

HOSPITAL SERVICES FUNDING AGREEMENT

THIS HOSPITAL SERVICES FUNDING AGREEMENT (“Agreement”) is entered into and executed by and between the County of Santa Barbara, a political subdivision of the State of California (“County”), Santa Barbara San Luis Obispo Regional Health Authority doing business as CenCal Health, a local public agency (“CenCal Health”), Cottage Health System, a California non-profit public benefit corporation (“CHS”), Catholic Healthcare West, a California non-profit public benefit corporation (“CHW”) and Lompoc Valley Medical Center, a California local healthcare district (“District”) (CHS, CHW and District are referred to herein collectively as the “Hospital Entities”) as of the Effective Date set forth below, with respect to the following facts:

A. CenCal Health is a Health Insuring Organization and a County Organized Health System. CenCal Health was originally established in 1983 as the Santa Barbara Special Health Care Authority, the Medi-Cal managed care plan for Santa Barbara County, pursuant to California Health and Safety Code Sections 101675-101781 and Welfare & Institutions Code section 14499.5-14499.6. Effective March 1, 2008, CenCal Health was authorized by the State of California and the County of San Luis Obispo as the Medi-Cal managed care plan for San Luis Obispo County.

B. CenCal Health has entered into a contract (the “State Contract”) with the State of California Department of Health Care Services (“DHCS”) to arrange and pay for the provision of covered health care items and services to Medi-Cal eligible beneficiaries residing in Santa Barbara and San Luis Obispo Counties. The Santa Barbara Medi-Cal program is known as the Santa Barbara Health Initiative (“SBHI”). (For purposes of this Agreement, SBHI eligible beneficiaries for whom CenCal Health is the primary payor are referred to herein as “SBHI Members”).

C. CHS operates Santa Barbara Cottage Hospital (“SBCH”), Goleta Valley Cottage Hospital (“GVCH”) and Santa Ynez Valley Cottage Hospital (“SYVCH”), each an acute care hospital located in the County of Santa Barbara. CHW operates Marian Medical Center (“MMC”), an acute care hospital located in the County of Santa Barbara. District operates Lompoc Valley Medical Center (“LVMC”), an acute care hospital located in the County of Santa Barbara. (SBCH, GVCH, SYVCH, MMC and LVMC are referred to herein collectively as the “Hospitals”),

D. CenCal Health and the Hospital Entities are parties to several services agreements (the “Hospital Provider Agreements”) pursuant to which the Hospitals provide clinical and other medical care services covered by Medi-Cal to SBHI Members at the Hospitals, at rates specified in the Hospital Provider Agreements as amended from time to time.

E. The County and the Hospital Entities are parties to agreements for hospital and emergency room care pursuant to which the County provides annual Hospital (including Emergency Room) funding for each of the Hospitals with funds made available through the Tobacco Litigation Master Settlement Agreement of 1998, as amended (the “Tobacco Settlement Funds”), in exchange for the Hospitals’ commitments to use the Tobacco Settlement Funds to provide care to medically uninsured County residents on the terms and conditions described therein.

F. The County will enter into an Interagency Agreement Regarding Transfer of Public Funds (“Transfer Agreement”) with DHCS pursuant to which the County will transfer Tobacco Settlement Funds in the amount of \$908,214 (the “TS Funds”) to DHCS, pursuant to section 14164 of the Welfare & Institutions Code, to be used during the Term of this Agreement to supplement the nonfederal share of Medi-Cal managed care

capitation rate payments to which CenCal Health is entitled under the State Contract. DHCS has or will seek matching federal medical assistance percentage funds (“FMAP Funds”) in the amount of \$908,214, together with additional amounts due for FMAP percentage increases under the American Recovery and Reinvestment Act of 2009 (“ARRA FMAP Funds”) for certain limited periods of time up to December 31, 2010 (the FMAP and ARRA FMAP Funds are collectively herein the “Federal Funds”) as additional supplemental funding of CenCal Health during the Term, as permitted under 42 C.F.R. part 433, subpart B. (The “TS Funds” and the “Federal Funds” are referred to collectively herein as the “Funds”).

G. The County desires to ensure that the Hospitals continue to provide care to the uninsured and that the TS Funds continue to be used in a manner that supports this goal. CenCal Health desires to ensure that the Hospitals are able to provide quality patient care to SBHI Members in the most cost-effective and efficient manner, and that the appropriate level of services are available to SBHI Members, and through this Agreement desires to utilize the Funds to increase the rates it pays to the Hospitals for the inpatient care of SBHI Members at the Hospitals.

