

70633-1

70633-1

STATE OF WASHINGTON

Mar 25, 2013, 11:49 am

BY RONALD R. CARPENTER  
CLERK

70633-1

RECEIVED BY E-MAIL

SUPREME COURT  
OF THE STATE OF WASHINGTON

PUBLIC HOSPITAL DISTRICT NO. 1  
OF KING COUNTY,

Appellant,

v.

UNIVERSITY OF WASHINGTON,  
U.W. MEDICINE,

Respondents.

BRIEF OF APPELLANT PUBLIC HOSPITAL  
DISTRICT NO. 1 OF KING COUNTY

Philip A. Talmadge, WSBA #6973  
Talmadge/Fitzpatrick  
18010 Southcenter Parkway  
Tukwila, WA 98188-4630  
(206) 574-6661

Bruce L. Disend, WSBA #10627  
Kenyon Disend Law Firm  
11 Front Street South  
Issaquah, WA 98027-3820  
(425) 392-7090  
Attorneys for Appellant  
Public Hospital District No. 1  
of King County

ORIGINAL

TABLE OF CONTENTS

	<u>Page</u>
Table of Authorities .....	ii-v
A. INTRODUCTION .....	1
B. ASSIGNMENTS OF ERROR.....	2
(1) <u>Assignment of Error</u> .....	2
(2) <u>Issue Pertaining to Assignment of Error</u> .....	3
C. STATEMENT OF THE CASE.....	3
D. SUMMARY OF ARGUMENT .....	18
E. ARGUMENT .....	19
(1) <u>Elected Officials of a Municipality May Not Cede Their Core Responsibilities to Unelected, Unaccountable Persons</u> .....	19
(2) <u>Under RCW 70.44.240, the District Could Not Relinquish the Core Responsibilities of Its Elected Commissioners to Unelected Trustees</u> .....	28
(3) <u>The Agreement Here Is Ultra Vires</u> .....	35
F. CONCLUSION.....	39
Appendix	

## TABLE OF AUTHORITIES

	<u>Page</u>
<u>Table of Cases</u>	
<u>Washington Cases</u>	
<i>Amalgamated Transit Union Local 587 v. State</i> , 142 Wn.2d 183, 11 P.3d 762 (2000).....	25
<i>Berg v. Hudesman</i> , 115 Wn.2d 657, 801 P.2d 222 (1990) .....	36
<i>Cerrillo v. Esparza</i> , 158 Wn.2d 194, 142 P.3d 155 (2006) .....	30
<i>Chemical Bank v. Wash. Pub. Power Supply System</i> , 99 Wn.2d 772, 662 P.2d 329 (1983).....	22, 23, 30
<i>Chemical Bank v. Wash. Pub. Power Supply Sys.</i> , 102 Wn.2d 874, 691 P.2d 524 (1984).....	24
<i>Cockle v. Dep't of Labor &amp; Indus.</i> , 142 Wn.2d 801, 16 P.3d 583 (2001).....	30
<i>Concerned Citizens of Hospital District No. 304 v.</i> <i>Board of Commissioners of Public Hospital</i> <i>District No. 304</i> , 78 Wn. App. 333, 897 P.2d 1267, <i>review denied</i> , 127 Wn.2d 1024 (1995).....	31
<i>Dep't of Ecology v. Campbell &amp; Gwinn, L.L.C.</i> , 146 Wn.2d 1, 43 P.3d 4 (2002).....	30
<i>DOT Foods Inc. v. Wash. Dep't of Revenue</i> , 166 Wn.2d 912, 215 P.3d 185 (2009).....	30
<i>Dowler v. Clover Park School Dist. No. 400</i> , 172 Wn.2d 471, 258 P.3d 676 (2011).....	19
<i>Five Corners Family Farmers v. State</i> , 173 Wn.2d 296, 268 P.3d 892 (2011).....	24
<i>Foster v. Sunnyside Valley Irrigation Dist.</i> , 102 Wn.2d 395, 687 P.2d 841 (1984).....	29
<i>Gold Bar Citizens for Good Government v. Whalen</i> , 99 Wn.2d 724, 665 P.2d 393 (1983).....	29
<i>Harvey v. County of Snohomish</i> , 124 Wn. App. 806, 103 P.3d 836 (2004), <i>reversed on other grounds</i> , 157 Wn.2d 33, 134 P.3d 216 (2006).....	34
<i>Hearst Communications Inc. v. Seattle Times Co.</i> , 154 Wn.2d 493, 115 P.3d 262 (2005).....	36
<i>In re Tyler's Estate</i> , 140 Wash. 679, 250 Pac. 456 (1926) .....	30
<i>Port of Tacoma v. Parosa</i> , 52 Wn.2d 181, 324 P.2d 438 (1958) .....	29

<i>Public Utility District No. 1 of Snohomish County v. Taxpayers and Ratepayers of Snohomish County</i> , 78 Wn.2d 724, 479 P.2d 61 (1971).....	21
<i>Roehl v. Public Utility District No. 1 of Chelan County</i> , 43 Wn.2d 214, 261 P.2d 92 (1953).....	20
<i>Seattle Building &amp; Constr. Trades Council v. Apprenticeship &amp; Training Council</i> , 129 Wn.2d 787, 920 P.3d 581 (1996).....	24
<i>Staats v. Brown</i> , 139 Wn.2d 757, 991 P.2d 615 (2000).....	30
<i>State v. A.N.W. Seed Corp.</i> , 116 Wn.2d 39, 802 P.2d 1353 (1991).....	30
<i>State v. Plaggemeier</i> , 93 Wn. App. 472, 969 P.2d 519 (1999).....	33
<i>Stender v. Twin City Foods, Inc.</i> , 82 Wn.2d 250, 510 P.2d 221 (1973).....	36
<i>Western Washington University v. Washington Federation of State Employees</i> , 58 Wn. App. 433, 793 P.2d 989 (1990).....	34

Federal Cases

<i>Cunningham v. Municipal of Metro. Seattle</i> , 751 F. Supp. 885 (W.D. Wash. 1990).....	8
<i>Fund for Animals v. Kempthorne</i> , 538 F.3d 124 (2nd Cir. 2008).....	26
<i>Reynolds v. Sims</i> , 377 U.S. 533, 84 S. Ct. 1362, 12 L.Ed.2d 506 (1964).....	29
<i>Wabash Railroad v. City of Defiance</i> , 167 U.S. 88, 17 S. Ct. 748, 42 L.Ed.2d 87 (1897).....	26

Other Cases

<i>Brenham v. Brenham Water Co.</i> , 4 S.W. 143 (1887).....	26
<i>Chiles v. Children A, B, C, D, E, &amp; F</i> , 589 So.2d 260 (Fla. 1991).....	38
<i>Vermont Dep't of Pub. Service v. Mass. Municipal Wholesale Electric Co.</i> , 558 A.2d 215 (Ver. 1988).....	24, 26

Constitution

Washington Constitution, article I, § 19.....	28
Washington Constitution, article II, § 1.....	38
Washington Constitution, article VII, § 5.....	25, 38

Statutes

RCW 4.04.010	30
RCW 28A.320.035	30
RCW 35.10.410	29
RCW 36.01.010	30
RCW 39.34	32, 35, 39
RCW 39.34.010(1)	32
RCW 39.34.030	33
RCW 39.34.030(3)	32
RCW 39.34.030(5)	33, 34
RCW 52.12.031(3)	30
RCW 54.16.090	30
RCW 57.08.005(12)	30
RCW 70.44	35, 39
RCW 70.44.040	8, 28
RCW 70.44.040(2)	8
RCW 70.44.060	29
RCW 70.44.060(7)	29
RCW 70.44.070	11
RCW 70.44.090(1)(b)	11
RCW 70.44.190	29
RCW 70.44.240	29, 30, 31

