

## FAIR MARKET VALUE

### § 999.5(d)(2)(A)

*The estimated market value of all cash, property, stock, notes, assumption or forgiveness of debt, and any other thing of value that the applicant would receive for each health facility covered by the proposed agreement or transaction.*

Prime's and Prime Foundation's consideration for the transaction as described in the Definitive Agreement consists of estimated cash consideration in the amount of approximately \$394 million and the assumption of liabilities estimated at approximately \$449 million, for a total estimated distributable value of \$843 million.

Cash. At closing, Prime will transfer cash sufficient to pay off the Health System's largest joint and several liabilities: the principal on all of the Health System's outstanding tax-exempt bonds (consisting of both the Series 2005 and 2014 bonds), which total approximately \$409,475,000 in principal amount.<sup>1</sup> The bonds are obligations of a California state agency, California Statewide Communities Development Authority, payable from revenues of the Health System and secured by substantially all of the Health System's real property, equipment, furnishings and revenues.<sup>2</sup> Prime will also fund or assume the obligation to pay all transfer taxes, paid-time-off and other employment-related payments that may become due at closing, and to pay or permit DCHS to pay all transaction costs. [Definitive Agreement, §§ 2.3-2.4]

Assumed Liabilities. Prime will assume all liabilities of the Health System, other than those paid in full in cash at closing other than liabilities associated with limited assets (the "Retained Assets" identified in §§ 2.2 of the Definitive Agreement), including:

*Pension Liabilities.* The largest and, from the standpoint of the 16,000 present and former Health System employees and their beneficiaries, most important of these assumed obligations are nearly \$280 million in underfunded pension liabilities.<sup>3</sup> Not only are the underfunded pension liabilities assumed as part of the transaction, but Prime, as parent of 23 hospitals and other operating entities with over \$2.3 billion in assets, will assume direct responsibility for ongoing payment of all funding obligations under ERISA requirements and related Pension Benefit Guaranty Corporation insurance premiums (as applicable) owed by the Health System's defined benefit church plan, the defined contribution church plan and DCHS's multi-employer plan, and the Retirement Plan for Hospital Employees. [Definitive Agreement, § 7.4]

*Other Liabilities.* Between Prime and Prime Foundation, liabilities related to collective bargaining agreements, paid-time-off, vacation, sick and other leave-of-absence liabilities will be assumed. Additionally, the liabilities of the Health System to physicians, vendors and others will remain unaffected by the transfer of control and will continue in force.

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<sup>1</sup> Amount consists of \$284,475,000 of 2005 Bonds and \$125,000,000 of 2014 Bonds. Both amounts are gross of estimated cash in the debt service reserve funds that will be used to defease the bonds at closing (\$26 million associated with the 2005 Bonds and an estimated \$40 million associated with the 2014 Bonds).

<sup>2</sup> The bonds are the California Statewide Communities Development Authority Revenue Bonds (Daughters of Charity Health System) Series 2005A, F, G and H (the "2005 Bonds") and Series 2014A (the "2014 Bonds").

<sup>3</sup> Actuarially determined underfunded liability