NOW, THEREFORE, for and in consideration of the recitals above and the mutual covenants and conditions contained herein, the County, CenCal Health and each of the Hospital Entities agree as follows:

I. TERM AND EFFECTIVE DATE

1. **Term.** The Term of this Agreement shall be one (1) year commencing on the Effective Date, as defined below, and may be renewed for additional one-year Terms upon the mutual written agreement of the parties, subject to termination of this Agreement as provided in Article III, below. Each renewal agreement shall specify the Effective Date of the renewal Term and shall amend the amounts specified in Recital F, above, as applicable to the renewal Term.

2. **Effective Date.** This Agreement is subject to, and contingent upon, an adjustment of CenCal Health’s Medi-Cal capitation rate pursuant to the Transfer Agreement (the “Rate Adjustment”). Accordingly, this Agreement shall become operative on the effective date of the Rate Adjustment (the “Effective Date”) as reflected in an amendment to the State Contract.

II. USAGE OF FUNDS

1. Federal Funds.

a. Supplemental Rates. CenCal Health shall allocate an amount equal to the Federal Funds to supplement the per diem inpatient rates it pays to each of the Hospitals under the Hospital Provider Agreements for services provided to SBHI Members during the Term. Each Hospital shall be allocated a portion of the Federal Funds amount in accordance with its percentage of the total annual bed days for SBHI Members at all of the Hospitals. For purposes of this paragraph, a Hospital’s total annual SBHI Member bed days shall be determined by CenCal Health, in its sole discretion, based on each Hospital’s prior annual SBHI Member bed days and as anticipated by CenCal Health for each Term. Supplemental Rates for each Term shall be determined by CenCal Health by dividing the total Federal Funds amount available for each Hospital by the total annual SBHI Member bed days for that Hospital as calculated by CenCal Health. CenCal Health shall commence paying the Hospitals the Supplemental Rates as of the Effective Date of each Term. Supplemental Rates will be paid by adjustments to claims submitted for services rendered on or after the Effective Date. In the event that DHCS notifies CenCal Health of the Rate Adjustment and/or executes the related amendment to the State Contract after the Effective Date, the Supplemental Rates shall be made effective retroactive to the Effective Date.

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b. Supplemental Hospital Payment Addendum. CenCal Health and each of the Hospital Entities shall enter into a Supplemental Hospital Payment Addendum to this Agreement, specifying the Supplemental Rate to be paid to the Hospital(s) operated by that Hospital Entity pursuant to this Agreement and as of the Effective Date. Each Supplemental Hospital Payment Addendum shall be confidential and shall not be disclosed to parties other than CenCal Health and the signing Hospital Entity without the express written permission of both parties. Each Supplemental Hospital Payment Addendum shall otherwise be subject to the terms and conditions of each respective Hospital's Hospital Provider Agreement.

c. Limitations on Supplemental Rates. Regardless of its actual number of SBHI Member bed days during any Term, no Hospital shall be entitled to be paid the Supplemental Rates after that hospital has received all of the Federal Funds amount allocated to it for that Term. At the point in time at which a Hospital has received all of the Federal Funds amount allocated to it, that Hospital will no longer be paid Supplemental Rates, but will continue to be paid the rate to which it is entitled under its Hospital Provider Agreement then in effect, unless and until the County directs CenCal Health to supplement that rate retroactively as part of the Hospital's allocation of TS Funds in accordance with paragraph 2 of this Article, below.

2. TS Funds. As the party responsible for allocation of the TS Funds, the County shall direct CenCal Health as to how to annually disburse the TS Funds to further supplement the inpatient rates CenCal Health pays to the Hospitals, based on each Hospital's provision of services to the uninsured. At the end of each fiscal year (July 1 through June 30), the County shall inform CenCal Health as to each Hospital's share of TS Funds for that fiscal year (which may, in the case of the initial Term, be a partial year). The disbursement amounts shall be based on a formula previously derived by Hospitals and will be based on the amount of qualifying Encounter Data submitted by each Hospital to the County for services provided to eligible persons during the fiscal year in accordance with the Hospital Responsibilities described in paragraph 3, below. Upon receipt of the disbursement information from the County, CenCal Health shall retroactively adjust the rates it paid to each Hospital during the fiscal year, or applicable part thereof, on claims for inpatient services provided to SBHI Members, to the extent necessary to provide to each Hospital its allocation of TS Funds for that Term.

