, mergers or affiliations of existing competitors may create larger, more viable entities which may be more formidable competitors than the original constituent entities. While the effect of such actions is uncertain, it can be expected to increase competition in the health care field in California generally, and the utilization and revenues of the District could be adversely affected thereby.

*Nursing Shortage and Nurse Staffing Ratios*. In the past there have been shortages of registered nurses in the State. California hospitals are required to meet specific minimum nurse-

to-patient staffing ratios. Some hospitals, unable to meet these staffing ratios, have been forced to close beds, reduce or eliminate services or limit patient access in other ways. While the District was generally able to comply with the staffing ratios without resorting to these measures, it had to rely on the use of expensive contract labor using nurse registries or nurse travelers. There is no assurance the District will be able to avoid bed closures or other similar actions in the future or be able to reduce its use of contract labor to meet the nurse staffing ratios should these shortages return.

*Labor Relations*. Hospitals are large employers with a wide diversity of employees. Increasingly, employees of hospitals are becoming unionized, and many hospitals have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade personnel. Currently, certain employees at the Hospital are covered by collective bargaining agreements.

*Physician Contracting and Relations*. Hospitals may enter into a wide variety of relationships with physicians. Many of these relationships may be of material importance to the operations of these hospitals, and, in an increasingly complex legal and regulatory environment, these relationships pose a variety of legal or business risks. Increasingly, the focus of these relationships is a physician practice group or independent practice association that concentrates a large number of physicians in a limited number of contracting organizations. This increases the importance of these contracts and increases the risk of the loss of one or more such contracts.

The primary relationship between a hospital and physicians who practice in it is through the hospital's organized medical staff. Medical staff bylaws, rules and policies establish the criteria and procedures by which a physician may have his or her privileges or membership curtailed, denied or revoked. Physicians who are denied medical staff membership or certain clinical privileges, or who have such membership or privileges curtailed, denied or revoked often file legal actions against hospitals and medical staffs. Such actions may include a wide variety of claims, some of which could result in substantial uninsured damages to a hospital. In addition, failure of the hospital governing body to adequately oversee the conduct of its medical staff may result in hospital liability to third parties. All hospitals are subject to such risks.

Certain contracts between hospitals and physicians may be void or voidable by challenge from a party in situations where a hospital exercises certain aspects of control over a physician's practice or where the physician is in a position to refer patients to the hospital and is compensated based on a percentage of revenues formula. In many cases, the determination of the validity of such agreements and the materiality of their loss is dependent on factual circumstances and on the relative position of the parties at a particular time. Consequently, the outcome cannot be determined with precision in advance of a dispute or controversy with respect to the relationship. Management of the Hospital is not aware of specific, related controversies that it believes would lead to the loss of a contractual relationship which would be material with respect to the operation or financial condition of the District.

Certain contracts entered into with physicians or physician groups create an exclusive relationship. With increased competition among health care providers and the increasing frequency of the application of antitrust principles in health care, such exclusive relationships are subject to challenge, generally by other physicians competing with those who have the exclusive relationship. Absent facts which may arise from a specific challenge or controversy, the validity of such agreements cannot in many cases be accurately determined, nor can the materiality of the loss of the exclusive relationship to a hospital or the damages, if any, which might be assessed against the parties to it. The District presently has limited exclusive

relationships of the type described. As of the date hereof, management of the Hospital is not aware of specific controversies which management believes might lead to the loss of an exclusive contractual relationship, or to an award of damages, that would be material with respect to the operation or financial condition of the District.

*Capital Needs vs. Capital Capacity*. Hospital operations are capital intensive. Regulation, technology and physician/patient expectations require constant and often significant capital investment. In California, seismic requirements mandated by the State may require that many hospital facilities be substantially modified, replaced or closed. Nearly all hospitals in California are affected. Estimated construction costs are substantial and actual costs of compliance may exceed estimates. Total capital needs in all areas of hospital operations may outstrip capital capacity. Furthermore, capital capacity of hospitals may be reduced as a result of recent credit market dislocations. It is uncertain how long these conditions may persist, and it is possible that capital capacity may be negatively affected over the long term for reasons related to the credit markets.

*Technology and Services*. Scientific and technological advances, new procedures, drugs and appliances, preventive medicine, occupational health and safety and outpatient health care delivery may reduce utilization and revenues of the Hospital in the future. Technological advances in recent years have accelerated the trend toward the use by hospitals of sophisticated, and costly, equipment and services for diagnosis and treatment. The acquisition and operation of certain equipment or services may continue to be a significant factor in hospital utilization, but the ability of the Hospital to offer such equipment or services may be subject to the availability of equipment or specialists, governmental approval or the ability to finance such acquisitions or operations.

*Negative Rankings Based on Clinical Outcomes, Cost, Quality, Patient Satisfaction and Other Performance Measures*. Health plans, Medicare, Medicaid, employers, trade groups and other purchasers of health services, private standard-setting organizations and accrediting agencies increasingly are using statistical and other measures in efforts to characterize, publicize, compare, rank and change the quality, safety and cost of health care services provided by hospitals and physicians. Published rankings such as "score cards," "pay for performance" and other financial and nonfinancial incentive programs are being introduced to affect the reputation and revenue of hospitals and the members of their medical staffs and to influence the behavior of consumers and providers such as the Hospital. Currently prevalent are measures of quality based on clinical outcomes of patient care, reduction in costs, patient satisfaction, and investment in health information technology. Measures of performance set by others that characterize a hospital negatively may adversely affect its reputation and financial condition.

**Licensing, Surveys, Investigations and Audits**

Health facilities, including the Hospital, are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements relating to Medicare and Medi-Cal participation and payment, state licensing agencies, private payors and The Joint Commission. Renewal and continuance of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative action or response by the District. These activities generally are conducted in the normal course of business of health facilities. Nevertheless, an adverse result could result in a loss or reduction in the Hospital's scope of licensure, certification or accreditation, or could reduce the payment received or require repayment of amounts previously remitted.

Management of the Hospital currently anticipates no difficulty renewing or continuing currently held licenses, certifications or accreditations, nor does it anticipate a reduction in third

party payments from such events which would materially adversely affect the operations or financial condition of the District. Nevertheless, actions in any of these areas could result in the loss of utilization or revenues, or the District's ability to operate all or a portion of the Hospital.

**Seismic Requirements**

Earthquakes affecting California hospitals have prompted the State to impose new hospital seismic safety standards pursuant to California Senate Bill 1953. Under these new standards, generally by 2013 (or in some cases as extended to 2030), California hospitals will be required to meet stringent seismic safety criteria which may necessitate major renovation in certain facilities or even their partial or full replacement. The potential capital costs and negative operating effects of such a replacement could be material and adverse.

A significant earthquake could have a material adverse effect on the District which could result in material damage and temporary or permanent cessation of operations at the Hospital. The geographic area in which the Hospital is located has not been earthquake prone in the past. The Hospital is not covered by earthquake insurance.

**Environmental Laws and Regulations**

Health care providers are subject to a wide variety of Federal, state and local environmental and occupational health and safety laws and regulations which address, among other things, provider operations or facilities and properties owned or operated by providers. Among the types of regulatory requirements faced by health care providers are: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos, polychlorinated biphenyls and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the provider; requirements for training employees in the proper handling and management of hazardous materials and wastes and other requirements.

In their role as owners and/or operators of properties or facilities, health care providers may be subject to liability for investigating and remedying any hazardous substances that have come to be located on their property, including any such substances that may have migrated off the property. Typical health care provider operations include, but are not limited to, in various combinations, the handling, use, treatment, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive and flammable materials, wastes, pollutants or contaminants. As such, health care provider operations are particularly susceptible to the practical, financial and legal risks associated with the obligations imposed by applicable environmental laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations and/or increase their cost; may result in legal liability, damages, injunctions or fines; may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions and may not be covered by insurance. There can be no assurance that the District will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the District.

At the present time, management of the Hospital is not aware of any pending or threatened claim, investigation or enforcement action regarding such environmental issues, or any instance of contamination, which, if determined adversely, would have material adverse consequences to the District.

**Future Risks**

In the future, the following factors, among others, may adversely affect the operations of health care providers, including the District, to an extent that cannot be determined at this time.

(a) Adoption of legislation that would establish a national or statewide single-payor health program or that would establish national, statewide or otherwise regulated rates applicable to hospitals and other health care providers.

(b) Reduced demand for the services of the Hospital that might result from decreases in population.

(c) Bankruptcy of an indemnity/commercial insurer, managed care plan or other payor.

(d) Efforts by insurers and governmental agencies to limit the cost of hospital services, to reduce the number of beds and to reduce the utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety and outpatient care, or comparable regulations or attempts by third-party payors to control or restrict the operations of certain health care facilities.

(e) The occurrence of a natural or man-made disaster that could damage the Hospital's facilities, interrupt utility service to the facilities, result in an abnormally high demand for health care services or otherwise impair the Hospital's operations and the generation of revenues from the facilities.

(f) Limitations on the availability of, and increased compensation necessary to secure and retain, nursing, technical and other professional personnel.

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# APPENDIX B

## AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

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Report of Independent Auditors and
Financial Statements

# West Contra Costa Healthcare District

December 31, 2010 and 2009

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

*Acumen. Agility. Answers.*

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## CONTENTS

**PAGE**

**MANAGEMENT DISCUSSION AND ANALYSIS** ..... 1

**REPORT OF INDEPENDENT AUDITORS** ..... 6

**FINANCIAL STATEMENTS**

Balance sheets ..... 7

Statements of revenues, expenses and changes in net assets ..... 8

Statements of cash flows ..... 9

Notes to financial statements ..... 10

# MANAGEMENT DISCUSSION AND ANALYSIS

Our discussion and analysis of West Contra Costa County Healthcare District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal years ended December 31, 2010, 2009, and 2008. Please read it in conjunction with the District's financial statements, which begin on page 6.

**Financial Highlights**

- The District's net assets increased in 2010 from 2009 by $2.5 million (9.8%) after an increase in 2009 from 2008 of $11.0 million (74.6%) and an increase of $18.1 million (552.7%) in 2008 from 2007.
- The District reported an operating loss of $15.5 million in 2010 after operating losses in 2009 of $13.2 million and $18.8 million in 2008.
- The District's net nonoperating revenues were $18.0 million in 2010 as compared to $24.3 million in 2009 and $24.2 million in 2008.

**Using This Annual Report**

The District's financial statements consist of three statements – a balance sheet; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows. These financial statements and related notes provide information about the activities of the District, including resources held by the District but restricted for specific purposes by contributors, grantors, or enabling legislation.

**The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Assets**

Our analysis of the District's finances begins on page 1. One of the most important questions asked about the finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses, and changes in net assets report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the District. Overall, the District is worse off at December 31, 2010 than it was December 31, 2009.

**The Statement of Cash Flows**

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

**The District's Net Assets**

The District's net assets are the difference between its assets and liabilities reported in the balance sheets on page 7. The net assets increased in 2010 by $2.5 million over 2009 after an increase in 2009 by $11.0 million over 2008 and an increase in 2008 by $18.1 million over 2007.

**Table 1: Assets, Liabilities, and Net Assets**

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Assets | | | |
| Current assets | $ 37,105,000 | $ 39,577,000 | $ 35,071,000 |
| Capital assets, net | 45,407,000 | 44,033,000 | 43,318,000 |
| Other noncurrent assets | 1,186,000 | 1,228,000 | 1,266,000 |
| Total Assets | 83,698,000 | 84,838,000 | 79,655,000 |
| Liabilities | | | |
| Current liabilities | 32,316,000 | 31,906,000 | 27,409,000 |
| Other | 22,982,000 | 27,077,000 | 37,439,000 |
| Total Liabilities | 55,298,000 | 58,983,000 | 64,848,000 |
| Net Assets (deficit) | | | |
| Invested in capital assets, net of related debt | 21,890,000 | 18,667,000 | 17,550,000 |
| Restricted expendable net assets | 4,006,000 | 4,435,000 | 7,919,000 |
| Unrestricted | 2,504,000 | 2,753,000 | (10,662,000) |
| Total Net Assets (deficit) | 28,400,000 | 25,855,000 | 14,807,000 |
| Total Net Assets and Liabilities | $ 83,698,000 | $ 84,838,000 | $ 79,655,000 |

Net patient service revenue increased in 2010 from 2009 by $7.6 million (6.2%), while operating expenses increased by $9.8 million (7.2%). The significant change in the financial position of the District was a decrease in operating cash caused by not receiving the anticipated CMAC payment discussed below. Not receiving this $8.0 million payment caused the District to delay payment to vendors and to cancel or put on hold anticipated capital projects. The District was able to lower the long term debt by making the scheduled payments on the bond, certificates of participation, and Contra Costa County tax advance.

In 2010, the District also paid down its long term debt by $7.0 million, including a $3.2 million payment on the District's bankruptcy debt. The balance of the long term debt payments were to Contra Costa County and for the District's bonds. The estimates from third party settlements decreased in 2010. This was the result of a component of the Medicare payment calculation being updated. This caused management to revise Medicare cost report estimates back to 2007 cost reports. This was reflected in the 2010 balances only.

Net patient service revenue increased in 2009 by $6.5 million (5.5%), patient accounts receivable, net of estimated uncollectible amounts, increased by $7.2 million (60.4%) in 2009. The increase in accounts receivable from 2008 to 2009 is due to several factors. At December 2008, the gross accounts receivable had a large amount of aged self pay accounts and accounts older than 151 days. The self pay accounts were 100% reserved as uncollectable. During 2009, management put a significant amount of effort in resolving the self pay and 151 days plus accounts. The self pay accounts receivable was reduced during 2009 from a high of $33.2 million to a December 31, 2009 balance of $9.4 million (70.6%). Accounts older than 151 days were reduced from a high of $56.4 million to $21.2 million at December 31, 2009 (61.5%). The cash collections goal on patient accounts for 2009 was $114.0 million. The actual cash collections were $117.0 million or $3.0 million over the goal. The net accounts receivable increased by $10.5 million from 2008 to 2009. This increase is the result of decreases in gross accounts receivable from 2008 to 2009 by $54.5 million due to improvements in the age of accounts and the decrease in self pay accounts.

In 2009, the District also paid down its long term debt by $10.4 million, including a $3.4 million payment on the District's bankruptcy debt. The balance of the long term debt payments were to Contra Costa County and for the District's bonds. The estimates from third party settlements increased in 2009. This was the result of a component of the Medicare payment calculation being updated. This caused management to revise Medicare cost report estimates back to 2007 cost reports. This was reflected in the 2009 balances only.

The District's operating loss increased by $2.2 million from 2009 to 2010. The District's property tax revenue was approved by the residents to supplement operations. Management's 2010 operating budget was established to reduce the operating loss by 2011 to a level that is fully supported by only the property tax revenue. That goal was not achieved due to changes in payor mix and a significant loss in nonoperating revenues that will be explained below. There was also significant turnover in executive level management during 2010 and in January 2011. The new management team is currently developing a turnaround plan for the District.