Rules and Regulations

CR 56(c)	19
----------	----

Other Authorities

AGO 1979 No. 2	34
AGO 1969 No. 8	33
AGO 1982 No. 8	20
AGO 1987 No. 7	20
AGO 1988 No. 26	20
AGO 2001 No. 3	33
AGO 2007 No. 6	34
AGO 2008 No. 7	20
AGO 2011 No. 2	34
AGO 2012 No. 4	24

2A Eugene McQuillin, <i>Municipal Corporations</i> § 10.38 at 425 (3rd ed. rev. 1996).....	25
10A Eugene McQuillin, <i>Municipal Corporations</i> (3d ed. rev.) § 29.102 .....	20
Associated Press, <i>Non-profit hospital pay under state scrutiny</i> , February 8, 2011 .....	4
David Postman, <i>Valley hospital chief could get record fine</i> , <i>Seattle Times</i> , October 25, 2007 .....	4
Dennis Box, <i>Audit raises question about Valley Medical Center CEO's retirement payment</i> , <i>Maple Valley Reporter</i> , October 1, 2009.....	4
Gregory Roberts, <i>Valley Medical Center chief fined \$120,000 for ballot-issue efforts</i> , <i>Seattle P.I.</i> , October 23, 2007 .....	4
<i>Hospital exec's campaign settlement ok'd by State</i> , <i>Seattle P.I.</i> , October 25, 2007 .....	4
Karen Johnson, <i>Changes could be ahead for Valley Medical</i> , <i>Seattle Times</i> , December 16, 2007.....	4
Pete Lewis, Christopher Hurst, Cheryl Pflug, <i>Valley board catches bad "code,"</i> <i>Seattle Times</i> , January 6, 2008.....	4
Sonia Krishnan, <i>State may audit Renton hospital's spending</i> , <i>Seattle Times</i> , June 21, 2007 .....	4
Sonia Krishnan, <i>Hospital officials to pay fine</i> , <i>Seattle Times</i> , October 25, 2007.....	4
Sonia Krishnan, <i>State panel mulls deal with hospital officials</i> , <i>Seattle Times</i> , October 25, 2007 .....	4
Sonia Krishnan, <i>Hospital officials fined for election spending</i> , <i>Seattle Times</i> , October 26, 2007.....	4
Susan Kelleher, <i>Hospital CEO collects special \$1.7M payoff</i> , <i>Seattle Times</i> , September 29, 2009.....	4
Susannah Frame, King 5 posting on May 23, 2011, <a href="http://www.king5.com/home/valley-medical-center-122473009.html">http://www.king5.com/home/valley- medical-center-122473009.html</a> .....	4
<i>Valley Medical CEO's money, everybody's money</i> , <i>Seattle Times</i> , October 1, 2009 .....	4

A. INTRODUCTION

Public Hospital District No. 1 of King County ("District") operates Valley Medical Center ("VMC") and related facilities in south King County. In 2011, the District's former Commissioners, strongly influenced by VMC's self-interested administration, relinquished their core statutory responsibilities to a largely unelected board of trustees that is unaccountable to the District's voters. This transfer of responsibilities was accomplished by means of a Strategic Alliance Agreement ("Agreement") executed by the District and UW Medicine, an arm of the University of Washington ("UW Medicine"). The net effect of the Agreement has been to unlawfully disenfranchise the District's voters, and to shield District administrators from oversight by the public through their elected Commissioners.

A public hospital district is created by the district's residents, and those voters elect commissioners to run the district's affairs. Under Washington law, and general municipal law principles, a municipal corporation's elected officials cannot delegate their "core responsibilities" as elected officials to an unelected body that is not answerable to the voters.

The governance structure created by the Agreement has created an ongoing conflict between the District's elected Commissioners and the

non-elected “trustees” who actually govern the District under the purview of UW Medicine. Critical questions have arisen about District operations on a wide range of topics, including such matters as the level of property taxes to be levied, the size of the District's debt load, the salaries and accountability of key District officials, and the scope and quality of services at VMC.

The District voters created and funded the District so that their elected Commissioners would be available to represent their interests and to be held accountable, if necessary, for any actions taken on such issues. That is impossible under the Agreement where a predominantly unelected, unaccountable board of trustees now runs the District.

This Court should determine that the former District Commissioners who approved the Agreement acted in an ultra vires fashion when they delegated their core responsibilities to manage the District to a largely unelected board that is unaccountable to the District's citizens and taxpayers.

B. ASSIGNMENTS OF ERROR

(1) Assignment of Error

The trial court erred in entering its order of December 28, 2012 granting UW Medicine's motion for summary judgment and denying the District's motion for summary judgment.

(2) Issue Pertaining to Assignment of Error

Can the elected officials of a municipal corporation delegate their core responsibilities for the operation of the municipal corporation they were elected to represent to a third party pursuant to the corporation's general statutory contracting authority and the Interlocal Cooperation Act, RCW 39.34, thereby avoiding accountability to the voters?

C. STATEMENT OF THE CASE

The District was created in 1947. CP 320. It is the oldest and largest public hospital district in Washington. *Id.* The District initially operated Renton Hospital, but in 1969 opened VMC. *Id.* VMC now has more than 300 in-patient beds, employing more than 2,500 clinical and non-clinical staff serving more than 400,000 people. *Id.* In FY 2012, the District had nearly \$1.2 billion in gross patient revenue and net operating revenue of \$427.2 million. The District is not an insignificant government, given its budget, its heavy debt load, its annual tax levy, and, most importantly, its operation of a vital south King County health care facility.

The former Commissioners and their selected executive staff have been the subject of intense public criticism for such issues as bloated

executive salaries and carrying a risky debt load. CP 262-66.<sup>1</sup> The District has been the subject of numerous articles in the press and media stories on these issues.<sup>2</sup> A November 12, 2009 State Auditor performance audit of VMC was intensely critical of the compensation of CEO Richard Roodman. CP 287-93. Roodman was paid a base salary, an incentive award, and a retention payment, so that his basic compensation for 2009 approached \$1 million. CP 365. In addition, he received a payment of \$1.7 million as a retirement benefit while he was still employed and was not retired. CP 253-54, 289, 365.<sup>3</sup> The Auditor expressly told the District

---

<sup>1</sup> This discussion is important as to the context for the decision of the District's reform-minded Board of Commissioners to oppose the Agreement. More significantly, it provides the necessary context to the District's argument that the Agreement was the product of Richard Roodman, fully designed to hamstring the elected Commissioners.

<sup>2</sup> See, e.g., Sonia Krishnan, *State may audit Renton hospital's spending*, *Seattle Times*, June 21, 2007; Gregory Roberts, *Valley Medical Center chief fined \$120,000 for ballot-issue efforts*, *Seattle P.I.*, October 23, 2007; *Hospital exec's campaign settlement ok'd by state*, *Seattle P.I.*, October 25, 2007; Sonia Krishnan, *Hospital officials to pay fine*, *Seattle Times*, October 25, 2007; Sonia Krishnan, *State panel mulls deal with hospital officials*, *Seattle Times*, October 25, 2007; Sonia Krishnan, *Hospital officials fined for election spending*, *Seattle Times*, October 26, 2007; David Postman, *Valley hospital chief could get record fine*, *Seattle Times*, October 25, 2007; Karen Johnson, *Changes could be ahead for Valley Medical*, *Seattle Times*, December 16, 2007; Pete Lewis, Christopher Hurst, Cheryl Pflug, *Valley board catches bad "code,"* *Seattle Times*, January 6, 2008; Susan Kelleher, *Hospital CEO collects special \$1.7M payoff*, *Seattle Times*, September 29, 2009; *Valley Medical CEO's money, everybody's money*, *Seattle Times*, October 1, 2009; Dennis Box, *Audit raises question about Valley Medical Center CEO's retirement payment*, *Maple Valley Reporter*, October 1, 2009; Associated Press, *Non-profit hospital pay under state scrutiny*, February 8, 2011; Susannah Frame, King 5 posting on May 23, 2011, <http://www.king5.com/home/valley-medical-center-122473009.html>.