3. Hospital Responsibilities. As conditions for receipt of the Funds provided for by this Agreement, the Hospitals agree to the following responsibilities:

a. **Concurrent Review.** Each Hospital shall permit CenCal Health and/or the County to perform concurrent utilization review of inpatient stays of SBHI Members by CenCal Health or eligible TS cases by the County during hospitalization, to promote timely determination of covered bed-days and to facilitate discharge planning authorizations when needed. CenCal Health and County shall endeavor to carry out these reviews in such manner and at such times as to minimize interference with Hospital functions and burdens on Hospital staff.

b. **Encounter Data.** Each Hospital shall provide to County, such Encounter Data as County requires on care provided by the Hospital to eligible uninsured persons, in accordance with procedures specified by the County and DHCS, and as required by Section 16915 of the Welfare and Institutions Code. Such encounter information shall be on uniform billing documents (Claims) and will be submitted to the County Utilization Review program. Eligible persons are those that are determined to be unable to pay for health care services and for whom payments for the services will not be made through private coverage or by any program funded in whole or part by the Federal government. Hospitals also agree to:

- Assure that the supplemental funds received pursuant to this Agreement are used to ensure the continuation of services to *eligible* individuals.

- Ensure that a comprehensive financial screening is completed to determine whether a person receiving services under this agreement is truly *eligible*. (Any encounter claims submitted to County for a person found to be ineligible by County will be returned to Hospital)
- Notify the County if the Hospital receives payment from patient or other third party for services provided rendered to an *eligible* person and reimburse the County in an amount equal to the amount paid for the services under this agreement.
- Provide all encounter claims service data for eligible persons to the County no later than June 1st of each term. For purposes of supplemental payment under this Agreement, CenCal Health will be notified by the County of the amount of qualifying allocation for each Hospital no later than June 15th of each term. Any Hospital not realizing their full allocation by not submitting enough qualifying claims will be subject to a proration of their allocation and any surplus funds not disbursed will be retained by CenCal Health.

4. Surplus Funds Retained by CenCal Health. At the end of each Term, CenCal Health shall be entitled to retain any surplus of the additional capitation rates it received from DHCS pursuant to the Transfer Agreement over amounts used in satisfaction of paragraphs 1 and 2 of this Article II. CenCal Health shall only utilize such surplus to supplement the quality pool of its Medi-Cal physician incentive program for the current calendar year, in order to encourage its physician providers to improve the quality of the care and services provided to CenCal Health members.

5. Funding Delays. Payments to the Hospitals under paragraphs 1 and 2 of this Article II may be deferred or delayed in the event that CenCal Health's receipt of its capitation payments from DHCS is deferred or delayed due to State budgetary issues or other reasons beyond the control of CenCal Health.

III. TERMINATION

1. Termination for Loss of Funds. This Agreement (i) may be terminated by agreement of CenCal Health and the County in the event that DHCS does not transfer or otherwise provide all or any of the Funds to CenCal Health; and (ii) will automatically terminate in the event that DHCS, the Centers for Medicare and Medicaid Services ("CMS") or any other federal or state agency makes a determination or finding that the Funds cannot be used for the purposes set forth in this Agreement or otherwise seeks to recoup any of the Funds from either the County, CenCal Health or the Hospitals. In the event that DHCS fails to transfer any TS Funds to CenCal Health during any Term, or to return such TS Funds directly to the County, CenCal Health agrees to cooperate with the County to seek return of all TS Funds to County from DHCS.

In the event of a termination as set forth in the foregoing paragraph, this Agreement shall terminate on a prospective basis and any Funds previously paid by CenCal Health to the Hospitals pursuant to this Agreement shall be deemed null and void. In such case, CenCal Health shall be entitled to offset payments it makes to the Hospitals under any future Explanation of Benefits (which may be for unrelated claims) by the amounts CenCal Health paid to the Hospitals as Supplemental Rates or TS Funds for services previously rendered, to the extent necessary to enable CenCal Health or the County to make any repayment demanded by DHCS, CMS or any other agency entitled to recoup any of the Funds. This provision shall survive the termination of this Agreement at any time.

2. Jeopardy. Notwithstanding anything to the contrary herein, in the event that the performance by any party hereto of any term, covenant, condition or provision of this Agreement should jeopardize the licensure of either party, its participation in Medicare, Medi-Cal, private insurer or other major reimbursement or payment

programs, or its full accreditation by The Joint Commission on Hospital Accreditation, or any other state or nationally recognized physician accreditation organization, or its tax-exempt status or the tax-exempt status of interest earned on any of its bonds or other financial obligations, or if for any other reason such performance should be in violation of any statute, ordinance, or be otherwise deemed illegal, or be deemed unethical by any recognized body, agency, or association in the medical or hospital fields (collectively, the “Adverse Action”), then the parties shall in good faith negotiate amendments to this Agreement necessary or appropriate to resolve the Adverse Action. If after a reasonable period of time, not to exceed sixty (60) calendar days, the parties are unable to agree on an amendment necessary or appropriate to resolve the Adverse Action, then any party may terminate this Agreement on thirty (30) days’ prior written notice to the other parties.