In 2010, the District reported an operating loss of $15.5 million. The increase in the District's operating loss was directly related to the District's change in payor mix. The District has experienced losses in managed care revenue and increases in Medi-Cal and patients without insurance. The District believes that this shift is directly related to the economic conditions. The District also had higher inpatient lengths of stay than anticipated in the first half of 2010. Management put processes in place to better manage patients' length of stay to more medically appropriate stays. These were practically offset by the implementation of the California Hospital Tax. The District received $1.4 million in 2010. This amount is reported in net patient service revenue.

In the District's 2010 operating budget, there was an anticipated receipt of $12.0 million in Federal Matching Funding. The District anticipated three $4.0 million payments; the first in March, second in August and the third in December. In September, the District was notified that the second and third payments would not be received. The loss of the anticipated $8.0 million has caused significant cash flow issues and accelerated the District's strained financial condition caused by the payor mix shift as discussed above.

The District's operating loss decreased by $5.6 million from 2008 to 2009. The District's property tax revenue was approved by the residents to supplement operations. The major reasons for the decrease in operating loss in 2009 from the operating loss in 2008 are directly related to the fact that operating revenue increased from $116.1 million to $122.6 million or $6.5 million (5.6%) while operating expenses increased from $136.0 million to $137.0 million or $1.0 million (0.7%).

In 2009, the District reported an operating loss of $13.2 million. Previous to 2009, the District's management team was staffed with outside consultants. The main focus of the consultants was to bring the District out of bankruptcy. The consultants achieved that objective when the District emerged from bankruptcy in August 2008. During 2009, a full time management team was installed and the new team has much different objectives. Their objective is to transform the District from a bankruptcy minded facility to an on-going hospital that has a bright future. In 2009, the District took some major steps in this transition. These activities resulted in the improvements in operations and financial performance during 2009.

The primary reasons for the decrease in operating income from 2009 to 2010 are:

- Decrease in CMAC funding as discussed above.
- Decrease in managed care revenue due to a payor mix shift from managed care payor to Medi-Cal and self pay.
- Increase in salaries due to increased inpatient lengths of stay related to a higher portion of non surgical medicine patients than in prior years.
- Increases in supply costs that were related to higher surgical volumes for joint replacement and other major implant surgeries.

The primary reasons for the increase in operating income in 2009 from 2008 are:

- Increase in net patient revenues of $7.0 million (5.3%). This is primarily due to the growth in outpatient activity. Gross outpatient charges increased by $11.2 million (5.1%).
- Decrease in nursing overtime from 2008 to 2009 by $1.5 million (18%). This is primarily due to full implementation of a staff productivity system. Staffing is monitored on a daily basis in order to ensure proper management of labor cost. Another factor that added to this was the conversion from 12 hour to 8 hour shifts and the elimination of mandatory nursing overtime.
- Decrease in overall supply cost of $1.5 million (7.6%). This is primarily due to appropriate contract compliance with the District's group purchasing organization vendors.
- Decrease in professional fees of $3.5 million (26.4%). This is due to the conversion of contracted management to full time employed management staff.

**Table 2: Operating Results and Changes in Net Assets**

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Operating revenues | | | |
| Net patient service revenue | $ 130,185,000 | $ 122,576,000 | $ 116,110,000 |
| Other operating revenue | 1,130,000 | 1,149,000 | 1,117,000 |
| Total operating revenues | 131,315,000 | 123,725,000 | 117,227,000 |
| Operating expenses | | | |
| Salaries and benefits | 95,529,000 | 92,915,000 | 87,952,000 |
| Supplies | 20,928,000 | 18,275,000 | 19,800,000 |
| Depreciation and amortization | 3,593,000 | 3,511,000 | 3,503,000 |
| Other operating expenses | 26,721,000 | 22,251,000 | 24,760,000 |
| Total operating expenses | 146,771,000 | 136,952,000 | 136,015,000 |
| Operating loss | (15,456,000) | (13,227,000) | (18,788,000) |
| Nonoperating revenues (expenses): | | | |
| District tax revenue | 8,492,000 | 8,591,000 | 8,955,000 |
| Investment income | 92,000 | 198,000 | 390,000 |
| Noncapital grants and contributions | 10,813,000 | 17,000,000 | 16,500,000 |
| Interest expense | (1,396,000) | (1,514,000) | (1,624,000) |
| Total net nonoperating revenues | 18,001,000 | 24,275,000 | 24,221,000 |
| Excess of revenues over expenses | 2,545,000 | 11,048,000 | 5,433,000 |
| Extraordinary gain – bankruptcy settlement | - | - | 12,645,000 |
| Increase in net assets | 2,545,000 | 11,048,000 | 18,078,000 |
| Net assets at beginning of the year | 25,855,000 | 14,807,000 | (3,271,000) |
| Net assets (deficit) at end of the year | $ 28,400,000 | $ 25,855,000 | $ 14,807,000 |

The District sometimes provides care for patients who have little or no health insurance or other means of repayment. As discussed, this service to the community is consistent with the goals established for the District when it was founded. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the District. The cost of providing care to the uninsured patients was approximately $3.58 million in 2010 and $12.19 million in 2009.

### Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of property taxes levied by the District, noncapital grants and contributions, interest revenue, and investment earnings. The change in non-operating revenues was discussed above.

### The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses, discussed earlier.

### Capital Assets

At the end of 2010, the District had $45.4 million invested in capital assets, net of accumulated depreciation, as detailed in note 8 to the financial statements. In 2010, the District purchased new equipment costing $4.9 million.

At the end of 2009, the District had $44.0 million invested in capital assets, net of accumulated depreciation, as detailed in note 8 to the financial statements. In 2009, the District purchased new equipment costing $4.1 million.

At the end of 2008, the District had $43.3 million invested in capital assets, net of accumulated depreciation, as detailed in note 8 to the financial statements. In 2008, the District purchased new equipment costing $2.4 million.

**Contacting the District's Financial Management**

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Chief Financial Officer's office at Doctors Medical Center, 2000 Vale Road, San Pablo, CA 94806.

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

# REPORT OF INDEPENDENT AUDITORS

The Board of Directors
West Contra Costa Healthcare District

We have audited the accompanying balance sheets of West Contra Costa Healthcare District (the "District") as of December 31, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note 2 to the financial statements, the District has suffered significant recurring losses from operations for the years ended December 31, 2010 and 2009. Also, certain of the District's significant recurring contribution revenue commitments were not renewed by the donors during the year ended December 31, 2010. These circumstances raise substantial doubt about the District's ability to continue as a going concern. Management's plans regarding those matters are described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Management's discussion and analysis on pages 1 through 5 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the District. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Moss Adams LLP

San Francisco, California
June 21, 2011


Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

**FINANCIAL STATEMENTS**

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**WEST CONTRA COSTA HEALTHCARE DISTRICT**
**BALANCE SHEETS**
**December 31, 2010 and 2009**

| | 2010 | 2009 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $ 5,229,000 | $ 7,666,000 |
| Patient accounts receivable, net of estimated uncollectibles of $7,092,000 and $9,320,000 for 2010 and 2009, respectively | 19,942,000 | 19,157,000 |
| Other receivables | 4,055,000 | 5,367,000 |
| Current portion of board designated and trusteed assets | 4,006,000 | 4,721,000 |
| Supplies | 2,252,000 | 2,056,000 |
| Prepaid expenses and deposits | 1,621,000 | 610,000 |
| Total current assets | 37,105,000 | 39,577,000 |
| Board designated and trusteed assets, net of current portion | 642,000 | 642,000 |
| Capital assets, net of accumulated depreciation | 45,407,000 | 44,033,000 |
| Other assets | 544,000 | 586,000 |
| Total assets | $ 83,698,000 | $ 84,838,000 |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Current maturities of debt borrowings | $ 3,646,000 | $ 3,634,000 |
| Accounts payable and accrued expenses | 14,012,000 | 11,828,000 |
| Accrued payroll and related liabilities | 11,356,000 | 9,403,000 |
| Other current liabilities | 801,000 | 3,570,000 |
| Estimated third-party payor settlements | 2,501,000 | 3,471,000 |
| Total current liabilities | 32,316,000 | 31,906,000 |
| Debt borrowings, net of current maturities | 22,982,000 | 25,306,000 |
| Other long-term liabilities | - | 1,771,000 |
| Total liabilities | 55,298,000 | 58,983,000 |
| Net assets | | |
| Invested in capital assets, net of related debt | 21,890,000 | 18,667,000 |
| Restricted expendable | 4,006,000 | 4,435,000 |
| Unrestricted | 2,504,000 | 2,753,000 |
| Total net assets | 28,400,000 | 25,855,000 |
| Total liabilities and net assets | $ 83,698,000 | $ 84,838,000 |

*See accompanying notes.*

## WEST CONTRA COSTA HEALTHCARE DISTRICT
### STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
### Years Ended December 31, 2010 and 2009

| | 2010 | 2009 |
|---|---|---|
| Operating revenues | | |
| Net patient service revenue (net of provision for bad debts of $59,707,000 in 2010 and $28,738,000 in 2009) | $ 130,185,000 | $ 122,576,000 |
| Other operating revenue | 1,130,000 | 1,149,000 |
| Total operating revenues | 131,315,000 | 123,725,000 |
| Operating expenses | | |
| Salaries and wages | 64,690,000 | 64,907,000 |
| Employee benefits | 30,839,000 | 28,008,000 |
| Supplies | 20,928,000 | 18,275,000 |
| Professional fees | 10,022,000 | 9,736,000 |
| Purchased services | 9,507,000 | 6,722,000 |
| Other operating expenses | 4,344,000 | 4,185,000 |
| Depreciation and amortization | 3,593,000 | 3,511,000 |
| Rentals and leases | 2,848,000 | 1,608,000 |
| Total operating expenses | 146,771,000 | 136,952,000 |
| Operating losses | (15,456,000) | (13,227,000) |
| Nonoperating revenues (expenses): | | |
| District tax revenue | 8,492,000 | 8,591,000 |
| Investment income | 92,000 | 198,000 |
| Noncapital grants and contributions | 10,813,000 | 17,000,000 |
| Interest expense | (1,396,000) | (1,514,000) |
| Total net nonoperating revenues | 18,001,000 | 24,275,000 |
| Excess of revenues over expenses | 2,545,000 | 11,048,000 |
| Net assets beginning of the year | 25,855,000 | 14,807,000 |
| Net assets end of the year | $ 28,400,000 | $ 25,855,000 |

*See accompanying notes.*

**WEST CONTRA COSTA HEALTHCARE DISTRICT**
**STATEMENTS OF CASH FLOWS**
**Years Ended December 31, 2010 and 2009**

| | 2010 | 2009 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Cash received from patients and third-parties on behalf of patients | $ 128,430,000 | $ 114,891,000 |
| Cash received from operations, other than patient services | 2,442,000 | 907,000 |
| Cash payments to suppliers and contractors | (48,443,000) | (40,570,000) |
| Cash payments to employees and benefits programs | (93,576,000) | (91,622,000) |
| Net cash used in operating activities | (11,147,000) | (16,394,000) |
| **Cash flows from noncapital financing activities:** | | |
| Noncapital grants and contributions | 10,813,000 | 17,000,000 |
| Ad velorum tax revenues to support operations | 2,849,000 | 2,937,000 |
| Net cash provided by noncapital and related financing activities | 13,662,000 | 19,937,000 |
| **Cash flows from capital and related financing activities:** | | |
| Payments on county loan | (2,849,000) | (2,937,000) |
| Purchases of capital assets | (4,942,000) | (4,149,000) |
| Parcel tax revenues levied for debt service | 5,643,000 | 5,654,000 |
| Proceeds from debt borrowings | 1,500,000 | - |
| Principal payments on debt borrowings | (3,812,000) | (3,550,000) |
| Interest payments on debt borrowings | (1,299,000) | (1,514,000) |
| Net cash used in capital and related financing activities | (5,759,000) | (6,496,000) |
| **Cash flows from investing activities:** | | |
| Proceeds from sale of investments | 715,000 | 3,203,000 |
| Interest and dividends received from investments | 92,000 | 198,000 |
| Net cash provided by investing activities | 807,000 | 3,401,000 |
| Net increase (decrease) in cash and cash equivalents | (2,437,000) | 448,000 |
| Cash and cash equivalents at beginning of year | 7,666,000 | 7,218,000 |
| Cash and cash equivalents at end of year | $ 5,229,000 | $ 7,666,000 |
| **Reconciliation of operating loss to net cash used in operating activities:** | | |
| Operating loss | $ (15,456,000) | $ (13,227,000) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation and amortization of other assets | 3,593,000 | 3,511,000 |
| Provision for bad debts | 59,707,000 | 28,738,000 |
| Changes in operating assets and liabilities: | | |
| Patient accounts receivables | (60,492,000) | (39,248,000) |
| Other receivables | 1,312,000 | (242,000) |
| Supplies | (196,000) | (170,000) |
| Prepaid expenses and deposits | (1,011,000) | 383,000 |
| Accounts payable and accrued expenses | 3,598,000 | 3,156,000 |
| Accrued payroll and related liabilities | 1,953,000 | 1,293,000 |
| Other liabilities related to operating activities | (3,185,000) | (3,413,000) |
| Estimated third-party payor settlements | (970,000) | 2,825,000 |
| Net cash used in operating activities | $ (11,147,000) | $ (16,394,000) |

*See accompanying notes.*

## NOTE 1 – ORGANIZATION AND ACCOUNTING POLICIES

**Reporting entity** – West Contra Costa Healthcare District (the "District") is a public agency organized under Local Hospital District Law as set forth in the Health and Safety Code of the State of California. The District is a political subdivision of the State of California and is not subject to federal or state income taxes. The District was formed in 1948 for the purpose of building and operating a hospital to benefit the residents of West Contra Costa County. The District is governed by a Board of Directors elected from within the Healthcare District to specified terms of office. The District operates a full-service acute care facility and provides services to both inpatients and outpatients. The District also provides sub-acute and skilled nursing care. The District provides health care services primarily to individuals who reside in the local geographic area. The District has a contractual relationship with Contra Costa County to provide management oversight. The Doctors Medical Center Management Authority ("JPA") is the result of a Joint Powers Agreement between the West Contra Costa Healthcare District and Contra Costa County.

**Basis of preparation** – The District is a governmental health care provider and, accordingly, follows governmental accounting standards. The accrual basis of accounting is used in accordance with provisions for proprietary fund types.

Pursuant to Governmental Accounting Standards Board ("GASB") Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, the District's proprietary fund accounting and financial reporting practices are based on all applicable GASB pronouncements as well as codified pronouncements issued on or before November 30, 1989.

**Use of estimates** – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and cash equivalents** – The District considers cash and cash equivalents to include certain investments in highly liquid debt instruments, when present, with an original maturity of three months or less or subject to withdrawal upon request.

**Patient accounts receivable** – Patient accounts receivable consist of amounts reimbursable by various governmental agencies and insurance companies through the assignment process and private patients. The District manages its receivables by regularly reviewing the accounts, inquiring with respective payors as to collectability and providing for allowances on their accounting records for estimates, contractual adjustments, and uncollectible accounts. Significant concentrations of patient accounts receivable are discussed further in the footnotes.