<sup>3</sup> That retirement benefit was to be paid when Roodman reached age 60, if he was involuntarily terminated, or if he voluntarily terminated his employment due to a material reduction in his authority or compensation. CP 289. The terms of this benefit

that the payment of retirement benefits before an employee retired was not "typical" and to discontinue the practice in the future. CP 289. The Auditor also noted that the District actually paid Roodman \$250,000 more than what the Commissioners authorized. CP 289-92. Nevertheless, the District continued to adhere to its compensation practices. CP 342-43. While an investigation of the \$250,000 overpayment was authorized, no action resulted from such investigation. CP 344.

Even after the Auditor's performance audit, Roodman's excessive compensation continued. In 2011, Roodman was paid a base salary of \$701,178, a performance award of \$206,692, and a retention bonus of \$267,914, with an additional \$9,912 for his car and fuel, and \$28,424 for insurance. CP 365. Roodman's compensation far exceeds that paid to the CEO of UW Medicine and double that of the executive director of the UW Medical Center. CP 230.

Roodman was not alone on the VMC executive staff in earning excessive compensation. Retention bonuses exceeding \$800,000 were paid to top executives in 2012. CP 366-67. One vice president in 2010 was paid more than \$742,000. CP 366-67. Another, nearly \$500,000. *Id.* David Smith, the District's legal counsel, who like Roodman is no longer

---

was yet another example of Roodman's fear that the reform Commissioners would succeed in ending his personal fiefdom at VMC.

answerable to the elected Board of Commissioners, was paid nearly \$400,000, given his base salary, performance award, and retention bonus. *Id.* This is far more than even the Attorney General of Washington State or the King County Prosecutor. CP 230.

In addition to these compensation practices, the District was criticized for its debt load, having incurred debt in the amount of \$341.9 million. CP 258. That amount far exceeds the debt of comparable public hospital districts; Evergreen Hospital has a debt load of \$60 million, for example. CP 258-59. To sustain this heavy debt load, the District placed the burden upon the taxpayers by utilizing its authority to levy property taxes, imposing roughly \$19 million of such taxes in 2009, and \$20 million in 2010. CP 254.

Further, CEO Roodman engaged in shady political practices in connection with the District's submissions to the voters. Roodman used \$477,000 in District funds, public money, to advance a 2005 tax levy measure the District submitted to the voters, and a 2006 annexation measure. After an extensive Public Disclosure Commission ("PDC") investigation, CP 369-402, Roodman stipulated in October 2007 to a \$195,000 penalty with \$75,000 of that penalty suspended if he complied with the law for 4 years. CP 404-07. That penalty was the largest civil penalty ever imposed by the Commission. CP 254. Roodman himself

never paid the fine. More recently, Roodman's actions in the 2011 election cycle prompted a PDC complaint by Bill Erxleben, a well-respected Newcastle City Council Member. RP 24.

These highly questionable actions prompted reformers to seek election to the District's Board of Commissioners. Reformers Anthony Hemstad, who was then a city manager, and Aaron Heide, a vascular neurologist, were elected in 2007 and 2009, respectively. CP 231. Those reformers, however, were frustrated by the Board's majority in their efforts to raise questions regarding executive compensation and debt load. They were denied information on executive compensation. CP 231. They were denied the opportunity to raise compensation or debt load as agenda items by the Board's pro-Roodman majority, being ruled out of order when they tried to do so. *Id.*

After vigorously campaigning on a platform that called for Roodman's ouster, CP 254, 633-38, another reformer, Dr. Paul Joos, an ophthalmologist, was elected to the Board in 2011, giving the reformers a majority on the Board for the first time. CP 231, 515. Since that election, the Commissioners have repeatedly sought to address executive compensation, budgetary issues, and debt load issues. CP 498-501, 508-11. Roodman, however, was determined to circumvent the reformers and the will of the District's voters who elected them, as he candidly related to

Joos. CP 255. Roodman told Dr. Joos he intended to avoid the strictures of the reform-oriented Board, a Board he described as "toxic," by entering into an agreement with UW Medicine that placed him beyond the Board's reach. *Id.* This statement pre-dated any public process for evaluating other potential partners for the District.

At Roodman's insistence, by a 3-2 vote of the former Board (as Dr. Joos was not yet a member), the District entered into the Agreement with UW Medicine on June 30, 2011, *before* the next election. CP 409-96.<sup>4</sup> The Agreement is provided in the Appendix.

The District is now operated by a board of trustees composed of the District's five elected Commissioners, five individuals appointed by the CEO of UW Medicine from the community,<sup>5</sup> two further individuals from UW Medicine's various boards, and the CEO of UW Medicine. CP

---

<sup>4</sup> All of the District Commissioners, including the reformers, initially supported an evaluation of a District/UW Medicine alliance. CP 148-50. In analyzing the alliance, Commissioners were specifically told it was an alliance, not a merger. CP 194. Only three of the five Commissioners voted for the final product. CP 223-26.

<sup>5</sup> In determining if a trustee is from "the community," the trustees significantly expanded the alleged boundaries of the community far beyond the actual boundaries of the District to encompass the "service area" of the District. CP 469. By statute, only registered district voters may be commissioners. RCW 70.44.040(2). Some of the District's Commissioners are elected by district, some at-large. Commissioners must be residents of the districts they serve. RCW 70.44.040(2).

In addition to distorting the principle implicit in RCW 70.44.040 that the elected Commissioners must have ultimate responsibility to their constituents for the District's administration, the trustee concept also distorts due process principles of "one person, one vote." *See Cunningham v. Municipal of Metro. Seattle*, 751 F. Supp. 885 (W.D. Wash. 1990).

418-19 (§§ 3.2, 3.3(b)). From a practical standpoint, the elected Commissioners can always be outvoted by the eight UW Medicine trustees. The bylaws may only be amended by a 2/3 vote of the trustees. CP 492 (Art. IX). In a thirteen-member board, in order to amend the bylaws, the elected Commissioners will never have the ability to vote, on their own, to amend. However, the UW Medicine representatives only require a single vote from among the elected Commissioners to amend the bylaws as they may choose.

Moreover, the "community" trustees are hardly independent in their perspective. Three of the appointed trustees formerly served as elected Commissioners and were known as loyal Roodman supporters. CP 128. Appointing "community representatives" who were actually rejected at the polls by the community is an oddity.

The trustees' powers are extensive. CP 417-18 (§ 3.1). They set the objectives and policies for the District, CP 417 (§ 3.1(b)(i)). The Agreement expressly places the overall oversight responsibility for operation of the District in the hands of the trustees. CP 421 (§ 3.6). Moreover, the decision-making powers of the trustees can be further removed from control of the voters and taxpayers since the Agreement provides that the trustees' powers may be further delegated to others. *Id.* (§ 3.6).

Adding insult to injury, the elected Commissioners serving as a trustee may be removed for "cause" as determined by both the UW Medicine CEO and the trustees. CP 421-22 (§ 3.7). The board's elected Commissioner trustees are even subject to conduct standards established by UW Medicine. CP 420 (§ 3.5).