3. Termination for Breach. Any party may terminate this Agreement upon breach by the other party of any material provision of this Agreement, provided such breach continues for thirty (30) days after receipt by the breaching party of written notice of such breach from the non-breaching party.

4. Effect of Termination. As of the effective date of termination of this Agreement, none of the parties shall have any further rights or obligations hereunder except: (1) as otherwise provided herein; (2) for rights and obligations accruing prior to such effective date of termination; or (3) arising as a result of any breach of this Agreement.

IV. RETAINED RESPONSIBILITIES

1. County. The County shall remain fully and solely responsible for compliance with and related to the Tobacco Litigation Master Settlement Agreement of 1998, as amended, and such other responsibilities as the County Public Health Department may have for the care of the uninsured and other public health matters.

2. CenCal Health. CenCal Health shall remain fully and solely responsible for compliance with its contract with the DHCS and its responsibilities to SBHI Members.

3. Hospitals. Each Hospital shall remain fully and solely responsible for operation of that Hospital in all respects, including responsibility for the care and services it provides to its patients, including but not limited to SBHI Members.

V. GENERAL TERMS

1. Modification. This Agreement may not be amended or modified except by mutual written agreement.

2. Governing Law. This Agreement shall be construed in accordance with the laws of the State of California. The provisions of this Section shall survive expiration or other termination of this Agreement regardless of the cause of such termination.

3. Counterparts. This Agreement may be executed in one or more counterparts, all of which together shall constitute only one Agreement.

4. Waiver. A waiver by either party of a breach or failure to perform hereunder shall not constitute a waiver of any subsequent breach or failure.

5. Notices. All notices hereunder shall be in writing, delivered personally, by certified or registered mail, return receipt requested, or by overnight courier, and shall be deemed to have been duly given when delivered

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personally or when deposited in the United States mail, postage prepaid, or deposited with the overnight courier, addressed as follows:

If to County: Santa Barbara County Public Health Department.
300 N. San Antonio Road
Santa Barbara, CA 93110
Attn: Department Director

If to CenCal Health: CenCal Health
110 Castilian Drive
Goleta, CA 93117-3028
Attn: Chief Executive Officer

If to Hospitals: Cottage Health System
c/o Santa Barbara Cottage Hospital
P. O. Box 689
Santa Barbara, CA 93102
Attn: Chief Executive Officer

Catholic Healthcare West
c/o Marian Medical Center
1400 East Church Street
Santa Maria, CA 93454
Attn: Chief Executive Officer

Lompoc Valley Medical Center
508 East Hickory Avenue
Lompoc, CA 93436
Attn: Chief Executive Officer

or to such other persons or places as any party may from time to time designate by notice pursuant to this Section.

6. Captions. The captions contained herein are used solely for convenience and shall not be deemed to define or limit the provisions of this Agreement.

7. Assignment; Binding Effect. No party shall assign or transfer this Agreement, in whole or in part, or any of its/his/her rights, duties or obligations under this Agreement without the prior written consent of the other party, and any assignment or transfer by a party without such consent shall be null and void.

8. Existing Hospital Provider Agreements. Except as expressly stated herein, this Agreement does not in any way modify, amend or revise the existing Hospital Provider Agreements, including the rates set forth therein, which otherwise remain in full force and effect in accordance with their terms or as they may be expressly amended by the parties in writing in the future.

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IN WITNESS WHEREOF, the parties hereto have executed this Hospital Services Funding Agreement as of the dates set forth below.

COUNTY OF SANTA BARBARA, a
political subdivision of the State of California

By: _____
Name: _____
Title: _____
Date: _____

SANTA BARBARA SAN LUIS OBISPO
REGIONAL HEALTH AUTHORITY dba
CENCAL HEALTH, a public agency

By: _____
Name: _____
Title: _____
Date: _____

COTTAGE HEALTH SYSTEM, a California
non-profit, public benefit corporation

By: _____
Name: _____
Title: _____
Date: _____

CATHOLIC HEALTHCARE WEST, a
California non-profit, public benefit
corporation

By: _____
Name: _____
Title: _____
Date: _____

LOMPOC VALLEY MEDICAL CENTER, a
California local healthcare district

By: _____
Name: _____
Title: _____
Date: _____