**Investments in marketable securities** – Investments in marketable securities consist primarily of short-term interest-bearing certificates of deposit, money market funds, and mutual funds and include assets held by trustees under indenture agreements and designated assets set aside by the Board of Directors for future funding of certain District obligations.

**Supplies** – Inventories are stated at cost, which is determined using the first-in, first-out method.

**Capital assets** – Capital assets consist of property and equipment and are reported on the basis of cost, or in the case of donated items, on the basis of fair market value at the date of donation. Capital purchases over $1,000 are capitalized. Routine maintenance and repairs are charged to expense as incurred. Expenditures which increase values, change capacities, or extend useful lives are capitalized. Depreciation of property and equipment and amortization of property under capital leases are computed by the straight-line method for both financial reporting and cost reimbursement purposes over the estimated useful lives of the assets, which range from 10 to 30 years for buildings and improvements, and 3 to 10 years for equipment. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the related assets. The District periodically reviews its capital assets for value impairment. As of December 31, 2010 and 2009, the District has determined that no capital assets are impaired.

**Other assets** – Other assets include debt issuance costs. Debt issuance costs incurred in connection with the issuance of tax-exempt bonds have been deferred and are being amortized over the term of the bonds using a straight-line method.

**Costs of borrowing** – Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the District's interest cost was capitalized for the years ended December 31, 2010 and 2009.

**Compensated absences** – District employees earn vacation benefits at varying rates depending on years of service. Employees also earn sick leave benefits based on varying rates depending on years of service. Both benefits can accumulate up to specified maximum levels. Employees are not paid for accumulated sick leave benefits if they leave either upon termination or before retirement. However, accumulated vacation benefits are paid to an employee upon either termination or retirement. Accrued vacation and sick leave liabilities as of December 31, 2010 and 2009 are $3,823,000 and $2,812,700, respectively.

**Risk management** – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**Risk retention plans** – The District maintains professional liability insurance on a claims-made basis, with liability limits of $10,000,000 per claim, and which is subject to a $25,000 deductible. Additionally, the District is self-insured for workers' compensation claims, with a self-insured retention of $350,000 per occurrence, and has excess insurance coverage for the portion of each occurrence in excess of $350,000. In the case of employee health coverage, the District is self-insured for those claims. Management estimates of uninsured losses for professional liability, workers' compensation and employee health coverage have been accrued as liabilities in the accompanying financial statements.

**Net assets** – Net assets of the District are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note 3. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted expendable net assets.

**Net patient service revenue** – Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered, and adjusted in future periods as final settlements are determined

**Charity care** – The District accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the District. Essentially, these policies define charity services as those services for which no payment is anticipated. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care amounts are included in net patient revenues in the financial statements. The amount of charges foregone for services and supplies furnished under the District's charity care policy aggregated approximately $6,658,000 and $22,896,000 in 2010 and 2009, respectively.

**Uncollectible accounts** – The District provides care to patients without requiring collateral or other security. Patient charges not covered by a third-party payor are billed directly to the patient if it is determined that the patient has the ability to pay. A provision for uncollectible accounts is recognized based on management's estimate of amounts that ultimately may be uncollectible.

**Grants and contributions** – From time to time, the District receives grants from various governmental agencies and private organizations. The District also receives contributions from related foundation and auxiliary organizations, as well as from individuals and other private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either operating purposes or capital acquisitions. These amounts, when recognized upon meeting all requirements, are reported as components of the statements of revenues, expenses and changes in net assets.

**Operating revenues and expenses** – The District's statement of revenues, expense and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the District's principal activity. Operating expenses are all expenses incurred to provide health care services, other than financing costs. Nonoperating revenues and expenses are those transactions not considered directly linked to providing health care services.

**Income taxes** – The District operates under the purview of the Internal Revenue Code, Section 115, and corresponding California Revenue and Taxation Code provisions. As such, it is not subject to state or federal taxes on income.

**Property taxes** – The authority received approximately 5.6 percent in 2010 and 5.8 percent in 2009 of its financial support from property taxes. These funds were used as follows:

| | 2010 | 2009 |
|---|---|---|
| Levied for debt service | $ 5,643,000 | $ 5,654,000 |
| Used to support operations | $ 2,849,000 | $ 2,937,000 |

Property taxes are levied by the County on the District's behalf on January 1 and are intended to finance the District's activities of the same calendar year. Amounts levied are based on assessed property values as of the preceding July 1. Property taxes are considered delinquent on the day following each payment due date. Property taxes are recorded as nonoperating revenue by the District when they are earned.

**Reclassifications** – Certain amounts in the 2009 financial statements have been reclassified to conform to the 2010 presentation.

**New accounting pronouncements** – The Governmental Accounting Standards Board ("GASB") issued GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which is effective for financial statements for periods beginning after December 15, 2011, early adoption permitted. GASB 62 incorporates into the GASB's authoritative literature the applicable guidance previously presented in FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. By incorporating and maintaining this guidance in a single source, the GASB believes that GASB 62 reduces the complexity of locating and using authoritative literature needed to prepare state and local government financial reports. The District has implemented this statement for the fiscal year ended December 31, 2010 with no material impact on the financial statements.

## NOTE 2 – GOING CONCERN UNCERTAINTY

The accompanying financial statements have been prepared assuming the District will continue as a going concern, which contemplates realization of assets and satisfaction of liabilities in the normal course of business. The District has incurred significant operating losses over the past two years and only has an excess of 15% current assets available to cover current obligations as of December 31, 2010. Management's cash needs projections for 2011 indicate the District will be in a significant cash deficit in the early summer. In addition to the significant operating losses certain grant agreements with Kaiser Permanente Hospital and Health Plan and John Muir Health ended in 2010 and have not been renewed as of the date of this report. In 2010, the District also did not receive $8 million in anticipated funding from CMAC. The loss of this funding plus the expiration of the funding agreements with John Muir and Kaiser accelerated the operating cash situation. While the District has made operational improvements over the past several years, those improvements have not been sufficient to offset the losses from the District's operations. These grants have historically provided the District $5.5 million of nonoperating revenues in 2010 and $5 million in nonoperating revenues in 2009. The District also has certain debt obligations coming due in 2011 of $3.6 million. The District is currently upgrading its practice management system in 2011 at an estimated cost of $1.5 million. Because of the above noted conditions there is uncertainty of the District's ability to continue as a going concern. The District's management is currently pursuing and implementing operating cost control policies and implementing rigorous patient accounts receivable collections efforts. The District has entered into an agreement with Contra Costa County to advance up to $10 million against the District's tax proceeds, as discussed in Note 13, and is currently working on obtaining additional grant funds from Kaiser and John Muir. There can be no assurance that John Muir or Kaiser will commit to the District's requests. There can also be no assurance that the implementation of cost control policies and the rigorous collection efforts would lead to positive cash flows. These matters raise substantial doubt about the District's ability to continue as a going concern. The financial statements for the year ended December 31, 2010, do not include any adjustments that might be necessary if the District is unable to continue as a going concern.

## NOTE 3 – CASH AND CASH EQUIVALENTS, BOARD DESIGNATED AND TRUSTEED ASSETS

As of December 31, 2010 and 2009 the District had deposits invested in various financial institutions in the form of cash and cash equivalents including amounts classified as board designated assets amounting to $9,877,000 and $13,029,000, respectively. All of these funds were held in deposits, which are collateralized in accordance with the California Government Code ("CGC"), except for $250,000 per account that is federally insured.

Under the provisions of the CGC, California banks and savings and loan associations are required to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutes to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits. The pledged securities are held by the pledging financial institution's trust department in the name of the District.

The composition of board designated and trusteed assets at December 31, 2010 and 2009, is set forth in the following table. Investments are stated at fair value.

| | 2010 | 2009 |
|---|---|---|
| Board designated | | |
| Cash and cash equivalents | $ 642,000 | $ 920,000 |
| Certificates of deposit | 351,000 | 1,331,000 |
| Money market/mutual funds | - | 13,000 |
| Held by trustee under indenture agreement | | |
| Money market/mutual funds | 3,655,000 | 3,099,000 |
| | $ 4,648,000 | $ 5,363,000 |

Interest and dividend income for investments and gains from assets limited as to use is $92,000 and $198,000 for the years ended December 31, 2010 and 2009.

**NOTE 4 – NET PATIENT SERVICE REVENUE AND REIMBURSEMENT PROGRAMS**

The District renders services to patients under contractual arrangements with the Medicare and Medi-Cal programs, health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs"). Patient service revenues from Medicare approximate 47% and 50% of gross patient service revenues, whereas patient service revenues from Medi-Cal approximate 25% and 23% for the years ended December 31, 2010 and 2009, respectively.

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, fee schedules, prepaid payments per member, and per diem payments or a combination of these methods. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated settlements under reimbursement agreements with third-party payors.

Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Inpatient nonacute services related to Medicare beneficiaries are paid based on a cost-reimbursement methodology through March 31, 2004. Inpatient nonacute services subsequent to April 1, 2004, are paid at prospectively determined rates per discharge. Payments for outpatient services are based on a stipulated amount per diagnosis. The District is reimbursed for cost reimbursable items at a tentative rate, with final settlements determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The effect of updating prior year estimates for Medicare and other liabilities was to increase 2010 and 2009 net operating income by $2,414,000 and $874,000, respectively. The District's cost reports have been audited by the Medicare fiscal intermediary through 2008.

Medicare accounts for approximately 50% and 61% of the District's net patient service revenues whereas Medi-Cal revenue accounts for approximately 16% and 15% for the years ended December 31, 2010 and 2009, respectively. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term.

In November 2009, the California Hospital Fee Program (the "Program") was signed into California state law and became effective for 2010 after approval from the Centers for Medicare and Medicaid Services ("CMS"). The program provides supplemental Medi-Cal payments to certain California hospitals. The Program is funded by a quality assurance fee (the "Fee") paid by participating hospitals and by matching federal funds. Hospitals receive supplemental payments from either the California Department of Health Care Services ("DHCS"), managed care plans or a combination of both. The Program provided payments relating to the period beginning April 1, 2009 through December 31, 2010. The District recognized total supplemental payments of $1,358,000 in 2010 from Medi-Cal as a part of the Program and has recorded this as a part of net patient service revenue in the statement of revenues, expenses, and changes in net assets.

## NOTE 5 – CONCENTRATION OF CREDIT RISK

The District grants credit without collateral to its patients and third-party payors. Patient accounts receivable from government agencies represent the only concentrated group of credit risk for the District and management does not believe that there are any credit risks associated with these governmental agencies. Contracted and other patient accounts receivable consist of various payors including individuals involved in diverse activities, subject to differing economic conditions and do not represent any concentrated credit risks to the District. The District's policy is to maintain a 100% reserve for all private pay patient accounts receivables outstanding aged over 240 days. Concentration of patient accounts receivable at December 31, 2010 and 2009, were as follows:

| | 2010 | 2009 |
|---|---|---|
| Medicare | 43% | 42% |
| Other third-party payors | 32% | 23% |
| Medi-Cal and Medi-Cal pending | 25% | 35% |
| Total | 100% | 100% |

## NOTE 6 – OTHER RECEIVABLES

Other receivables as of December 31, 2010 and 2009 were comprised of the following:

| | 2010 | 2009 |
|---|---|---|
| Advances to physicians, notes and related receivables | $ 572,000 | $ 499,000 |
| Deposits | 316,000 | 360,000 |
| Refunds and rebates receivable | 1,000,000 | 504,000 |
| Third party settlement receivable | 1,935,000 | - |
| California medical assistance commission ("CMAC") receivable | - | 4,000,000 |
| Other | 232,000 | 4,000 |
| Total other receivables | $ 4,055,000 | $ 5,367,000 |

Advances to physicians are comprised of physician income guarantees and/or business loans to those physicians requiring assistance to begin a local practice. The District has entered into agreements with certain physicians whereby the District guarantees their income for a specified period of time. These agreements are structured so that if a physician maintains a practice in the area for a specified period of time, the income guarantee advances are forgiven.

## NOTE 7 – CHARITY CARE (UNAUDITED)

The majority of charity care amounts written off in 2009 aggregated roughly $46,649,000 of which $23,663,000 related to charity care accounts from prior years. In 2009, management performed a detailed review of prior year accounts to determine if these accounts met the criteria in the District's charity care policy even though these accounts were previously included in their allowance for doubtful accounts. Because these accounts were included in the allowance for doubtful accounts in previous years, there was no income effect of writing the amounts off as charity care in 2009.

## NOTE 8 – CAPITAL ASSETS

Capital assets as of December 31, 2010, were comprised of the following:

| | Balance at December 31, 2009 | Additions | Retirements & Adjustments | Balance at December 31, 2010 |
|---|---|---|---|---|
| Capital assets not being depreciated | | | | |
| Land and land improvements | $ 12,090,000 | $ 30,000 | $ - | $ 12,120,000 |
| Construction-in-progress | 1,280,000 | - | (320,000) | 960,000 |
| | 13,370,000 | 30,000 | (320,000) | 13,080,000 |
| Capital assets being depreciated | | | | |
| Buildings and improvements | 16,931,000 | 24,000 | - | 16,955,000 |
| Equipment | 31,856,000 | 4,888,000 | (4,756,000) | 31,988,000 |
| | 48,787,000 | 4,912,000 | (4,756,000) | 48,943,000 |
| Totals at historical cost | 62,157,000 | 4,942,000 | (5,076,000) | 62,023,000 |
| Less accumulated depreciation | (18,124,000) | (3,568,000) | 5,076,000 | (16,616,000) |
| Total capital assets, net | $ 44,033,000 | $ 1,374,000 | $ - | $ 45,407,000 |

Capital assets as of December 31, 2009, were comprised of the following:

| | Balance at December 31, 2008 | Additions | Retirements & Adjustments | Balance at December 31, 2009 |
|---|---|---|---|---|
| Capital assets not being depreciated | | | | |
| Land and land improvements | $ 12,090,000 | $ - | $ - | $ 12,090,000 |
| Construction-in-progress | 642,000 | 638,000 | - | 1,280,000 |
| | 12,732,000 | 638,000 | - | 13,370,000 |
| Capital assets being depreciated | | | | |
| Buildings and improvements | 16,343,000 | 588,000 | - | 16,931,000 |
| Equipment | 29,119,000 | 2,923,000 | (186,000) | 31,856,000 |
| | 45,462,000 | 3,511,000 | (186,000) | 48,787,000 |
| Totals at historical cost | 58,194,000 | 4,149,000 | (186,000) | 62,157,000 |
| Less accumulated depreciation | (14,876,000) | (3,434,000) | 186,000 | (18,124,000) |
| Total capital assets, net | $ 43,318,000 | $ 715,000 | $ - | $ 44,033,000 |

Future construction commitments of approximately $4,702,000 exist for the upgrade of the Paragon system and installation of medical equipment at December 31, 2010.