Under the Agreement, VMC's actual day-to-day operations are conducted by an officer entitled the Valley CEO who is selected, not by the elected Commissioners, but by UW Medicine's CEO subject to trustee approval. CP 418 (§ 3.1(b)(xiv)); CP 422 (§ 3.8(a)). In addition, the Valley CEO is no longer accountable to the elected Commissioners. Instead, the Valley CEO is accountable to the trustees and to the UW Medicine CEO, as a part of the UW Medicine leadership team. *Id.*<sup>6</sup> The

---

<sup>6</sup> In its answer to the Statement of Grounds for Direct Review at 14, UW Medicine complains about an error in the District's Statement of Grounds regarding the Valley CEO's authority. To be precise, § 3.8(a) of the Agreement states:

**Valley CEO.** The day-to-day operations of the District Healthcare System shall be administered by a chief executive officer (the "*Valley CEO*"). The Valley CEO will select others, as provided in Section 3.8(b), to assist him or her in discharging such responsibilities. The Valley CEO is accountable to the Board and to the UW Medicine CEO and will be part of the UW Medicine leadership team. The Valley CEO is responsible for implementing the governance decisions of the Board and is accountable to the Board and the UW Medicine CEO for effectively administering the District Healthcare System in accordance with the approved Mission Statement, UW Medicine Strategic Plan, Annual Budgets, and applicable District Healthcare System and UW Medicine policies. The Valley CEO shall report, on a regular and routine basis, to the UW Medicine CEO. The performance of the Valley CEO shall be reviewed at least annually by the Board and the UW Medicine CEO. The Board will establish a subcommittee of the Trustees, to be known as the "*Board Compensation Committee*," to

Agreement specifically authorizes the Valley CEO to conduct District business through a "senior executive team." CP 422-23 (§§ 3.8(b); 3.8(c)).

Roodman had the good fortune of being "grandfathered" as the Valley CEO without an executive search that the Agreement requires for subsequent CEOs. *Id.*

The trustees largely control District employment, CP 426-27 (§ 4.3), and the medical staff, CP 427, 431-32 (§§ 4.4, 4.12). The trustees are also given a free hand when spending District taxpayer money. Critically, the trustees and their CEO (and the CEO's senior executive team)<sup>7</sup> prepare

---

review executive performance and relevant market data for the purpose of providing advice and recommendations to the entire Board as to the appropriate levels of compensation for the Valley CEO and Senior Executive Team. These terms are to be set by the Board. The UW Medicine CEO may remove the Valley CEO if his or her performance is unsatisfactory at any time, subject to the approval of the Board. The UW Medicine CEO may, where appropriate, designate individuals, subject to the approval of the Board, to serve on a temporary basis as the Valley CEO, pending the selection of individuals to hold the position on a permanent basis.

Plainly, the Valley CEO who runs the District is neither selected by, nor answerable to, the Board of Commissioners as such, and that official's compensation is set by the trustees, not the Commissioners. The Agreement even retains the existing District "incentive compensation" system for Roodman and his staff against which the reformers campaigned. CP 418 (§ 3.1(b)(ix)); CP 424 (§ 3.8(d)).

<sup>7</sup> The District may appoint a superintendent, CP 425 (§ 3.11), an officer provided for by RCW 70.44.070, but that individual's precise responsibilities would be usurped by the Valley CEO, particularly where a key responsibility of the superintendent is to manage the District's financial affairs. RCW 70.44.090(1)(b). The superintendent has little, if anything, to do, given the extensive duties of the Valley CEO. This is made clear by the fact that the trustees budgeted a compensation of \$12,000 for this official in 2013.

and adopt all budgets for the District. CP 418 (§ 3.1(b)(viii)); CP 439 (§ 6.3). The trustees approve such budgets. CP 418 (§ 3.1(b)(viii)). The trustees may incur liabilities on behalf of the District without the approval of the elected Commissioners. CP 418 (§ 3.1(b)(xii)); CP 434 (§ 4.18(a)). Moreover, the Commissioners are obliged to cooperate with the trustees in the implementation of the Agreement including the issuance of bonds as requested by the trustees. CP 434-35 (§ 4.18(c)).<sup>8</sup> The trustees may also enter into such real estate transactions as they deem appropriate under § 4.19. CP 435. According to the terms of the Agreement, the trustees' performance of obligations results in the discharge of the District's statutory obligations and responsibilities. CP 424 (§ 3.10(a)).

The ultimate intent of the Agreement is the integration of the District Healthcare System into UW Medicine. "To achieve the goals of this Strategic Alliance, the District Healthcare System will be managed as an integral component entity of UW Medicine." CP 438. In effect, the District is merged into UW Medicine without any review or approval by the voters who established the District and the taxpayers who support the

---

<sup>8</sup> The District and UW Medicine theoretically maintain separate assets and liabilities, CP 435-36 (§ 5.1), but all District revenues are subject to the control of the trustees. CP 436 ("... the Board shall have total control over the application of the District Revenues and the use of District Assets..." (§ 5.2)). However, UW Medicine is effectively immunized from any responsibility for the District Healthcare System's liabilities. CP 436 (§ 5.1 (f-h)).

District each year with their property taxes. The voters must pay taxes and ultimately pay for the debt the trustees incur, but cannot hold the trustees accountable.

Only certain limited powers are reserved to the elected Commissioners by the Agreement. CP 444-45 (§ 7.1). The elected Commissioners may not amend the Agreement without the approval, in writing, of the UW Medicine CEO after consultation with the UW Medicine Board. CP 446 (§ 7.2(a)(v)). The trustees set the District's budget and controls District's revenues. CP 437 (§ 5.2(f)) ("The District acknowledges that it has delegated control over the application and use of District Revenues and District Assets to the Board during the Term of this Agreement."). Although the Commissioners retain the *theoretical* power to levy taxes and issue bonds, CP 444-45 (§ 7.1(a)), that authority is hedged by the terms of CP 449-50 (§ 9.1). For example, once the trustees set the budget, the Commissioners cannot cut the property taxes if such a cut resulted in a budget deficit. Moreover, as to bonding authority, the Commissioners must obey the direction of the trustees as to the issuance of bonds, CP 434 (§ 4.18(c)). Thus, in practical terms, the trustees and the Valley CEO have absolute control over the budget. By the specific

limitations on Commissioner taxation and bonding authority, the trustees have effective control over those functions as well.<sup>9</sup>

The Agreement does not provide for any “trial period” to determine whether the objectives of the Agreement can be achieved effectively and efficiently, but instead it binds the District for a 15-year term, making it effective through December 31, 2026. CP 451-52 (§ 10.1). In addition, it may be extended for two additional fifteen-year periods. *Id.* Thus, the Agreement could be effective for up to 45 years. On the other hand, the grounds to terminate the Agreement are very narrow in scope. CP 452 (§ 10.2). Nowhere among the exclusive grounds set out in § 10.2 for termination of the Agreement is the ability of the Commissioners to elect to do so.

After the 2011 election, with the change in the composition of the Board of Commissioners to a majority of reform-minded Commissioners, the new Board raised questions regarding such matters as staff salaries, District debt, and the validity of the Agreement itself. CP 256. The Commissioners, in 2012, sought an independent legal opinion on the Agreement’s legality. CP 256. The opinion they received raised serious

---

<sup>9</sup> The trustees have refused to pay for public surveys by the Commissioners and have refused to pay for bond counsel when the Commissioners voted to reduce the District’s debt load. CP 257. This makes clear the reality that any so-called exclusive powers of the Commissioners are effectively subject to trustee control.

questions regarding the Agreement's legality so that the Commissioners voted to seek changes in the Agreement to revise it to "bring it into conformity with applicable law and public policy." CP 503.