**NOTE 9 – DEBT BORROWINGS**

A schedule of changes in the District's debt borrowings for the year ended December 31, 2010, is as follows:

| | December 31, 2009 | Additions | Reductions | December 31, 2010 |
|---|---|---|---|---|
| Notes payable: | | | | |
| American Savings | $ 36,000 | $ - | $ (5,000) | $ 31,000 |
| City of San Pablo | - | 1,500,000 | (154,000) | 1,346,000 |
| Bonds payable: | | | | |
| Certificates of participation | 23,644,000 | - | (779,000) | 22,865,000 |
| Revenue bonds | 2,321,000 | - | (1,140,000) | 1,181,000 |
| Capital leases- equipment | 2,939,000 | - | (1,734,000) | 1,205,000 |
| | $ 28,940,000 | $ 1,500,000 | $ (3,812,000) | $ 26,628,000 |

A schedule of changes in the District's debt borrowings, for the year ended December 31, 2009, is as follows:

| | December 31, 2008 | Additions | Reductions | December 31, 2009 |
|---|---|---|---|---|
| Notes payable: | | | | |
| American Savings | $ 39,000 | $ - | $ (3,000) | $ 36,000 |
| Bonds payable: | | | | |
| Certificates of participation | 24,965,000 | - | (1,321,000) | 23,644,000 |
| Revenue bonds | 2,877,000 | - | (556,000) | 2,321,000 |
| Capital leases- equipment | 4,609,000 | - | (1,670,000) | 2,939,000 |
| | $ 32,490,000 | $ - | $ (3,550,000) | $ 28,940,000 |

The terms and due dates of the District's debt borrowings, including capital lease obligations, at December 31, 2010, are as follows:

- America Savings note payable dated September 1986, interest at 9.5%, maturing November 2015, principal payable in annual amounts ranging from $5,000 in 2011 to $7,000 in 2015, secured by property.

- City of San Pablo note payable dated August 2010, interest at 6.0%, maturing July 2013, principal payable amount ranging from $480,000 in 2011 to $357,000 in 2013, unsecured.

- Series 2004 Certificates of Participation dated July 2004, plus unamortized bond premium of $445,000, principal payable in annual installments ranging from $775,000 in 2011 to $1,795,000 in 2029, interest at stated coupon rates ranging from 2.0% to 5.5%, payable annually and collateralized by a pledge of the District's parcel tax revenues. Management believes the District is in compliance with the financial covenants and financial reporting requirements as specified in the Indenture Trust Agreement.

- Series 2004 revenue bonds dated December 2004, with final principal payments in semi-annual installments of $1,140,000 to $1,181,000 due in January 2011 and July 2011, interest at the stated coupon rate of 3.7%, payable semi-annually. Management believes the District is in compliance with the financial covenants and financial reporting requirements as specified in the Indenture Trust Agreement.

- Equipment under capital leases dated June 2005, maturing at August 2011, with interest at 4.9%.

Aggregate principal maturities on debt borrowings, based on scheduled maturities are as follows:

| | Debt Borrowings | | Capital Lease Obligations | |
|---|---|---|---|---|
| Year Ending December 31: | Principal | Interest | Principal | Interest |
| 2011 | $ 2,441,000 | $ 1,201,000 | $ 1,205,000 | $ 22,000 |
| 2012 | 1,339,000 | 1,134,000 | - | - |
| 2013 | 1,217,000 | 1,076,000 | - | - |
| 2014 | 891,000 | 1,037,000 | - | - |
| 2015 | 921,000 | 1,004,000 | - | - |
| 2016-2020 | 5,195,000 | 4,403,000 | - | - |
| 2021-2025 | 6,665,000 | 2,929,000 | - | - |
| 2026-2030 | 6,754,000 | 938,000 | - | - |
| | $ 25,423,000 | $ 13,722,000 | $ 1,205,000 | $ 22,000 |

**NOTE 10 – RETIREMENT PLANS**

The District offers two defined contribution savings plans intended to qualify under section 457(b) of the Internal Revenue Code ("IRC"). The plans are destined to provide participants with a means to defer a portion of their compensation for retirement and to provide benefits in the event of death, disability, or financial hardship. The plans cover both former and current employees of the District who meet certain eligibility requirements. The District is the administrator of the plans and has delegated certain responsibilities for the operation and administration of the plans to outside third-party trustees. Under the plans employer contributions are discretionary. The District has not contributed to the plans since 2007.

The District also offers two Employer Contributory Tax Deferred Annuity Plans intended to qualify under section 403(b) and 457 of the IRC. The plans are designed to provide participants with a means to defer a portion of their compensation for retirement and to provide benefits in the event of death, disability, or financial hardship. The plan covers employees of the District, who meet certain eligibility requirements. Under the plan, the District may make matching contributions up to 5.0% of the participant's annual compensation to the plan. The District contributed $3,568,000 and $3,527,000 to the plans in 2010 and 2009, respectively.

The District also provides a non-contributory single employer defined benefit pension plan. The plan covers all eligible employees of the previous Brookside Hospital. Brookside Hospital was the previous name of Doctors Medical Center prior to the Tenet purchase. The plan provides retirement and death benefits to plan members and beneficiaries based on each employee's years of service and annual compensation. No new employees have been enrolled in the plan since 1996. There are no current District employees participating in the plan.

**Funding policy** – The District is required to contribute the actuarially determined amounts necessary to fund the benefits for its participants. Active plan participants are not required to contribute. The actuarial methods and assumptions used are those adopted by the District.

**Annual pension cost and net pension obligation** – The plan's annual pension cost and net pension obligation for the current and prior year were as follows:

| | 2010 | 2009 |
|---|---|---|
| Annual required contribution | $ 444,000 | $ 460,000 |
| Interest on net pension obligation | 26,000 | (10,000) |
| Adjustment to annual required contribution | (37,000) | 15,000 |
| Annual pension cost | 433,000 | 465,000 |
| Net increase in pension obligation | $ 433,000 | $ 465,000 |
| Net pension obligation (prepaid pension asset) beginning of year | $ 331,000 | $ (133,000) |
| Net increase in pension obligation | 433,000 | 465,000 |
| Actuarial loss | - | (1,000) |
| Net pension obligation end of year | $ 764,000 | $ 331,000 |

The annual required contribution for the current year was determined as part of the January 1, 2010 and January 1, 2009, actuarial valuations using the entry age actuarial cost method. The actuarial assumptions include (a) 8.0% investment rate of return (net of administrative expenses) and (b) post-retirement benefit increases of 2.0% per year. Both assumptions included an inflation component of 2.0%. The actuarial value of assets for both valuations was determined using market value adjusted to recognize market value gains and losses over five years. The unfunded actuarial accrued liability is amortized using the level dollar method on a closed basis. The remaining equivalent single amortization period at December 31, 2010, was 15 years.

The following table summarizes the net pension obligation ("NPO") for the District's pension plan:

| Fiscal Year Ending December 31, | Beginning of Year NPO (a) | Annual Pension Cost (b) | Actual Contribution (c) | Increase (Decrease) in NPO (b-c) | End of Year NPO (Prepaid Pension Cost) ((a)+(b-c) |
|---|---|---|---|---|---|
| 2008 | $ (226,000) | $ 92,000 | $ - | $ 92,000 | $ (134,000) |
| 2009 | $ (134,000) | $ 465,000 | $ - | $ 465,000 | $ 331,000 |
| 2010 | $ 331,000 | $ 433,000 | $ - | $ 433,000 | $ 764,000 |

**Analysis of Funding Progress - Pension Plan** – The following table summarizes the funding status of the District's pension plan:

| Actuarial Valuation Date December 31, | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage Of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| 2008 | $ 6,536,000 | $ 10,791,000 | $ 4,255,000 | 61% | N/A | N/A |
| 2009 | $ 6,626,000 | $ 10,726,000 | $ 4,100,000 | 62% | N/A | N/A |
| 2010 | $ 6,470,000 | $ 10,458,000 | $ 3,988,000 | 62% | N/A | N/A |

## NOTE 11 – COMMITMENTS AND CONTINGENCIES

**Litigation** – The District may from time-to-time be involved in litigation and regulatory investigations, which arise in the normal course of doing business. After consultation with legal counsel, management estimates that matters existing as of December 31, 2010, will be resolved without material adverse effect on the District's future financial position, results from operations or cash flows.

**Lease commitments** – The District is obligated for land and office rentals under the terms of various noncancelable operating lease agreements. These expire in various years through 2014. The District also entered into various noncancelable operating sublease agreements for office space. These expire in various years through 2014. Following is a schedule by year of future minimum lease payments and future minimum rental revenues under operating leases as of December 31, 2010:

| | Operating Lease Commitments | Lease Income | Net Lease Expense |
|---|---|---|---|
| 2011 | $ 2,531,000 | $ 386,000 | $ 2,145,000 |
| 2012 | 1,418,000 | 392,000 | 1,026,000 |
| 2013 | 665,000 | 397,000 | 268,000 |
| 2014 | 671,000 | 403,000 | 268,000 |
| | $ 5,285,000 | $ 1,578,000 | $ 3,707,000 |

Total rental expense in 2010 and 2009 for all operating leases was approximately $2,848,000 and $1,608,000, respectively. Total rental income in 2010 and 2009 for all operating subleases was approximately $620,000 and $518,000, respectively.

**Regulatory environment** – The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. The District is subject to routine surveys and reviews by federal, state and local regulatory authorities. The District has also received inquiries from health care regulatory authorities regarding its compliance with laws and regulations. Although the District management is not aware of any violations of laws and regulations, it has received corrective action requests as a result of completed and on going surveys from applicable regulatory authorities. Management continually works in a timely manner to implement operational changes and procedures to address all corrective action requests from regulatory authorities. Breaches of these laws and regulations and non-compliance with survey corrective action requests could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

## NOTE 12 – HEALTH CARE REFORM

In March 2010, President Obama signed the Health Care Reform Legislation into law. The new law may result in sweeping changes across the health care industry. The primary goal of this comprehensive legislation is to extend health coverage to approximately 32 million uninsured legal U.S. residents through a combination of public program expansion and private sector health insurance reforms. To fund the expansion of insurance coverage, the legislation contains measures designed to promote quality and cost efficiency in health care delivery and to generate budgetary savings in the Medicare and Medicaid programs. The District is unable to predict the full impact of the Health Care Reform Legislation at this time due to the law's complexity and current lack of implementing regulations and or interpretive guidance. However, the District expects that several provisions of the Health Care Reform Legislation may have a material effect on its business.

## NOTE 13 – SUBSEQUENT EVENTS

In April 2011, the District entered into an agreement with the County of Contra Costa (the "County") to receive up to $10,000,000 in cash advances. The County Auditor shall allocate and transfer to the County pursuant to this agreement the entirety of the general property tax revenues that otherwise would be collected and allocated to the District commencing July 1, 2011 and continuing from year to year thereafter until a total up to $11,500,00 of transfers are made.

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# APPENDIX C

# SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

## DEFINITIONS

*Except as otherwise defined in this summary, the terms previously defined in this Official Statement have the respective meanings previously given. In addition, the following terms have the following meanings when used in this summary or in this Official Statement:*

"*Acquisition Agreement*" means the agreement by that name, dated as of December 1, 2011, by and between the District and the Corporation, and any duly authorized and executed amendment or supplement thereto.

"*Assignment Agreement*" means the agreement by that name, dated as of December 1, 2011, by and between the Corporation and the Trustee, together with any amendments or supplements thereto.

"*Business Day*" means a day which is not a Saturday, Sunday or legal holiday on which banking institutions in the state in which the Principal Corporate Trust Office is located are closed or are required to close or a day on which the New York Stock Exchange is closed.

"*Certificate Register*" means the registration books relating to the Certificates maintained by the Trustee in accordance with the Trust Agreement.

"*Certificates*" means the Certificates of Participation executed and delivered pursuant to the Trust Agreement.

"*Closing Date*" means the date upon which there is a physical delivery of the Certificates in exchange for the amount representing the purchase of the Certificates by the Original Purchaser.

*"Code"* means the Internal Revenue Code of 1986 as in effect on the Closing Date or (except as otherwise referenced in the Installment Sale Agreement or the Trust Agreement) as it may be amended to apply to obligations issued on the Closing Date, together with applicable temporary and final regulations promulgated under the Code.

"*Collection Agreement*" means the Agreement for Collection of Special Taxes, Fees, Charges and Assessments, between the County and the District, dated July 27, 2004.

*"Continuing Disclosure Certificate"* means that certain Continuing Disclosure Certificate executed by the District and dated the date of execution and delivery of the Certificates, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"*Corporation*" means WCCHD Financing Corporation II, a nonprofit, public benefit corporation organized and existing under the laws of the State.

"*Corporation Representative*" means the President, the Vice President, the Chief Executive Officer or the Treasurer of the Corporation, or any persons authorized to act on behalf of the Corporation under or with respect to the Trust Agreement, the Installment Sale Agreement and/or the Assignment Agreement and identified as such to the Trustee in writing.

"*Debt Service*" means the scheduled amount of interest and amortization of principal payable with respect to the Installment Sale Agreement during the period of computation, excluding amounts scheduled during such period which relate to principal which has been retired before the beginning or during such period.

"*Delivery Costs*" means all items of expense directly or indirectly payable by or reimbursable to the District or the Corporation relating to the financing from the proceeds of the Certificates, including

but not limited to filing and recording costs, settlement costs, printing costs, reproduction and binding costs, initial fees and charges and first year's administration fee of the Trustee, Trustee's counsel fees and expenses, financing discounts, legal fees and charges, financial and other professional consultant fees, costs of rating agencies or credit ratings, fees for execution, transportation and safekeeping of the Certificates and travel expenses.

"*Delivery Costs Fund*" means the fund by that name established pursuant to the Trust Agreement and held by the Trustee.

"*District*" means the West Contra Costa Healthcare District, California, a health care district duly organized and existing under the Constitution and laws of the State.

*"District Representative"* means the President, the Vice President, or the Chief Executive Officer of the District, or any other person authorized to act on behalf of the District under or with respect to the Trust Agreement and/or the Installment Sale Agreement and identified as such to the Trustee in writing.

"*Event of Default*" means an event of default under the Installment Sale Agreement.

"*Facilities*" means all of the District's health care facilities, commonly known as Doctors Medical Center—San Pablo, located at 2000 Vale Road, San Pablo, CA 94806, and situated on the real property described in the Installment Sale Agreement.

*"Fair Market Value"* means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Code) and, otherwise, the term "Fair Market Value" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security-State and Local Government Series, that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) the investment is the Local Agency Investment Fund of the State of California but only if at all times during which the investment is held its yield is reasonably expected to be equal to or greater than the yield on a reasonably comparable direct obligation of the United States.

*"Federal Securities"* means (a) Cash (insured at all times by the Federal Deposit Insurance Corporation), and (b) obligations of, or obligations guaranteed as to principal and interest by, the United States or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States including: (i) United States treasury obligations, (ii) all direct or fully guaranteed obligations, (iii) Farmers Home Administration, (iv) General Services Administration, (v) Guaranteed Title XI financing, (vi) Government National Mortgage Association (GNMA), and (vi) State and Local Government Series.

"*Fiscal Year*" means any period of twelve (12) consecutive months established by the District as its fiscal year and shall initially mean the period commencing January 1 of one year and ending on December 31 of the following year.