Consequently, Dr. Joos, as the chair of the Board of Commissioners, and the Board's legal counsel, Bruce Disend, met with counsel for UW Medicine. CP 256-57, 534-44. The purpose of the meeting was to explore possible amendments to the Agreement that would bring it into conformity with applicable law. The District's representatives suggested that this could be accomplished by making the Agreement consistent with the terms found in a long-standing agreement previously approved by UW Medicine with another public entity. That agreement was between UW Medicine and King County for the operation of Harborview Medical Center. CP 256. The Commissioners' suggestion, however, was rebuffed by UW Medicine's representatives at the meeting and later in writing. CP 256.<sup>10</sup>

In the course of reviewing the District's financial condition, it came to the attention of the Commissioners that the District had a substantial

---

<sup>10</sup> The Commissioners are not opposed to an alliance with UW Medicine, only one that effectively ends their role as elected officials for the District's operation. In fact, as the Commissioners have repeatedly noted, the King County—UW Medicine agreement to operate Harborview Medical Center permits the County to retain its proper authority in that agreement. That arrangement is precisely what the Commissioners seek. CP 256, 640-50. The District is not trying to "back out" of the contract as claimed by UW Medicine in its answer to the statement of grounds for direct review at 1.

amount of bond indebtedness. CP 258-59. As a result, the Commissioners passed a resolution to reduce the debt by “buying back” certain of the more expensive debt previously incurred. CP 259, 508-09. The trustees vehemently disagreed with that action and stated that they would refuse to pay for the services of any bond counsel hired by the Commissioners to assist in an effort to reduce the District’s debt. CP 257, 614.

Another instance of direct conflict between the elected commissioners and the appointed trustees arose when the Commissioners’ public outreach efforts were thwarted by the trustees. The Commissioners undertook a survey of their constituents in October 2012, a step vehemently opposed by the trustees. CP 257-58, 506-07. That survey was quite revealing, indicating that 82% of those surveyed were unaware that the District’s affiliation with UW Medicine resulted in a change to the Commissioners’ authority. Further, those surveyed overwhelmingly believed (71%) that the public should have voted on any changes to board duties or structure, that only elected Commissioners should have decisionmaking authority (60%), that voting board members should reside within District boundaries (74%), and that hospital administrator salaries should be comparable to those paid in other public hospital districts

(91%). CP 550-96. The trustees repeatedly refused to pay for the services of the firm that conducted the survey. CP 258, 598-608.<sup>11</sup>

Frustrated by the trustees' actions, Commissioner Aaron Heide resigned from the board of trustees because, in Dr. Heide's view, the trustees had wrongly supplanted the Board of Commissioners' authority. ("The elected Commissioners have been relegated to being minority members of Trustees Board selected and controlled by nonelected third parties."). CP 616. Dr. Heide further concluded that the governance structure eliminated his ability "to respond to the needs of District residents in any direct and meaningful manner." CP 259-60, 616.

In light of the ongoing differences of opinion between the elected Commissioners and the trustees regarding District operations, and UW Medicine's steadfast refusal to alter the Agreement's terms, the Board of Commissioners commenced the present action in the King County Superior Court on October 24, 2012, asserting that the Agreement was ultra vires because the former Commissioners had effectively relinquished their core responsibilities to a largely unelected and unaccountable board. CP 1-5. The case was assigned to the Honorable Michael Hayden. After the filing of cross-motions for summary judgment, CP 14-31, 227-50, the

---

<sup>11</sup> Only after repeated exchanges between the Commissioners' counsel and the trustees' counsel, the trustees relented and paid for the survey. CP 258.

trial court, with little analysis,<sup>12</sup> granted UW Medicine's motion for summary judgment, dismissing the case on December 28, 2012. CP 657-59. This timely appeal ensued. CP 660-65.

D. SUMMARY OF ARGUMENT

---

<sup>12</sup> The trial court's ruling was as follows:

It is this Court's view that RCW 70.44.240 does provide local organizations, local governmental organizations to enter into agreement. And it doesn't place a lot of limitations on that.

If you were generally concerned with the fact that these agreements can come on, then perhaps that the disagreement should be with the State Legislature in allowing—in empowering these municipalities and local organizations to enter in to these agreements.

I do not see the difference between this or three hospital districts entering in together. As I've suggested, when you have three entities in a partnership, none of them are going to be able to exercise the control they could if they were running it all by themselves. They will have to defer to the majority.

That does not mean you've erased one vote power. It means that you've elected members to a board, and they will get a voice. It doesn't mean that they will have the majority voice or that their voice will control.

I find that the State Legislature has authorized this type transaction. It was entered into knowingly and after a lot of thoughtful process. And accordingly, I am granting the Summary Judgment University of Washington, UW Medicine.

....

The issue is, does the State Legislature give local organizations this kind of power to form agreements? My ruling is, it does.

You don't like it, then go down to Olympia, tell the Legislature about it and say these agreements are causing problems and you need to change the statute.

Motion's granted.

RP 52-53.

Well-developed principles of municipal law in the United States and in Washington forbid municipalities from delegating the core responsibilities of elected officials to unelected, unaccountable persons.

The former Commissioners were not authorized to enter into an agreement with UW Medicine that effectively divested the Board of Commissioners of core responsibilities as elected officials. When the District's former Commissioners relinquished their responsibility over crucial fiscal decisions, like establishing the District budget, levying taxes, and incurring debt, and selecting the District's chief executive officer, to an unelected group, unaccountable to the voters, such an action was *ultra vires*.

E. ARGUMENT<sup>13</sup>

(1) Elected Officials of a Municipality May Not Cede Their Core Responsibilities to Unelected, Unaccountable Persons

Well-developed common law principles provide that the delegation of core powers of municipal corporations to others may be *ultra vires*. As McQuillin has stated in this regard:

Respecting the binding effect of contracts extending beyond the terms of officers acting for the municipality,

---

<sup>13</sup> A party is entitled to summary judgment if there is no genuine issue of material fact and it is entitled to judgment as a matter of law. CR 56(c). A court considers the facts and reasonable inferences from those facts, in a light most favorable to the non-moving party, here, the District. *Dowler v. Clover Park School Dist. No. 400*, 172 Wn.2d 471, 484, 258 P.3d 676 (2011). This Court reviews summary judgment decisions de novo. *Id.*

there exists a clear distinction in the judicial decisions between the governmental and business or proprietary powers. With respect to the former, their exercise is so limited that no action taken by the governmental body is binding upon its successors, whereas the latter is not subject to such limitations, and may be exercised in a way that will be binding upon the municipality after the board exercising the power shall have ceased to exist.

10A Eugene McQuillin, *Municipal Corporations* (3d ed. rev.) § 29.102.

Washington law has long reflected this fundamental principle. Washington law permits the delegation of ministerial or administrative functions, but not functions generally described as "legislative" or "discretionary."<sup>14</sup> In *Roehl v. Public Utility District No. 1 of Chelan County*, 43 Wn.2d 214, 261 P.2d 92 (1953), this Court described that distinction as follows:

Where the enabling legislation under which a municipal or quasi-municipal corporation derives its power confides legislative or discretionary functions in particular officials or boards, such functions may not be delegated to others. Unless the enabling legislation provides otherwise, however, those in whom such functions repose may delegate to others the performance of duties of a purely ministerial or administrative nature.

---

<sup>14</sup> This distinction between core or discretionary functions, which may not be delegated, and administrative or ministerial functions, which may be delegated, has often been recognized by the Attorney General. *See, e.g.*, AGO 1982 No. 8 ("... it is well established that in the absence of express statutory authority, a public official may not delegate to others those discretionary functions which have been vested in him by law."); AGO 1987 No. 7 (board could not delegate rulemaking to its executive director); AGO 1988 No. 26 (municipal treasurer could not delegate authority to redeem warrants to banks -- discretionary acts are legislative in nature whereas ministerial acts are those in which nothing is left to discretion, merely executing a set task that the law prescribes); AGO 2008 No. 7 (county commissioners could not delegate the canvassing of petitions to move the county seat).

The legislative and discretionary functions essential to the operation of an individual public utility district are confided in a commission, consisting of three elected members. Chapter 227, Laws of 1949, contains no express provision relative to the exercise of legislative and discretionary functions in connection with the joint operation of integrated electric systems by two or more districts.