"*Independent Counsel*" means an attorney or a firm of attorneys duly admitted to the practice of law before the highest court of the state in which he or such firm maintains an office and who is not an employee of the Corporation, the Trustee or the District.

*"Information Services"* means Financial Information, Inc.'s *"Daily Called Bond Service,"* 30 Montgomery Street, 10th Floor, Jersey City, NJ 07302, Attention: Editor; Mergent/FIS, Inc., 5250-77 Center Drive, Charlotte, NC 28217, Attention: Called Bond Dept.; Kenny S&P, 55 Water Street, New York, NY 10041, Attention: Notification Department; and, in accordance with then current guidelines of the Securities and Exchange Commission; or to such other addresses and/or such other national information

services providing information or disseminating notices of redemption of obligations similar to the Certificates.

"*Installment Payment*" means any payment required to be paid by the District to the Corporation pursuant to the Installment Sale Agreement.

"*Installment Payment Fund*" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"*Installment Sale Agreement*" means the agreement by that name, dated as of December 1, 2011, by and between the Corporation and the District, and any duly authorized and executed amendment or supplement thereto.

*"Insurance and Condemnation Fund"* means the fund by that name established pursuant to the Trust Agreement and held by the Trustee.

"*Interest Payment Date*" means January 1 and July 1 of each year, commencing July 1, 2012.

*"Lien Statute"* means California Government Code Section 5451.5.

"*Moody's*" means Moody's Investors Service, New York, New York, or its successors.

*"Net Proceeds"* means any insurance proceeds or condemnation award paid with respect to the Facilities, remaining after payment therefrom of all expenses incurred in the collection thereof.

"*Original Purchaser*" means the first purchaser of the Certificates upon their delivery by the Trustee on the Closing Date.

"*Outstanding,*" when used as of any particular time with respect to Certificates, means (subject to the provisions of the Trust Agreement) all Certificates theretofore executed and delivered by the Trustee under the Trust Agreement except:

(a) Certificates theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;

(b) Certificates for the payment or redemption of which funds or eligible securities in the necessary amount, including accrued interest thereon, shall have theretofore been deposited with the Trustee (whether upon or prior to the maturity or redemption date of such Certificates), provided that, if such Certificates are to be redeemed prior to maturity, notice of such redemption shall have been given as provided in the Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice; and

(c) Certificates in lieu of or in exchange for which other Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

"*Owner*" or "*Certificate Owner*" or "*Owner of a Certificate,*" or any similar term, means the person in whose name a Certificate shall be registered.

"*Parcel Tax*" means the special parcel tax approved by the voters of the District at a special election held on June 8, 2004.

"*Parcel Tax Revenues*" means the annual amounts collected by the County on behalf of the District derived from the Parcel Tax.

"*Parity Debt*" means indebtedness or other obligations (including leases and installment sale agreements) hereafter issued or incurred and secured by a pledge of and lien on Parcel Tax Revenues equally and ratably with the Installment Payments.

"*Permitted Encumbrances*" means, as of any particular time: (a) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the District may, pursuant to provisions of the Installment Sale Agreement, permit to remain unpaid; (b) the Installment Sale Agreement and the assignment of the Corporation's interests in the Installment Sale Agreement pursuant to the Assignment Agreement; (c) any right or claim of any mechanic, laborer, materialman, supplier or vendor filed or perfected in the manner prescribed by law and (d) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the date of the Installment Sale Agreement.

"*Permitted Investments*" means any of the following, but only to the extent that the same are acquired at Fair Market Value, provided that the Trustee is entitled to rely upon any investment direction received by it under the Trust Agreement as a certification that such investment constitutes a Permitted Investment under the Trust Agreement:

(a) Federal Securities;

(b) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including: (i) Export-Import Bank, (ii) Rural Economic Community Development Administration, (iii) U.S. Maritime Administration, (iv) Small Business Administration, (v) U.S. Department of Housing & Urban Development (PHAs), (vi) Federal Housing Administration, and (vii) Federal Financing Bank;

(c) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: (i) senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC), (ii) obligations of the Resolution Funding Corporation (REFCORP), (iii) senior debt obligations of the Federal Home Loan Bank System, (iv) senior debt obligations of other government sponsored agencies;

(d) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);

(e) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase;

(f) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;

(g) Pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and (A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or (B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph A(2) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(h) Municipal obligations rated "Aaa/AAA" or general obligations of states with a rating of "A2/A" or higher by both Moody's and S&P;

(i) Investment agreements, guaranteed investment contracts, funding agreements, or any other form of corporate note which represents the unconditional obligation of one or more banks, insurance companies or other financial institutions, or are guaranteed by a financial institution which has an unsecured rating, or which agreement is itself rated, as of the date of execution thereof, at least equal to the rating on the Certificates;

(j) Repurchase agreements with financial institutions or banks insured by the FDIC, any broker dealer with "retail customers" which falls under the jurisdiction of the Securities Investors Protection Corporation (SIPC), or other financial institutions, or entities guaranteed by a financial institution which has an unsecured rating, as of the date of execution thereof, at least A- by Standard & Poor's or A3 by Moody's Investors Service, provided that: (a) the over-collateralization is at one hundred two percent (102%), computed weekly, consisting of such securities as described in this section, items (a) through (c); (b) a third party custodian, the Trustee or the Federal Reserve Bank shall have possession of such obligations; (c) the Trustee shall have perfected a first priority security interest in such obligations; and (d) failure to maintain the requisite collateral percentage will require the Trustee to liquidate the collateral;

(k) the Local Agency Investment Fund maintained by the State of California; and

(l) Shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the California Government Code which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the California Government Code, as it may be amended, including but not limited to the California Asset Management Program (CAMP).

"*Prepayment*" means any payment applied towards the prepayment of the Installment Payments, in whole or in part, pursuant to the Installment Sale Agreement.

"*Principal Corporate Trust Office*" means the corporate trust office of the Trustee in San Francisco, California, or at such other address designated by the Trustee by written notice filed with the District and the Corporation.

"*Proceeds*," when used with reference to the Certificates, means the face amount of the Certificates, plus accrued interest and premium, if any, less original issue discount, if any.

"*Program Expenses*" means any operating expenses and/or capital expenditures of the District.

"*Program Fund*" means the fund by that name established pursuant to the Trust Agreement and held by the Trustee.

"*Rating Category*" means, with respect to any Permitted Investment, one or more of the generic categories of rating by Moody's and/or S&P applicable to such Permitted Investment, without regard to any refinement or gradation of such rating category by a plus or minus sign.

"*Regular Record Date*" means the close of business on the fifteenth (15th) day of the month preceding each Interest Payment Date, whether or not such fifteenth (15th) day is a Business Day.

"*S&P*" means Standard & Poor's Ratings Services, New York, New York, or its successors.

*"Securities Depositories"* means The Depository Trust Company, 55 Water Street, 50th Floor, New York, NY 10041-0099, Attention: Call Notification Department, Fax (212) 855-7232; and, in accordance with then current guidelines of the Securities and Exchange Board of Directors, such other addresses and/or such other securities depositories as the District may designate in a Written Certificate of the District delivered to the Trustee.

"*State*" means the State of California.

"*Subordinate Debt*" means indebtedness or other obligations (including leases and installment sale agreements) hereafter issued or incurred and secured by a pledge of and lien on Parcel Tax Revenues

which by its terms is subordinate to the payment of Installment Payments and subordinate to the security and right to payment of the Installment Sale Agreement in the Event of Default or default under such Subordinate Debt.

"*Tax Certificate*" means that certain Tax Certificate executed in connection with the execution and delivery of the Certificates.

"*Term of the Installment Sale Agreement*" means the time during which the Installment Sale Agreement is in effect, as provided in the Installment Sale Agreement.

"*Trustee*" means U.S. Bank National Association, or any successor thereto, acting as Trustee pursuant to the Trust Agreement.

"*Trust Agreement*" means the agreement by that name, dated as of December 1, 2011, by and among the Trustee, the Corporation and the District, together with any amendments or supplements thereto permitted to be made thereunder.

*"2004 Certificates"* means the 2004 Certificates of Participation executed and delivered in accordance with the 2004 Trust Agreement.

*"2004 Installment Payments"* means the installment payments payable by the District pursuant to the 2004 Installment Sale Agreement.

*"2004 Installment Sale Agreement"* means the agreement by that name, dated as of July 1, 2004, by and between the Corporation and the District, and any duly authorized and executed amendment or supplement thereto.

*"2004 Trust Agreement"* means the agreement by that name, dated as of July 1, 2004, by and among the Trustee, the Corporation and the District, together with any amendments or supplements thereto permitted to be made thereunder.

"*Written Certificate*" of the District means a written certificate signed in the name of the District by a District Representative. Any such certificate or request may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Trust Agreement or the Installment Sale Agreement, each such certificate shall include the statements provided for in the Trust Agreement or the Installment Sale Agreement.

## ACQUISITION AGREEMENT

*The following is a brief outline of certain provisions contained in the Acquisition Agreement by and between the District and the Corporation, and is not to be considered a full statement pertaining thereof. Reference is made to the Acquisition Agreement for the complete text thereof. A copy of said document is available from the Trustee.*

The Acquisition Agreement is entered into between the District and the Corporation. The District agrees to sell the Facilities to the Corporation for one dollar so that the Corporation can sell the Facilities back to the District under the Installment Sale Agreement.

## INSTALLMENT SALE AGREEMENT

*The following is a brief outline of certain provisions contained in the Installment Sale Agreement between the Corporation and the District, and is not to be considered a full statement pertaining thereto. Reference is made to the Installment Sale Agreement for the complete text thereof. A copy of said document is available from the Trustee.*

**Sale**

Pursuant to the Installment Sale Agreement, the Corporation sells, bargains and conveys the Facilities to the District, and the District purchases the Facilities from the Corporation upon the terms and conditions set forth in the Installment Sale Agreement.

**Title**

The District and the Corporation agree that title to the Facilities shall be deemed conveyed to and vested in the District on the Closing Date, subject only to Permitted Encumbrances. The Corporation and its officers shall take all actions necessary to vest in the District all of the Corporation's rights in and title to the Facilities.

**Term of the Installment Sale Agreement**

The Term of the Installment Sale Agreement shall commence as of the date of the Installment Sale Agreement and shall end on July 1, 2042, unless such term is extended or sooner terminated as provided in the Installment Sale Agreement. If on July 1, 2042, the Trust Agreement shall not be discharged by its terms, then the Term of the Installment Sale Agreement shall be extended until ten (10) days after the date on which the Trust Agreement shall be discharged by its terms. If prior to July 1, 2042, the Trust Agreement shall be discharged by its terms, the Term of the Installment Sale Agreement shall end ten (10) days after the date of such discharge.

**Installment Payments**

(a) *Obligation to Pay.* The District agrees to pay to the Corporation, its successors and assigns, as the purchase price of the Facilities, the Installment Payments, consisting of components of principal and interest, on or before the fifteenth day preceding each Interest Payment Date and in the amounts specified in the Installment Sale Agreement, except such amounts shall be reduced by moneys on deposit in the Installment Payment Fund and credited to the payment of Installment Payments next due. The Installment Payments shall be payable from Parcel Tax Revenues. The first Installment Payment shall be due on or before June 15, 2012.

(b) *Reduction Upon Partial Prepayment.* In the event the District prepays less than all of the remaining principal components of the Installment Payments, the amount of such prepayment shall be applied to reduce the principal component of the subsequent remaining Installment Payments in the order specified by the District at the time of prepayment (or if not so specified, in inverse order of Interest Payment Date), and the interest component of each subsequent remaining Installment Payment shall be reduced by the aggregate corresponding amount of interest which would otherwise be payable with respect to the Certificates redeemed as a result of such prepayment.

(c) *Rate on Overdue Payments.* In the event the District should fail to make any of the payments required so that there are insufficient moneys on hand in the Installment Payment Fund to pay any Installment Payment in full on an Interest Payment Date, the Installment Payment in default shall continue as an obligation of the District until the amount in default shall have been fully paid and the District agrees to pay the same with interest thereon, to the extent permitted by law, from the date thereof at the rate of interest payable with respect to the Certificates plus a penalty of 2%.

(d) *Assignment.* The District understands and agrees that the Corporation has assigned its right, title and interest (but not its duties or obligations) in the Installment Sale Agreement to the Trustee pursuant to the Assignment Agreement for the benefit of the Owners and the District assents to such

assignment. The Corporation directs the District, and the District agrees, to pay to the Trustee at the Trustee's principal corporate trust office or at such other place as the Trustee shall direct in writing, all payments payable by the District.

**Obligation of the District**

The District's obligation to pay the Installment Payments shall be an obligation solely payable from Parcel Tax Revenues.

The obligation of the District to make the Installment Payments from Parcel Tax Revenues, to apply Parcel Tax Revenues and to perform and observe the other agreements contained in the Installment Sale Agreement shall be absolute and unconditional and shall not be subject to any defense or any right of set-off, counterclaim or recoupment arising out of any breach of the District, the Corporation or the Trustee of any obligation to the District or otherwise with respect to the Facilities, whether under the Installment Sale Agreement or otherwise, or out of indebtedness or liability at any time owing to the District by the Corporation or the Trustee. Until such time as all of the Installment Payments shall have been fully paid or prepaid, the District (a) will not suspend, abate, or discontinue any payments provided for in the Installment Sale Agreement, (b) will perform and observe all other agreements contained in the Installment Sale Agreement, and (c) will not terminate the Term of the Installment Sale Agreement for any cause, including, without limiting the generality of the foregoing, the occurrence of any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, destruction of or damage to the Facilities, the taking by eminent domain of title to or temporary use of any or all of the Facilities, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either thereof, any failure of the Corporation or the Trustee to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Trust Agreement, the Assignment Agreement or the Installment Sale Agreement or on account of the sale, lease or closure of the Facilities or change in healthcare service provided at the Facilities.

Nothing contained in the Installment Sale Agreement shall be construed to release the Corporation from the performance of any of the agreements on its part contained in the Installment Sale Agreement, and in the event the Corporation shall fail to perform any such agreements on its part, the District may institute such action against the Corporation as the District may deem necessary to compel performance so long as such action does not abrogate the obligations of the District contained in the first sentence of the preceding paragraph. The District may, however, at the District's own cost and expense and in the District's own name or in the name of the Corporation prosecute or defend any action or proceeding or take any other action involving third persons which the District deems reasonably necessary in order to secure or protect the District's right of possession, occupancy and use under the Installment Sale Agreement, and in such event the Corporation agrees to cooperate fully with the District and to take such action necessary to effect the substitution of the District for the Corporation in such action or proceeding if the District shall so request.

**Statutory Lien; Transfer to Pay Installment Payments; Transfer to District**

(a) *Statutory Lien.* The Lien Statute imposes a lien on the Parcel Tax Revenues to secure the District's obligations under the 2004 Installment Sale Agreement and the Installment Sale Agreement. Pursuant to the Lien Statute, the Parcel Tax Revenue is immediately subject to this lien, and the lien immediately attaches to the Parcel Tax Revenue and is effective, binding, and enforceable against the District, its successors, purchasers of the Parcel Tax Revenues, creditors, and all others asserting rights therein, irrespective of whether those parties have notice of the lien and without the need for any physical delivery, recordation, filing, or further act.

(b) *Transfer to Pay Installment Payments.* In order to provide for the payment of Installment Payments when due, the District shall direct the County, so long as the Certificates are Outstanding, to transfer to the Trustee, as collected by the County, all Parcel Tax Revenues. The Trustee shall apply all Parcel Tax Revenues for deposit into the Installment Payment Fund established under the 2004 Installment Payment Agreement and into the Installment Payment Fund established on a *pari passu* basis, to pay the Installment Payments and the 2004 Installment Payments due on the next occurring Interest Payment Dates, as required under the 2004 Installment Sale Agreement and the Installment Sale

Agreement. The District shall be obligated to make Installment Payments sufficient to pay all principal and interest due with respect to the Certificates (whether at scheduled payment date, redemption, acceleration or otherwise). Any Parcel Tax Revenues received by the District from the County shall be immediately transferred to the Trustee.

(i) *Transfer to District*. In each Fiscal Year, upon receipt by the Trustee of Parcel Tax Revenues sufficient for the payment of Installment Payments, 2004 Installment Payments and payments with respect to any Parity Debt due on the next succeeding January 1 and July 1 Interest Payment Dates, all excess Parcel Tax Revenues shall be transferred to the District and may be used by the District for any lawful purpose. Notwithstanding the foregoing, if the District determines, or is required, to close or discontinue use of the Facilities, Parcel Tax Revenues relating to the then current Fiscal Year and all subsequent Fiscal Years shall *not* be transferred to the District but shall continue to be held by the Trustee until sufficient Parcel Tax Revenues shall have been received by the Trustee to provide for the prepayment of all remaining Installment Payments on the next available prepayment date.

**Limitations on Future Obligations Secured by Parcel Tax Revenues**

(a) *No Obligations Superior to Installment Payments.* In order to protect further the availability of the Parcel Tax Revenues and the security for the Installment Payments, the 2004 Installment Payments, and any Parity Debt, the District agrees that the District shall not, so long as any Certificates are outstanding, issue or incur any obligations payable from Parcel Tax Revenues superior to the Installment Payments, the 2004 Installment Payments, or such Parity Debt.

(b) *Parity Debt.* The District further covenants that, except for obligations issued or incurred to prepay the Installment Payments in full pursuant to optional prepayments as provided in the Installment Sal Agreement, the District shall not issue or incur any Parity Debt unless:

(i) The District is not in default under the terms of the Installment Sale Agreement;

(ii) Parcel Tax Revenues, calculated pursuant to generally accepted accounting principles, as shown by the audited financial statements of the District for the latest Fiscal Year, shall have amounted to at least 1.25 times the sum of the maximum Installment Payments and the maximum annual debt service on all Parity Debt coming due and payable in that current and any future Fiscal Year to be outstanding immediately subsequent to the incurring of such additional obligations.

(iii) Interest with respect to such Parity Debt shall be paid on January 1 and July 1.

(iv) Principal with respect to such Parity Debt shall be paid on July 1.

(c) *Subordinate Debt.* The District further covenants that the District shall not issue or incur any Subordinate Debt unless:

(i) The District is not in default under the terms of the Installment Sale Agreement;

(ii) Parcel Tax Revenues, calculated pursuant to generally accepted accounting principles, as shown by the audited financial statements of the District for the latest Fiscal Year after shall have amounted to at least 1.00 times the sum of the maximum Installment Payments, the maximum annual debt service on all Parity Debt and the maximum annual debt service on all Subordinate Debt coming due and payable in that current and any future Fiscal Year to be outstanding immediately subsequent to the incurring of such additional obligations.

(iii) Interest with respect to such Subordinate Debt shall be paid on January 1 and July 1.

(iv) Principal with respect to such Subordinate Debt shall be paid on July 1.

(d) *Calculating Debt Service on Variable Rate Debt.* For all purposes, variable rate indebtedness shall be assumed to bear interest at the highest of: (i) the actual rate on the date of calculation, or if the

indebtedness is not yet outstanding, the initial rate (if established and binding), (ii) if the indebtedness has been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, and (iii) (A) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Code, the most recently published *Bond Buyer* "Revenue Bond Index" (or comparable index if no longer published) plus 50 basis points, or (B) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities plus 50 basis points.

(e) *No Limitation on Obligations Secured by Revenues Other Than Parcel Tax Revenues.* Nothing in the Installment Sale Agreement shall limit the District from issuing or incurring obligations payable from revenues or other moneys of the District other than Parcel Tax Revenues.

**Additional Payments**

(a) In addition to the Installment Payments, the District shall pay when due, from Parcel Tax Revenues, all costs and expenses incurred by the Corporation to comply with the provisions of the Trust Agreement and the Installment Sale Agreement, including, without limitation, compensation due to the Trustee for its fees, costs and expenses incurred under the Trust Agreement and the Assignment Agreement and all costs and expenses of attorneys, auditors and accountants.

**Maintenance; Taxes; Insurance; And Other Matters**

*Maintenance, Utilities, Taxes and Assessments.* The District covenants to operate the Facilities in an efficient and economical manner and operate, maintain and preserve the Facilities in good repair and working order.

The District shall also pay or cause to be paid all taxes and assessments of any type or nature charged to the Corporation or the District or levied, assessed or charged against the Facilities or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the District shall be obligated to pay only such installments as are required to be paid during the Term of the Installment Sale Agreement as and when the same become due. The District shall not be required to pay any federal, state or local income, inheritance, estate, succession, transfer, gift, franchise, gross receipts, profit, excess profit, capital stock, corporate, or other similar tax payable by the Corporation, its successors or assigns, unless such tax is made in lieu of or as a substitute for any real estate or other tax upon property.

The District may, at the District's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Corporation shall notify the District that, in the opinion of Independent Counsel, by nonpayment of any such items, or the Facilities or any part thereof will be subject to loss or forfeiture, in which event the District shall promptly pay such taxes, assessments or charges or provide the Corporation with full security against any loss which may result from nonpayment, in form satisfactory to the Corporation.

*Modification of Facilities.* The District shall, at its own expense, have the right to remodel the Facilities or to make additions, modifications and improvements thereto. All such additions, modifications and improvements shall thereafter comprise part of the Facilities and be subject to the provisions of the Installment Sale Agreement. Such additions, modifications and improvements shall not in any way damage the Facilities or cause it to be used for purposes other than those authorized under the provisions of state and federal law; and the Facilities, upon completion of any additions, modifications and improvements shall be of a value which is not substantially less than the value of the Facilities immediately prior to the making of such additions, modifications and improvements.

*Insurance.* The District shall maintain or cause to be maintained, throughout the Term of the Installment Sale Agreement, but only if and to the extent available at reasonable cost from reputable insurers, liability and casualty insurance in such amounts and against such risks as shall be appropriate for health care facilities of like size and with similar facilities as the Facilities. Such insurance may be

maintained as part of or in conjunction with any other insurance carried by the District and may be maintained in whole or in part in the form of self-insurance by the District or in the form of the participation by the District in a joint powers agency or other program providing pooled insurance. All amounts collected from insurance against accident to or destruction of any portion of the Facilities shall be transferred to the Trustee for deposit in the Insurance and Condemnation Fund applied as set forth in the Trust Agreement. The proceeds of liability insurance shall be applied toward the extinguishment or satisfaction of the liability with respect to which such proceeds shall have been paid.

*Advances.* If the District shall fail to perform any of its obligations under the Installment Sale Agreement, the Corporation may, but shall not be obligated to, take such action as may be necessary to cure such failure, including the advancement of money, and the District shall be obligated to repay all such advances as soon as possible, with interest at the rate of interest with respect to the Certificates from the date of the advance to the date of repayment.

*Installation of District's Equipment.* The District may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed other items of equipment or other personal property in or upon the Facilities. All such items shall remain the sole property of the District, in which neither the Corporation nor the Trustee shall have any interest, and may be modified or removed by the District at any time provided that the District shall repair and restore any and all damage to the Facilities resulting from the installation, modification or removal of any such items. Nothing in the Installment Sale Agreement shall prevent the District from purchasing items to be installed under a conditional sale or lease purchase contract, or subject to a vendor's lien or security agreement, as security for the unpaid portion of the purchase price thereof.

*Operation of the Facilities.* The District covenants, so long as it is economically feasible, to operate, or cause to be operated, the Facilities in accordance with customary standards and practices applicable to similar facilities.

*Maintenance of Levy and Collection of Parcel Tax.* The District shall take all actions required by law or by the County in order to have the Parcel Tax levied and collected each tax year and to take all actions to enforce collection of the Parcel Tax.

*Tax Covenants.*

The District agrees and covenants that it will at all times do and perform all acts and things permitted by law and the Installment Sale Agreement which are necessary in order to assure that interest components of the Installment Payments will be excluded from gross income for federal income tax purposes, and that it will take no action that would result in such interest not being excluded from gross income for federal income tax purposes. Without limiting the generality of the foregoing, the City agrees and covenants to comply with the provisions of the Tax Certificate related to the Certificates, which are incorporated into the Installment Sale Agreement.

**Release and Indemnification Covenants**

The District shall and agrees to indemnify and save the Corporation and its successors and assigns harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (a) the use, maintenance, condition or management of, or from any work or thing done on the Facilities by the District, (b) any breach or default on the part of the District in the performance of any of its obligations under the Installment Sale Agreement, any act or negligence of the District or of any of its agents, contractors, servants, employees or licensees with respect to the Facilities, or (d) any act or negligence of any assignee or sublessee of the District with respect to the Facilities. No indemnification is made in the Installment Sale Agreement for willful misconduct, negligence, or breach of duty under the Installment Sale Agreement by the Corporation, its officers, agents, employees, successors or assigns.

**Assignment Sale and Amendment**

*Assignment by the Corporation*

The Corporation's right, title and interest in the Installment Sale Agreement, including the right to receive and enforce payment of the Installment Payments to be made by the District under the Installment Sale Agreement, have been assigned to the Trustee, subject to certain exceptions, pursuant to the Assignment Agreement, to which assignment the District consents.

*Assignment, Sale and Disposition by the District*

The Installment Sale Agreement may not be assigned by the District, and the Facilities may not be sold by the District during the Term of the Installment Sale Agreement.

The District may lease the Facilities, or any portion thereof, subject to all of the following conditions:

(a) The Installment Sale Agreement and the obligation of the District to make Installment Payments under the Installment Sale Agreement shall remain obligations of the District;

(b) The District shall, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Corporation and the Trustee a true and complete copy of the documents accomplishing such lease; and

(c) No such lease by the District shall cause the Facilities to be used for a purpose other than a governmental or proprietary function authorized under the provisions of the Constitution and laws of the State.

*Amendment of Installment Sale Agreement*

Without the written consent of the Trustee, the District will not alter, modify or cancel or agree or consent to alter, modify or cancel the Installment Sale Agreement; excepting only as such alteration or modification may be permitted by the Trust Agreement.

**Events of Default and Remedies**

*Events of Default.* The following shall be "events of default" under the Installment Sale Agreement and the terms "events of default" and "default" mean, whenever they are used in the Installment Sale Agreement, any one or more of the following events:

(a) failure by the District to pay any Installment Payment by the Interest Payment Date or failure to make any other payment required to be paid under the Installment Sale Agreement at the time specified therein; or

(b) failure by the District to deposit, or cause the County to deposit, Parcel Tax Revenues with the Trustee as required by the Installment Sale Agreement; or

(c) failure by the District to observe and perform any covenant, condition or agreement on its part to be observed or performed in the Installment Sale Agreement or the Trust Agreement, other than as referred to in clauses (a) and (b) above, for a period of sixty (60) days after written notice specifying such failure and requesting that it be remedied has been given to the District by the Corporation, the Trustee, or the Owners of not less than twenty-five percent (25%) in aggregate principal amount of Certificates then Outstanding; *provided*, *however*, if the failure stated in the notice cannot be corrected within the applicable period, the Corporation, the Trustee or such Owners, as applicable, shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the District within the applicable period and diligently pursued until the default is corrected; or

(d) The filing by the District of a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or the approval by a court of competent jurisdiction of a petition filed with or without the consent of the District seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction assumes custody or control of the District or of the whole or any substantial part of its property; or

(e) An event of default shall have occurred and be continuing with respect to any Parity Debt.

*Remedies on Default.* Whenever any event of default shall have happened and be continuing, the Corporation shall have the right, at its option and without any further demand or notice, to:

(a) declare all principal components of the unpaid Installment Payments, together with accrued interest at the rate or rates specified in the respective Outstanding Certificates from the immediately preceding Interest Payment Date on which payment was made, to be immediately due and payable, whereupon the same shall become due and payable; and

(b) take whatever action at law or in equity may appear necessary or desirable to collect the Installment Payments then due or thereafter to become due during the Term of the Installment Sale Agreement, or enforce performance and observance of any obligation, agreement or covenant of the District under the Installment Sale Agreement.

*No Remedy Exclusive.* No remedy in the Installment Sale Agreement conferred upon or reserved to the Corporation is intended to be exclusive and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Installment Sale Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Corporation to exercise any remedy reserved to it in the Installment Sale Agreement it shall not be necessary to give any notice, other than such notice as may be required in the Installment Sale Agreement with respect to events of default and remedies or by law.

*Prosecution and Defense of Suits.* The District shall promptly, upon request of the Corporation or its assignee, from time to time take or cause to be taken such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Facilities whether now existing or hereafter developing and shall prosecute all such suits, actions and other proceedings as may be appropriate for such purpose and, to the extent permitted by law, shall indemnify or cause to be indemnified the Corporation and its assignee for all loss, cost, damage and expense, including attorneys' fees, which they or any of them may incur by reason of any such defect, cloud, suit, action or proceedings.

To the extent permitted by law, the District shall defend, or cause to be defended, against every suit, action or proceeding at any time brought against the Corporation or its assignee upon any claim arising out of the receipt, application or disbursement of any of the Parcel Tax Revenues or involving the rights or duties of the Corporation or its assignee under the Installment Sale Agreement or the Trust Agreement; provided, that the Corporation and its assignee at their election may appear in and defend any such suit, action or proceeding. The District shall indemnify or cause to be indemnified the Corporation and its assignee against any and all liability claimed or asserted by any person, arising out of such receipt, application or disbursement. Notwithstanding any contrary provision of the Installment Sale Agreement, the covenant shall remain in full force and effect, even though all Installment Payments have been fully paid and satisfied, until a date which is three (3) years following the payment of the last of said Installment Payments.