*Id.* at 240 (citations omitted).

In that case, five public utility districts acquired the generating capacity of a private utility and established an executive board consisting of one elected commissioner from each district to manage the acquired utility services. The agreement also gave significant authority to an engineer. This Court found no unlawful delegation because neither the engineer nor the executive board had the power to make legislative or discretionary decisions of a legislative nature. *Id.* at 240-41.<sup>15</sup> Similarly, in *Public Utility District No. 1 of Snohomish County v. Taxpayers and Ratepayers of Snohomish County*, 78 Wn.2d 724, 479 P.2d 61 (1971), certain public and private utilities formed a joint operating board to construct and operate the Centralia coal-powered electrical generating plant. The parties' agreement provided that the public utilities owned 28% of the project and the private utilities 72%. This Court then noted:

---

<sup>15</sup> By contrast, there is little question here that the trustees *are* exercising the Commissioners' core duties, supplanting them in all vital respects.

The agreement further provides that one of the private companies will construct and operate the facility, as agent of the respective parties, but that the annual operating budget must be approved by 75 percent of the ownership. Subsequent capital expenditures are to require unanimous ownership approval.

*Id.* at 726. This Court concluded that there was no unconstitutional delegation because the elected Commissioners did not relinquish any discretionary or core powers, but rather only delegated ministerial duties.

*Id.* at 731.

These cases were distinguished by this Court in the cases addressing the legality of actions of the Washington Public Power Supply System ("WPPSS") in attempting to construct five nuclear power plants. WPPSS was a municipal corporation created by the Legislature whose members were public utility districts and certain municipal utilities. It was authorized to acquire, build, and operate power plants to generate and transmit electricity. In *Chemical Bank v. Wash. Pub. Power Supply System*, 99 Wn.2d 772, 662 P.2d 329 (1983), this Court held that the WPPSS member utilities were not required to make good on the bonds for the plants that were not completed. The Court held that the member utilities had no power to enter into the agreements to guarantee bond payments where the members did not acquire an ownership interest in the plants or otherwise control them. Acknowledging earlier decision in

*Roehl* and *PUD No. 1 of Snohomish County*, this Court specifically determined that the member utilities, in effect, illegally abdicated their statutory responsibilities where all management and policy decisions were conferred upon the WPPSS board, describing the participant committee of the members as "a rubber stamp for WPPSS' decisions." 99 Wn.2d at 788.<sup>16</sup> This Court further noted that "although this court recognizes the need for delegating duties in the context of joint development agreements, we are not prepared to sanction a virtual abdication of all management functions and policy decision to as operating agency such as WPPSS."

---

<sup>16</sup> UW Medicine claims in its answer to the statement of grounds for direct review at 12 that *Chemical Bank* is distinguishable because the Legislature did not authorize the actions by statute. That assertion mischaracterizes this Court's decision. In fact, there, the Legislature authorized joint operating agreements for electrical generation facilities. 99 Wn.2d at 777. What this Court stated was impermissible was the relinquishment by elected public utility district commissioners of their independent, discretionary authority as elected officials to an unelected board. This Court specifically stated that the public utility districts could not enter into a project "in which such districts did not have an ownership interest." *Id.* at 785. This was particularly so where the municipal corporations failed to retain sufficient project control to constitute the equivalence of an ownership interest. *Id.* at 787. This Court concluded that the municipal corporations, *run by elected officials*, did not retain such control:

It should be noted that we recognize the necessity and propriety of establishing representative committees to manage and oversee joint development projects. Our concern is not with the use of such committees in general; it is with the structuring of such committee procedures in a way that does not allow sufficient participant [municipal corporation] involvement in project management to control their risk. Thus, although this court recognizes the need for delegating duties in the context of joint development agreements, we are not prepared to sanction a virtual abdication of all management functions and policy decisions to an operating agency such as WPPSS. Here, the participant's committee apparently served as a rubber stamp for WPPSS' decisions...

*Id.* at 787-88 (citations omitted).

(citations omitted). *Id.* The Court reaffirmed its ruling in *Chemical Bank v. Wash. Pub. Power Supply Sys.*, 102 Wn.2d 874, 691 P.2d 524 (1984).<sup>17</sup>

Our Attorney General similarly stated that elected officials may not delegate their core duties. AGO 2012 No. 4.<sup>18</sup> In that opinion, the Attorney General addressed the ability of a board of county commissioners to circumscribe the authority of future boards by entering into binding contracts whose duration extended beyond the terms of the

---

<sup>17</sup> The Vermont Supreme Court in *Vermont Dep't of Pub. Service v. Mass. Municipal Wholesale Electric Co.*, 558 A.2d 215 (Ver. 1988) held that even where Vermont utilities were empowered to act jointly to obtain supplies of electrical capacity they could not enter into agreements to purchase project capability from the Seabrook nuclear power plants from a Massachusetts joint planning and action agency. That agency gave the Vermont participants no voice in debt or plant operation decisions and constituted an improper "redelegation" of responsibilities conferred upon them by the Vermont Legislature, both presently and in the future.

<sup>18</sup> While an AGO's statutory interpretation is not binding on courts, such an interpretation is entitled to "great weight." *Seattle Building & Constr. Trades Council v. Apprenticeship & Training Council*, 129 Wn.2d 787, 802-03, 920 P.3d 581 (1996). This Court emphasized this point in a recent decision articulating precisely why such opinions are entitled to "great weight."

A formal attorney general opinion may be persuasive authority for one or more of at least three reasons. First, such opinions represent the considered legal opinion of the constitutionally designated "legal adviser of the state officers." Second, we presume that the legislature is aware of formal opinions issued by the attorney general and a failure to amend the statute in response to the formal opinion may, in appropriate circumstances, be treated as a form of legislative acquiescence in that interpretation. The weight of this factor increases over time and decreases where the opinion is inconsistent with previous formal opinions, administrative interpretations, or court opinions. Third, where the opinion is issued in close temporal proximity to the passage of the statute in question, it may shed light on the intent of the legislature, keeping in mind, of course, that the attorney general is a member of a separate branch of government.

*Five Corners Family Farmers v. State*, 173 Wn.2d 296, 308-09, 268 P.3d 892 (2011) (citations omitted).

board members. The opinion noted generally that one municipal board cannot enter into contracts binding on future boards, but most critically, the Attorney General concluded that while a board may enter into contracts of long term duration for administrative or proprietary purposes, *it could not do so as to core legislative responsibilities:*

[T]here is a 'core' of public governmental power that cannot be bargained away or compromised by current office holders to the detriment of their successors in office.

*Id.* at 4.<sup>19</sup>

That the delegation of core responsibilities of elected officials of a municipal corporation to unelected decisionmakers is ultra vires is a principle well-understood in America. As a general rule, a municipal corporation "cannot surrender, by contract or otherwise, any of its legislative and governmental functions and powers, including a partial surrender" unless authorized by statute. 2A Eugene McQuillin, *Municipal Corporations* § 10.38 at 425 (3rd ed. rev. 1996). Similarly,

The rule is well settled that legislative power cannot be delegated by a municipality, unless expressly authorized by the statute conferring the power. So, judicial, as distinguished from ministerial, functions cannot be delegated. So far as the powers of a municipal corporation are legislative they rest in the discretion and judgment of the municipal body entrusted with them, and the general

---

<sup>19</sup> Analogously, under article II, § 1, the Legislature cannot abdicate to others its legislative function. *Amalgamated Transit Union Local 587 v. State*, 142 Wn.2d 183, 237-38, 11 P.3d 762 (2000). Under article VII, § 5, only the Legislature can enact taxes, for example.

rule is that that body cannot delegate or refer the exercise of such powers to the judgment of a committee of the council, or to an administrative board or officer of the city, or to arbitrators under an agreement for binding arbitration.

*Id.* at § 10:43.

The ultimate rationale for this rule is readily apparent. "... the legislative power vested in municipal bodies is something which cannot be bartered away in such manner as to disable them from the performance of their public functions." *Wabash Railroad v. City of Defiance*, 167 U.S. 88, 100, 17 S. Ct. 748, 42 L.Ed.2d 87 (1897). "Such authority is in the nature of a public trust conferred upon the legislative body of the corporation for the public benefit, and it cannot be exercised by others." *Vermont Dep't of Public Service*, 558 A.2d at 220. "[Municipal] corporations may make authorized contracts, but they have no power, as a party, to make contracts or pass by laws which shall cede away, control or embarrass their legislative or governmental powers, or which shall disable them from performing their public duties." *Brenham v. Brenham Water Co.*, 4 S.W. 143, 149 (1887).

Such a relinquishment of legislative or discretionary responsibility, core to the function of elected officials; defeats accountability to the voters. For example, the Second Circuit in *Fund for Animals v. Kempthorne*, 538 F.3d 124, 132 (2nd Cir. 2008) expressed its reservations

about a federal agency delegating its authority to the states (delegation of statutory responsibility to others “is problematic because ‘lines of accountability may blur, undermining an important democratic check on government decision-making.’”). The court described delegation as the shifting of responsibility to determine whether a statutory requirement was satisfied or if an agency abdicated its final reviewing authority. The court held that such delegation was barred in the absence of express Congressional authorization. In that case, unlike here, the agency retained sufficient control so that delegation did not occur.

The common law constraints on a municipal corporation’s ability to cede the powers of its elected leadership to an unelected group reflect a practical, realistic concern about local government accountability. WPPSS involved billions of dollars. Its board was ultimately not accountable to the electorate/ratepayers who had to pay for the proposed nuclear power plants. UW Medicine offers no limiting principle on the ability of municipal corporations to cede the core responsibilities of their elected leadership to a new unelected group.<sup>20</sup>

---

<sup>20</sup> Under UW Medicine’s incredibly broad interpretation of municipal corporations’ ability to cede the core authority of their elected officials to unelected, unaccountable people, nothing would prevent, for example, a school district’s board from ceding all its duties to a new group of trustees created by the UW School of Education, or a public utility district board from relinquishing all of its duties to a board created by a private utility or a nuclear power corporation.

The core question before this Court is a pivotal one for Washington local governments. Washington has an extraordinary number of municipal corporations with elected leadership. Washington has general purpose units of government like counties and cities and a variety of special purpose municipal corporations like water/sewer, fire, school, hospital, public utility, and port districts, all with elected leadership, as required by statute. The trial court gave its imprimatur to the notion that the elected officials of any of these governmental bodies could enter into a contract in which the decisionmaking responsibility of those elected leaders could be ceded to an unelected group, unaccountable to the voters. At that point, why have elections at all?

(2) Under RCW 70.44.240, the District Could Not Relinquish the Core Responsibilities of Its Elected Commissioners to Unelected Trustees

Public hospital districts are created *only* upon a vote of the people and the commissioners of such districts are *elected*. RCW 70.44.040. Once the right to elect a municipal corporation's officials is provided for by the Legislature, our State Constitution aggressively preserves that right to elect such officials: "All elections shall be free and equal, and no power, civil or military, shall at any time interfere to prevent the free exercise of the right of suffrage." Wash. Const. article I, § 19. The right to vote freely for a candidate of one's choice has been described by this

Court as “the essence of democratic society,” and any restrictions on such a right “strike at the heart of representative government.” *Gold Bar Citizens for Good Government v. Whalen*, 99 Wn.2d 724, 730, 665 P.2d 393 (1983) citing *Reynolds v. Sims*, 377 U.S. 533, 555, 84 S. Ct. 1362, 12 L.Ed.2d 506 (1964). Indeed, the right to vote is fundamental in Washington. *Foster v. Sunnyside Valley Irrigation Dist.*, 102 Wn.2d 395, 404, 687 P.2d 841 (1984).

The Legislature has conferred upon the District's people, and only those people, the right to vote on the consolidation of hospital districts, RCW 70.44.190, RCW 35.10.410. A district's authority to enter into tacit consolidations by contract is thus limited.

The powers of public hospital districts are specified in RCW 70.44.060. Among those powers is the authority to contract. RCW 70.44.060(7); RCW 70.44.240. But nothing in that authority in any way suggests that the elected commissioners may be supplanted by a new private leadership group by contract. Washington law is unambiguous that legislative powers may not be delegated to private persons. *Port of Tacoma v. Parosa*, 52 Wn.2d 181, 184, 324 P.2d 438 (1958).

UW Medicine believes that the general power to contract in these statutes is the basis for its claim that the District's former Commissioners had the authority to enter into the Agreement. CP 23, 653. But such

authority to contract is among the powers generally conferred by the Legislature on all municipal corporations in Washington. *See, e.g.*, RCW 36.01.010 (counties); RCW 28A.320.035 (school districts); RCW 52.12.031(3) (fire districts); RCW 54.16.090 (public utility districts); RCW 57.08.005(12) (water-sewer districts). UW Medicine offers no limiting principle as to the scope of a municipal corporation's ability to cede the powers of its elected officers to unelected persons.

A careful review of the language of .240 indicates that the elected Commissioners could not delegate all of their responsibilities with respect to the District to unelected trustees.<sup>21</sup> Rather, the authority in that statute

---

<sup>21</sup> In construing a statute, the primary goal of statutory interpretation is to carry out legislative intent. *Cockle v. Dep't of Labor & Indus.*, 142 Wn.2d 801, 807, 16 P.3d 583 (2001). In Washington, this analysis begins by looking at the words of the statute. "If a statute is plain and unambiguous, its meaning must be primarily derived from the language itself." *Id.* Courts look to the statute as a whole, giving effect to all of its language. *DOT Foods Inc. v. Wash. Dep't of Revenue*, 166 Wn.2d 912, 919, 215 P.3d 185 (2009). Courts must look to what the Legislature said in the statute and related statutes to determine if the Legislature's intent is plain. *Dep't of Ecology v. Campbell & Gwinn, L.L.C.*, 146 Wn.2d 1, 9-10, 43 P.3d 4 (2002). If the language of the statute is plain, that ends the courts' role. *Cerrillo v. Esparza*, 158 Wn.2d 194, 205-06, 142 P.3d 155 (2006).

Most critically, Washington courts construe statutes presuming the Legislature was aware of pre-existing common law; courts do not overturn general common law principles lightly. RCW 4.04.010 (the common law "shall be the rule of decision in all courts of this state."). Rather, statutes must be construed in light of the common law because Washington courts presume that the Legislature intends to alter the common law no more than "the case absolutely required." *In re Tyler's Estate*, 140 Wash. 679, 689, 250 Pac. 456 (1926). More specifically, a statute will not be construed in derogation of the common law unless the Legislature has clearly expressed an intent to override the common law. *Staats v. Brown*, 139 Wn.2d 757, 766, 991 P.2d 615 (2000); *State v. A.N.W. Seed Corp.*, 116 Wn.2d 39, 45, 802 P.2d 1353 (1991); RCW 70.44.240 has been amended twice since this Court's critical ultra vires decision in *Chemical Bank v. Wash. Pub. Power Supply Systems*, 99 Wn.2d 772, 662 P.2d 329 (1983).

is more narrow in scope. The District may contract with regard to the ownership, operation, or management of a hospital, other health care facilities, or hospital services. By no stretch of the imagination does this section permit the District's elected Commissioners to give away their core responsibilities over the District itself -- the responsibility to set a budget, to tax, to incur debt, or to select the District's senior leadership. The statute by terms is limited to administrative or ministerial functions, not the core discretionary duties of elected officials. This is consistent with the common law in Washington and municipal law in the United States.