**Security Deposit**

Notwithstanding any other provision of the Installment Sale Agreement, the District may, on any date, secure the payment of Installment Payments by a deposit with the Trustee, as escrow holder under an escrow deposit and trust agreement as referenced in the Trust Agreement, of:

(a) in the case of a security deposit relating to all Installment Payments, either (i) an amount which, together with amounts on deposit in the Installment Payment Fund, is sufficient to pay all unpaid Installment Payments, including the principal and interest components thereof, or (ii) Federal Securities, together with cash, if required, in such amount as will, in the opinion of nationally-recognized bond counsel and of an independent certified public accountant or other firm of recognized experts in such matters, together with interest to accrue thereon and, if required, all or a portion of moneys or Federal Securities then on deposit in the Installment Payment Fund, without reinvestment, be fully sufficient to pay all unpaid Installment Payments on their Interest Payment Date; or

(b) in the case of a security deposit relating to a portion of the Installment Payments both (i) a certificate executed by a District Representative designating the portion of the Installment Payments to which the deposit pertains, and (ii) cash or Federal Securities, in such amount as will, together with interest to be received thereon, if any, and an allocable portion of amounts on deposit in the Installment Payment Fund, without reinvestment, be fully sufficient in the opinion of an independent certified public accountant or other firm of recognized experts in such matters, to pay the portion of the Installment Payments designated in the aforesaid District Representative's certificate.

In the event of a deposit as described above, all obligations of the District under the Installment Sale Agreement pertaining to the portion of the Facilities for which the deposit has been made shall cease and terminate, excepting only the obligation of the District to make, or cause to be made, all Installment Payments, or the portion of Installment Payments to which the deposit pertains, from the deposit made by District. Said deposit shall be deemed to be and shall constitute a special fund for the payment of Installment Payments in accordance with the provisions of the Installment Sale Agreement; and further provided that any security deposit relating to the Facilities shall not affect the covenant of the District in the event such security deposit is insufficient to pay or prepay all Installment Payments relating to the Facilities when and as the same become due and payable. Upon said deposit, the Corporation will execute or cause to be executed any and all documents as may be necessary to release the security provided to the extent of such deposit.

## ASSIGNMENT AGREEMENT

*The following is a brief outline of certain provisions of the Assignment Agreement between the Corporation and the Trustee, and is not considered a full statement pertaining thereto. Reference is made to the Assignment Agreement for the complete text thereof. A copy of said document is available from the Trustee.*

The Corporation, for good and valuable consideration, irrevocably assigns and transfers to the Trustee, for the benefit of the Owners of the Certificates, all of its rights and interest in the Installment Sale Agreement (excepting only its rights to indemnity and the payment of fees and expenses), including, without limitation, its rights to receive and collect Installment Payments from the District under the Installment Sale Agreement, its collateral rights in Parcel Tax Revenues, the right to receive Parcel Tax Revenues, the right to receive and collect any proceeds of any insurance maintained thereunder, or of any condemnation award rendered with respect to the Facilities and the right to exercise such rights and remedies as are conferred on the Corporation by the Installment Sale Agreement as may be necessary to enforce payment of the Installment Payments when due or otherwise to protect its interests in the event of a default by the District. The Installment Payments shall be applied, and the rights so assigned shall be exercised, by the Trustee as provided in the Trust Agreement for the benefit of the Owners of the Certificates.

## TRUST AGREEMENT

*The following is a brief outline of certain provisions contained in the Trust Agreement by and among the District, the Corporation and the Trustee, and is not to be considered a full statement pertaining thereof. Reference*

*is made to the Trust Agreement for the complete text thereof. A copy of said document is available from the Trustee.*

The Trustee is appointed pursuant to the Trust Agreement to act as a depository of amounts held thereunder. The Trust Agreement authorizes the Trustee to prepare, execute and deliver the Certificates. Transfers of the Certificates are to be registered in a register maintained by the Trustee.

**Delivery Costs Fund**

The Trustee shall establish a special fund designated as the "Delivery Costs Fund"; shall keep such fund separate and apart from all other funds and moneys held by it; and shall administer such fund as provided in the Trust Agreement. There shall be deposited in the Delivery Costs Fund the proceeds of sale of the Certificates required to be deposited therein and any other funds from time to time deposited with the Trustee for such purpose and identified in writing to the Trustee. The moneys in the Delivery Costs Fund shall be disbursed by the Trustee to pay the Delivery Costs.

**Program Fund**

The Trustee shall establish a special fund designated as the "Program Fund"; shall keep such fund separate and apart from all other funds and moneys held by the Trustee; and shall administer such fund as provided in the Trust Agreement. There shall be deposited in the Program Fund the proceeds of sale of the Certificates required to be deposited therein and any other funds from time to time deposited with the Trustee for such purpose. Amounts in the Program Fund shall be disbursed for Program Expenses. Disbursements from the Program Fund shall be made by the Trustee upon receipt of a sequentially numbered requisition requesting disbursement executed by a District Representative. Notwithstanding the foregoing, following an Event of Default, amounts remaining in the Program Fund shall be available for the payment of principal and interest with respect to the Certificates.

**Assignment of Rights**

Pursuant to the Assignment Agreement, the Corporation has transferred, assigned and set over to the Trustee all of its rights under the Installment Sale Agreement (excepting only the Corporation's rights described above under "—Installment Sale Agreement—Release and Indemnification Covenants" and the final paragraph of the section "—Installment Sale Agreement—Events of Default and Remedies—Prosecution and Defense of Suits"), including without limitation the its rights to exercise such rights and remedies conferred on it pursuant to the Installment Sale Agreement as may be necessary or convenient (i) to enforce payment of the Installment Payments, Prepayments and any other amounts required to be deposited in the Installment Payment Fund or the Insurance and Condemnation Fund, and (ii) otherwise to exercise the Corporation's rights and take any action to protect the interests of the Trustee or the Certificate Owners in an Event of Default.

**Installment Payment Fund**

The Trustee shall establish a special fund designated as the "Installment Payment Fund." All moneys at any time deposited by the Trustee in the Installment Payment Fund shall be held by the Trustee in trust for the benefit of the Owners of the Certificates. So long as any Certificates are Outstanding, neither the District nor the Corporation shall have any beneficial right or interest in the Installment Payment Fund or the moneys deposited therein, except only as provided in the Trust Agreement, and such moneys shall be used and applied by the Trustee as hereinafter set forth.

There shall be deposited in the Installment Payment Fund all Installment Payments and Prepayments received by the Trustee, including any moneys received by the Trustee for deposit therein pursuant to the Trust Agreement or the Installment Sale Agreement, and any other moneys required to be deposited therein pursuant to the Installment Sale Agreement or pursuant to the Trust Agreement. In addition, Parcel Tax Revenues remitted by the County to the Trustee shall be deposited in the Installment Payment Fund as received.

All amounts in the Installment Payment Fund shall be used and withdrawn by the Trustee solely for the purpose of paying principal, interest and redemption premiums (if any) with respect to the

Certificates as the same shall become due and payable, in accordance with the provisions of the Trust Agreement

In each Fiscal Year, upon receipt of Parcel Tax Revenues sufficient to pay principal and interest with respect to the Certificates on the next succeeding January 1 and July 1, all surplus amounts on deposit in or subsequently deposited in the Installment Payment Fund shall be withdrawn by the Trustee and remitted to the District; *provided, however*, that if the District is required to, or determines to, close or discontinue use of the Facilities, such surplus amounts shall *not* be remitted to the District but shall be applied, and shall continue to be applied, on the next available dates, to the prepayment of Installment Payments and the redemption of Certificates. Any surplus remaining in the Installment Payment Fund, after redemption and payment of all Certificates, including premiums, if any, and accrued interest (if any) and payment of any applicable fees, costs and expenses to the Trustee, or provision for such redemption or payment having been made to the satisfaction of the Trustee, shall be withdrawn by the Trustee and remitted to the District.

**Establishment of Insurance and Condemnation Fund; Application of Net Proceeds of Insurance Award**

(a) Any Net Proceeds of insurance against accident to or destruction of any structure constituting any part of the Facilities collected by the District in the event of any such accident or destruction shall be transferred by the District to the Trustee and the Trustee shall deposit such moneys in a special fund to be established when deposits are required to be made therein designated as the "Insurance and Condemnation Fund."

(b) The Trustee shall disburse moneys in the Insurance and Condemnation Fund from time to time to pay the costs of the repair or replacement of the damaged portions of the Facilities upon receipt by the Trustee of a written requisition of the District which: (a) states with respect to each disbursement to be made (i) the requisition number, (ii) the name and address of the person, firm or corporation to whom payment will be made, (iii) the amount to be disbursed, and (iv) that each obligation mentioned therein is a proper charge against the Insurance and Condemnation Fund and has not previously been disbursed by the Trustee from amounts in the Insurance and Condemnation Fund; and (b) is accompanied by a bill or statement of account (if any) for each obligation. The Trustee may conclusively rely on the information contained in any written requisition and shall have no responsibility with respect to the application of any funds disbursed in accordance with such written requisitions. Upon the filing with the Trustee of a Written Certificate of the District stating that the repair or replacement of the damaged portions of the Facilities has been completed or that all written requisitions intended to be filed by the District have been filed, the Trustee shall withdraw all amounts then on deposit in the Insurance and Condemnation Fund and transfer such amounts to the Installment Payment Fund.

**Application of Net Proceeds of Eminent Domain Award**

(a) If all or any part of the Facilities shall be taken by eminent domain (or sold to a government threatening to exercise the power of eminent domain) the Net Proceeds therefrom shall be transferred by the District to the Trustee for deposit in the Insurance and Condemnation Fund.

(b) The Trustee shall disburse moneys in the Insurance and Condemnation Fund from time to time to pay the costs of the replacement of the condemned portions of the Facilities upon receipt by the Trustee of a written requisition of the District which: (a) states with respect to each disbursement to be made (i) the requisition number, (ii) the name and address of the person, firm or corporation to whom payment will be made, (iii) the amount to be disbursed, and (iv) that each obligation mentioned therein is a proper charge against the Insurance and Condemnation Fund and has not previously been disbursed by the Trustee from amounts in the Insurance and Condemnation Fund; and (b) is accompanied by a bill or statement of account (if any) for each obligation. The Trustee may conclusively rely on the information contained in any written requisition and shall have no responsibility with respect to the application of any funds disbursed in accordance with such written requisitions. Upon the filing with the Trustee of a Written Certificate of the District stating that the replacement of the condemned portions of the Facilities has been completed or that all written requisitions intended to be filed by the District have been filed, the Trustee shall withdraw all amounts then on deposit in the Insurance and Condemnation Fund and transfer such amounts to the Installment Payment Fund; provided, that so long as any 2004 Certificates

remain Outstanding, such amounts shall be transferred on a *pari passu* basis to the Installment Payment Fund and the 2004 Installment Payment Fund.

**Moneys in Funds; Investment**

*Held in Trust.* The moneys and investments held by the Trustee under the Trust Agreement are irrevocably held in trust for the benefit of the Owners of the Certificates, and for the purposes specified in the Trust Agreement, and such moneys, and any income or interest earned thereon, shall be expended only as provided in the Trust Agreement, and shall not be subject to levy or attachment or lien by or for the benefit of any creditor of either the Corporation, the Trustee (except for fees, charges and expenses of the Trustee), or the District or any Owner of Certificates, or any of them until after the Certificates have been paid in full.

**Modification or Amendment of Agreements**

*Amendments Permitted*. The Trust Agreement and the rights and obligations of the Owners of the Certificates and the Installment Sale Agreement and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement which shall become effective when the written consent of the Owners of at least sixty percent (60%) in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement, shall have been filed with the Trustee. No such modification or amendment shall (1) extend or have the effect of extending the fixed maturity of any Certificate or reducing the interest rate with respect thereto or extending the time of payment of interest, or reducing the amount of principal thereof or reducing any premium payable upon the redemption thereof, without the express consent of the Owner of such Certificate, or (2) reduce or have the effect of reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification of the Installment Sale Agreement, or (3) modify any of the rights or obligations of the Trustee without its written assent thereto. Any such supplemental agreement shall become effective as provided in the Trust Agreement.

The Trust Agreement and the rights and obligations of the Owners of the Certificates and the Installment Sale Agreement and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement, without the consent of any such Owners, but only to the extent permitted by law and only (1) to add to the covenants and agreements of the Corporation or the District, (2) to cure, correct or supplement any ambiguous or defective provision contained in the Trust Agreement or the Installment Sale Agreement and which shall not, in the opinion of nationally recognized bond counsel, adversely affect the interests of the Owners of the Certificates, (3) in regard to questions arising under the Installment Sale Agreement or Trust Agreement, as the parties may deem necessary or desirable and which shall not, in the opinion of nationally recognized bond counsel, adversely affect the interests of the Owners of the Certificates; (4) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of the interest component of Installment Payments and the interest payable with respect to the Certificates, (5) to add to the rights of the Trustee, or (6) to maintain the rating or ratings assigned to the Certificates. Any such supplemental agreement shall become effective upon its execution and delivery.

The Trust Agreement, the Assignment Agreement and the Installment Sale Agreement may not be modified or amended at any time by a supplemental agreement which would modify any of the rights and obligations of the Trustee without its written assent thereto.

**Certain Covenants**

*Compliance With and Enforcement of Installment Sale Agreement.* The District and the Corporation covenant and agree with the Owners of the Certificates to perform all obligations and duties imposed on them under the Installment Sale Agreement and the Trust Agreement.

The District or the Corporation, immediately upon receiving or giving any notice or communication or other document in any way relating to or affecting their respective interests in the

Facilities which may or can in any manner affect such interest, will deliver the same, or a copy thereof, to the Trustee.

The District will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of the Installment Sale Agreement by the Corporation thereunder or termination or reduction of the Parcel Tax.

*Continuing Disclosure.* The District covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificates. Notwithstanding any other provision of the Trust Agreement, failure of the District to comply with the Continuing Disclosure Certificate shall not be considered an Event of Default; however, the Trustee, at the written direction of any Participating Underwriter (as defined in the Continuing Disclosure Certificate) or the holders of at least 25% aggregate principal amount of Outstanding Certificates, shall, but only to the extent moneys or other indemnity, satisfactory to the Trustee, has been furnished to the Trustee to hold it harmless from any loss, costs, liability or expense, including fees and expenses of its attorneys and any additional fees of the Trustee or any holder or beneficial owner of the Certificates may take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

*Maintenance of Tax-Exemption.* The District shall take all actions necessary to assure the exclusion of interest with respect to the Certificates from the gross income of the Owners of the Certificates to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the Closing Date.

**Parties Interested**

Nothing in the Trust Agreement expressed or implied is intended or shall be construed to confer upon, or to give to, any person or entity, other than the District, the Corporation, the Trustee, their officers, employees and agents, and the Owners any right, remedy or claim under or by reason of the Trust Agreement, or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in the Trust Agreement contained by and on behalf of the District shall be for the sole and exclusive benefit of the District, the Corporation, the Trustee, their officers, employees and agents, and the Owners.

**Defeasance**

If all Outstanding Certificates shall be paid and discharged in any one or more of the following ways:

(a) by well and truly paying or causing to be paid the principal with respect to and interest with respect to all Certificates Outstanding, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money which, together with the amounts then on deposit in the Installment Payment Fund, is fully sufficient to pay all Certificates Outstanding, including all principal and interest;

(c) by irrevocably depositing with the Trustee or an escrow agent (on terms satisfactory to the Trustee), in trust, cash or Federal Securities in such amount as an independent nationally recognized certified public accountant shall determine in a written report delivered to the Trustee or escrow agent will, together with the interest to accrue thereon and moneys then on deposit in the Installment Payment Fund, if required, together with the interest to accrue thereon, without reinvestment, be fully sufficient to pay and discharge all Certificates (including all principal, premium, if any, and interest) at or before their respective maturity dates; or

(d) by depositing with the Trustee, under an escrow deposit and trust agreement, security for the payment of Installment Payments as more particularly described in the Installment Sale Agreement, said security to be held by the Trustee, as agent for District, and to be applied by the Trustee

to Installment Payments representing the obligation of the District under the Installment Sale Agreement, as described in the Installment Sale Agreement;

notwithstanding that any Certificates shall not have been surrendered for payment, all rights under the Trust Agreement of the Owners of the Certificates and all obligations of the Corporation, the Trustee and the District under the Trust Agreement with respect to all Outstanding Certificates shall cease and terminate, except only the obligation of the Trustee to pay or cause to be paid, from Installment Payments paid by or on behalf of the District from deposits pursuant to paragraphs (b) through (d) of above, to the Owners of the Certificates not so surrendered and paid all sums due with respect thereto, and in the event of deposits pursuant to paragraphs (b) through (d) above, the Certificates shall continue to represent direct, undivided and fractional interests of the Owners thereof in Installment Payments under the Installment Sale Agreement.

Any funds held by the Trustee, at the time of one of the events described above in subsections (a) through (d) above, which are not required for the payment to be made to Owners, or for payments to be made to the Trustee by the District (including attorneys' fees, including those allocated to in-house counsel), shall be paid over to the District.

To accomplish defeasance, the District shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants or such other accountant ("Accountant") verifying the sufficiency of the escrow established to pay the Certificates in full on the maturity or redemption date ("Verification"), (ii) an escrow deposit agreement, and (iii) an opinion of nationally recognized bond counsel to the effect that the Certificates are no longer Outstanding; each Verification and defeasance opinion shall be acceptable in form and substance to the District, and addressed, to the District and the Trustee.

Certificates shall be deemed Outstanding under the Trust Agreement unless and until they are in fact paid and retired or the above criteria are met.

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# APPENDIX D

# FORM OF SPECIAL COUNSEL OPINION

[Letterhead of Orrick Herrington & Sutcliffe LLP]

[Closing Date]

West Contra Costa Healthcare District
San Pablo, California

$40,000,000
West Contra Costa Healthcare District
Certificates of Participation
(2011 Financing Program)
(Final Opinion)

Ladies and Gentlemen:

We have acted as special counsel to the West Contra Costa Healthcare District, a local health care district and political subdivision of the State of California (the "District") in connection with the execution and delivery of the above-captioned $40,000,000 aggregate principal amount of Certificates of Participation (the "Certificates"), each evidencing undivided ownership interests of the registered holders thereof in the rights to receive certain installment payments (the "Installment Payments") made by the District pursuant to an installment sale agreement, dated as of December 1, 2011 (the "Installment Sale Agreement"), between the District and WCCHD Financing Corporation II, a nonprofit public benefit corporation of the State of California (the "Corporation"). The Corporation has, pursuant to an assignment agreement, dated as of December 1, 2011 (the "Assignment Agreement"), between the Corporation and U.S. Bank National Association, as trustee (the "Trustee"), assigned certain of its rights under the Installment Sale Agreement, including its right to receive the Installment Payments, to the Trustee. The Certificates have been executed by the Trustee pursuant to the terms of a trust agreement, dated as of December 1, 2011 (the "Trust Agreement"), among the District, the Corporation and the Trustee. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Installment Sale Agreement.

In such connection, we have reviewed the Trust Agreement, the Installment Sale Agreement, an acquisition agreement, dated as of December 1, 2011 (the "Acquisition Agreement"), between the District and the Corporation, the Assignment Agreement, the Tax Certificate of the District, dated the date hereof (the "Tax Certificate"), opinions of counsel to the District, the Corporation, and the Trustee, certificates of the District, the Corporation, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Certificates has concluded with their delivery, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph

hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Agreement, the Installment Sale Agreement, the Acquisition Agreement, the Assignment Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest component of the Installment Payments to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Certificates, the Trust Agreement, the Installment Sale Agreement, the Acquisition Agreement, the Assignment Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against health care districts in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in the Trust Agreement or the Installment Sale Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Certificates and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Acquisition Agreement, Installment Sale Agreement and the Trust Agreement, have each been duly executed and delivered by, and constitute the valid and binding agreements of, the District.

2. The obligation of the District to make Installment Payments during the term of the Installment Sale Agreement constitutes a valid and binding obligation of the District, payable solely from Parcel Tax Revenues. The obligation of the District to make the Installment Payments does not constitute a debt of the District or of the State of California or any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction.

3. Assuming due authorization, execution and delivery by the Trustee of the Trust Agreement and the Certificates, the Certificates are entitled to the benefits of the Trust Agreement. Assuming due authorization, execution and delivery by the Corporation of the Assignment Agreement, the owners of the Certificates are entitled, by virtue of the Assignment Agreement, to receive their undivided fractional interest of the Installment Payments in accordance with the terms and provisions of the Trust Agreement.

4. The interest component of the Installment Payments made by the District under the Installment Sale Agreement and received by the Certificate holders is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. The interest component of the Installment Payments made by the District under the Installment Sale Agreement and received by the Certificate holders is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of the Certificates, or the accrual or receipt of the interest component of the Installment Payments made by the District under the Installment Sale Agreement.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

# APPENDIX E

# FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the WEST CONTRA COSTA HEALTHCARE DISTRICT (the "District") in connection with the execution and delivery of $40,000,000 Certificates of Participation (2011 Financing Program) (the "2011 Certificates") Evidencing the Direct, Undivided Fractional Interests of the Owners Thereof in Installment Payments to be Made by the District As the Purchase Price For Certain Property Pursuant to an Installment Sale Agreement with the WCCHD Financing Corporation II (the "Corporation"). The 2011 Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of December 1, 2011, by and among U.S. Bank National Association, as trustee (the "Trustee"), the District and the Corporation (the "Trust Agreement"). The District covenants and agrees as follows:

Section 1. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Certificate, unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings when used in this Disclosure Certificate:

"*Annual Report*" shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Beneficial Owner*" shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes.

"*Dissemination Agent*" shall mean U.S. Bank National Association, or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation. In the absence of such a designation, the District shall act as the Dissemination Agent.

"*EMMA*" or "*Electronic Municipal Market Access*" means the centralized on-line repository for documents to be filed with the MSRB, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

"*Listed Events*" shall mean any of the events listed in Section 5(a) or 5(b) of this Disclosure Certificate.

"*MSRB*" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information which may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

"*Participating Underwriter*" shall mean any original underwriter of the 2011 Certificates required to comply with the Rule in connection with offering of the 2011 Certificates.

"*Rule*" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 2. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the owners and Beneficial Owners of the 2011 Certificates and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report*. The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District's fiscal year (which currently ends on December 31), commencing with the report for the 2010-11 Fiscal Year, which is due not later than September 30, 2012,

file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(b) *Change of Fiscal Year*. If the District's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c), and subsequent Annual Report filings shall be made no later than nine months after the end of such new fiscal year end.

(c) *Delivery of Annual Report to Dissemination Agent*. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) (or, if applicable, subsection (b)) of this Section 3 for providing the Annual Report to EMMA, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the District.

(d) *Report of Non-Compliance*. If the District is the Dissemination Agent and is unable to file an Annual Report by the date required in subsection (a) (or, if applicable, subsection (b)) of this Section 3, the District shall send a notice to EMMA substantially in the form attached hereto as Exhibit A. If the District is not the Dissemination Agent and is unable to provide an Annual Report to the Dissemination Agent by the date required in subsection (c) of this Section 3, the Dissemination Agent shall send a notice to EMMA in substantially the form attached hereto as Exhibit A.

(e) *Annual Compliance Certification*. The Dissemination Agent shall, if the Dissemination Agent is other than the District, file a report with the District certifying that the Annual Report has been filed with EMMA pursuant to Section 3 of this Disclosure Certificate, stating the date it was so provided and filed.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) *Financial Statements.* Audited financial statements of the District for the preceding fiscal year, prepared in accordance generally accepted accounting principles. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) *Other Annual Information.* To the extent not included in the audited financial statements of the District, the Annual Report shall also include financial and operating data with respect to the District for preceding fiscal year, as follows:

(i) Number of parcels in the District;
(ii) the aggregate 2004 Parcel Tax Revenues received;
(iii) Changes to the Contra Costa County Teeter Plan, if any;
(iv) 2004 Parcel Tax collection delinquency rate (if Teeter Plan terminated);
(v) bed complement;
(vi) historical utilization; and
(vii) debt service coverage.

(c) *Cross References.* Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which are available to the public on EMMA. The District shall clearly identify each such other document so included by reference.

If the document included by reference is a final official statement, it must be available from EMMA.

(d) *Further Information.* In addition to any of the information expressly required to be provided under paragraph (b) of this Section 4, the District shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Listed Events.

(a) *Reportable Events.* The District shall, or shall cause the Dissemination Agent (if not the District) to, give notice of the occurrence of any of the following events with respect to the 2011 Certificates:

(1) Principal and interest payment delinquencies.

(2) Unscheduled draws on debt service reserves reflecting financial difficulties.

(3) Unscheduled draws on credit enhancements reflecting financial difficulties.

(4) Substitution of credit or liquidity providers, or their failure to perform.

(5) Defeasances.

(6) Rating changes.

(7) Tender offers.

(8) Bankruptcy, insolvency, receivership or similar event of the obligated person.

(9) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

Note: For the purposes of the event identified in subparagraph (8), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) *Material Reportable Events.* The District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2011 Certificates, if material:

(1) Non-payment related defaults.

(2) Modifications to rights of security holders.

(3) Bond calls.

(4) The release, substitution, or sale of property securing repayment of the securities.

(5) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.

(6) Appointment of a successor or additional trustee, or the change of name of a trustee.

(7) Closure of the Hospital.

(c) *Time to Disclose.* The District shall, or shall cause the Dissemination Agent (if not the District) to, file a notice of such occurrence with EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of any Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(5) and (b)(3) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Certificates under the Trust Agreement.

Section 6. Identifying Information for Filings with EMMA. All documents provided to EMMA under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the 2011 Certificates. If such termination occurs prior to the final maturity of the 2011 Certificates, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent.

(a) *Appointment of Dissemination Agent*. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate and may discharge any such agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the District, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with EMMA shall be prepared and provided to it by the District. The Dissemination Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this Disclosure Certificate and has no liability to any person, including any Certificate owner, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the District shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition, except as may be provided by written notice from the District.

(b) *Compensation of Dissemination Agent*. The Dissemination Agent shall be paid reasonable compensation by the District for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the District from time to time and all reasonable expenses, legal fees and expenses and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the District, owners or Beneficial Owners, or any other party. The Dissemination Agent may rely, and shall be protected in acting or refraining from acting, upon any direction from the District or an opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the District. The Dissemination Agent shall not be liable hereunder except for its negligence or willful misconduct.

(c) *Responsibilities of Dissemination Agent*. In addition of the filing obligations of the Dissemination Agent set forth in Sections 3(e) and 5, the Dissemination Agent shall be obligated, and hereby agrees, to provide a request to the District to compile the information required for its Annual Report at least 30 days prior to the date such information is to be provided to the Dissemination Agent pursuant to subsection (c) of Section 3. The failure to provide or receive any such request shall not affect the obligations of the District under Section 3. The Dissemination Agent shall have no liability of any kind whatsoever to the Corporation, or any other person or entity, arising from or related to the failure of the Dissemination Agent to provide such request to the Corporation.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the District that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that all of the following conditions are satisfied:

(a) *Change in Circumstances*. If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a) or (b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the 2011 Certificates, or the type of business conducted.

(b) *Compliance as of Issue Date*. The undertaking, as amended or taking into account such waiver, would, in the opinion of a nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the 2011 Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances.

(c) *Consent of Holders; Non-impairment Opinion*. The amendment or waiver either (i) is approved by the 2011 Certificate owners in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Certificate owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the 2011 Certificate owners or Beneficial Owners.

If this Disclosure Certificate is amended or any provision of this Disclosure Certificate is waived, the District shall describe such amendment or waiver in the next following Annual Report and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Certificate owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and no implied covenants or obligations shall be read into this Disclosure Certificate against the Dissemination Agent, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the reasonable costs and expenses (including attorneys fees and expenses) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have the same rights, privileges and immunities hereunder as are afforded to the Trustee under the Trust Agreement. The obligations of the District under this Section 12 shall survive resignation or removal of the Dissemination Agent and payment of the 2011 Certificates.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and the owners and Beneficial Owners from time to time of the 2011 Certificates, and shall create no rights in any other person or entity.

Date: [Closing Date]

WEST CONTRA COSTA HEALTHCARE DISTRICT

By _____
Chief Executive Officer

ACKNOWLEDGED:

U.S. BANK NATIONAL ASSOCIATION, as Dissemination Agent

By _____
Authorized Officer

EXHIBIT A

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: Western Contra Costa Healthcare District

Name of Issue: Certificates of Participation (2011 Financing Program) Evidencing Direct, Undivided Fractional Interests of the Owners Thereof in Installment Payments to be made by the West Contra Costa Healthcare District (Contra Costa County, California), as the Purchase Price for Certain Property Pursuant to an Installment Sale Agreement with the WCCHD Financing Corporation II

Date of Issuance: [Closing Date]

NOTICE IS HEREBY GIVEN that the Obligor has not provided an Annual Report with respect to the Issue as required by the Continuing Disclosure Certificate, dated [Closing Date]. The Obligor anticipates that the Annual Report will be filed by _____.

Dated: _____

U.S. BANK NATIONAL ASSOCIATION, as
Dissemination Agent

By _____
Title _____

cc: Trustee

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# APPENDIX F

# BOOK ENTRY SYSTEM

The information in this Appendix F has been provided by The Depository Trust Company ("DTC"), New York, NY, for use in securities offering documents, and District takes no responsibility for the accuracy or completeness thereof. The District and Underwriters cannot and do not give any assurances that DTC, DTC Participants or Indirect Participants will distribute the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the 2011 Certificates or (b) certificates representing ownership interest in or other confirmation of ownership interest in the 2011 Certificates, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants mill act in the manner described in this Official Statement.

The Depository Trust Company, New York, New York, will act as securities depository for the 2011 Certificates. The 2011 Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for each maturity of the 2011 Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of 2011 Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each 2011 Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2011 Certificates, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all 2011 Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2011 Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2011 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2011 Certificates are credited,

which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2011 Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2011 Certificates, such as redemptions, defaults, and proposed amendments to the Indenture. For example, Beneficial Owners of 2011 Certificates may wish to ascertain that the nominee holding the 2011 Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2011 Certificates are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2011 Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to an issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2011 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, interest and redemption prices, respectively, on the 2011 Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee or the District, on a payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Issuer, the Trustee or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption prices to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2011 Certificates at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, 2011 Certificate are required to be printed and delivered.

The District may decide to discontinue use of the system of book entry transfers through DTC (or a successor securities depository). In that event, 2011 Certificate will be printed and delivered.