Again, UW Medicine offers no limiting principle for the degree to which a municipal corporation may cede the power of its elected officials to unelected persons. While the Legislature conferred authority on public hospital districts to contract with others to manage or operate hospital facilities, it did not intend to supersede the Commissioners' roles as the ultimate decisionmakers for such districts.

The scope of permissible delegation under RCW 70.44.240 is not unlimited. For example, in *Concerned Citizens of Hospital District No. 304 v. Board of Commissioners of Public Hospital District No. 304*, 78 Wn. App. 333, 897 P.2d 1267, *review denied*, 127 Wn.2d 1024 (1995), two hospital districts operating hospitals with emergency facilities only 9 miles apart created a joint operating board to operate their respective

hospitals jointly. The new board consisted of the elected commissioners of both districts. *Id.* at 337. After a bond issue to improve both hospitals, the joint board later decided to consolidate all emergency services at one hospital, and a citizens group sued to prevent that from occurring.

The Court of Appeals upheld consolidation of hospital services, which ultimately resulted in the elimination of certain acute and emergency care services, against a challenge based on SEPA and estoppel principles. The Court of Appeals rejected an argument that the superintendent of the joint board violated separation of powers principles by voting as a joint board member. The case did not address the authority of the joint board specifically, but it is noteworthy that the elected Commissioners of both district made up the joint board and there is no evidence that in delegating their authority over a single facility, they relinquished their overall authority as elected officials.

The Agreement is also based on Washington's Interlocal Agreement Act, RCW 39.34. CP 414-15. While RCW 39.34.030 permits agreements for the delivery of public services. RCW 39.34.010(1),<sup>22</sup> that Act nowhere evidences an intent to permit a municipal corporation to cede

---

<sup>22</sup> RCW 39.34.030(3) requires that any interlocal agreement entered into by public agencies must specify its duration, the precise organization of any separate legal entity created thereby, its purpose, the manner of financing, the methods to be employed upon the partial or complete termination of the agreement, and any other necessary and proper matter involved with the agreement.

the core responsibilities of its elected decisionmakers to unelected persons who are unaccountable to the voters.

The authority to enter into interlocal agreements is *limited*. For example, in *State v. Plaggemeier*, 93 Wn. App. 472; 969 P.2d 519 (1999), the Court of Appeals ruled that a mutual aid agreement between police agencies must be approved by the legislative bodies of the contracting municipalities to comply with RCW 39.34, and invalidated part of the agreement that created a Bremerton-Kitsap DWI task force. The Attorney General in AGO 2001 No. 3 opined that RCW 39.34 did not allow public utility or port districts by interlocal agreement to offer telecommunications services to other governmental organizations as end users of such services. The authorizing statutes for such districts precluded them from selling telecommunications services to end users. Thus, the AGO concluded that the district could not do by interlocal agreement what they were not authorized to do by statute. *See also*, AGO 1969 No. 8 (Department of Institutions did not have authority to contract with a county by interlocal agreement to temporarily house county jail prisoners).

RCW 39.34.030(5) further makes clear that simply by entering into an agreement, public agencies may not circumvent their public obligations:

No agreement made pursuant to this chapter relieves any public agency of any obligation or responsibility imposed upon it by law except that: (a) to the extent of actual and timely performance thereof by a joint board or other legal or administrative entity created by an agreement made pursuant to this chapter, the performance may be offered in satisfaction of the obligation or responsibility. . .

As the Court of Appeals stated in *Harvey v. County of Snohomish*, 124 Wn. App. 806, 813, 103 P.3d 836 (2004), *reversed on other grounds*, 157 Wn.2d 33, 134 P.3d 216 (2006), “public agencies cannot escape their legal obligations or responsibilities simply by entering into an interlocal cooperation agreement.” Any entity created by interlocal agreement owes its existence and powers to the participating governments and acts as their agent. *Id.*; AGO 2007 No. 6. For example, in *Western Washington University v. Washington Federation of State Employees*, 58 Wn. App. 433, 793 P.2d 989 (1990), the Court held a university that entered into a interlocal agreement remained subject to its obligations and responsibilities under the Higher Education Personnel law. The Attorney General has also opined that RCW 39.34.030(5) precludes a public agency from avoiding public bidding requirements for contracts by entering into an interlocal agreement. AGO 1979 No. 2; AGO 2011 No. 2.

In specific, given the limitations on the ability of government agencies to circumvent restrictions on their powers by entering into

interlocal agreements, a municipal corporate cannot, by interlocal agreement, accomplish an act that was ultra vires.

Washington's common law, based on long-standing American municipal law principles, forbids the delegation of core legislative or discretionary functions by elected officials to others, particularly unelected persons, absent an *express* direction by the Legislature that such a delegation was permissible. *Nothing* in RCW 70.44 or RCW 39.34 conferred authority upon the former Commissioners to essentially relinquish all of the core discretionary functions of the elected Commissioners -- budgetary authority, power to levy taxes and incur debt, power to select the District's key executive staff -- to a group of largely unelected trustees.

(3) The Agreement Here Is Ultra Vires

While the Legislature conferred authority on public hospital districts to contract with others to manage or operate hospital facilities, it did not intend to supersede the commissioners' roles as the ultimate decisionmakers for such districts. Yet, the Agreement here does exactly that. The District's Commissioners' core authority has been stripped, depriving them of the approval of the annual budget of the District healthcare system; or approval of the appointment and termination of the District's chief administrative officer. Such a cession of core legislative

responsibilities of its elected commissioners to unelected third parties is ultra vires, as the voters lose ultimate control over the District. They cannot hold trustees accountable.

The District provided this Court with a lengthy background regarding Mr. Roodman and his staff, the Agreement, and recent conduct by the trustees<sup>23</sup> to document that it was the intent of the former Commissioners, who were in Roodman's thrall, to relinquish the District's core responsibilities to Roodman as the Valley CEO, and to the trustees in order to give Roodman free rein without any accountability to the elected Commissioners or the voters who selected them. They were successful in that effort.

Any assertion by UW Medicine that the District retains substantial authority is further belied by the terms of the Agreement itself and the course of dealing since the Agreement's execution. The elected Commissioners no longer have the following responsibilities:

- to establish an annual budget, Agreement at §§ 3.1(b)(viii), 3.6, 6.3;

---

<sup>23</sup> Context evidence, evidence surrounding the circumstances of the execution of the contract, is admissible to assist a court in interpreting contract terms. *Hearst Communications Inc. v. Seattle Times Co.*, 154 Wn.2d 493, 503, 115 P.3d 262 (2005); *Berg v. Hudesman*, 115 Wn.2d 657, 667-68, 502-03, 801 P.2d 222 (1990). A court can also look to the subsequent acts and conduct of the parties to elucidate the meaning of contractual terms. *Id.* at 667; *Stender v. Twin City Foods, Inc.*, 82 Wn.2d 250, 254, 510 P.2d 221 (1973).

- to select the CEO (the CEO is not answerable to the Commissioners) §§ 3.1(b)(xiv), 3.6, 3.8;
- to set executive compensation as that is exclusively the CEO's function, § 3.8;
- to terminate the Agreement, § 10.1.

In fact, all District revenues and assets are under the trustees' "total control," § 5.2(b), ("The District acknowledges that it has delegated control over the application and use of District Revenues and District Assets to the Board during the Term of this Agreement."), and the Commissioners must obey trustee direction on such matters as the issuance of bonds and the levying of taxes. §§ 4.18, 7.1, 9.1. The core function of any elected officials with legislative responsibilities is the budgetary and fiscal power,<sup>24</sup> but the Commissioners no longer have such power. This fact is made graphic by the bizarre chart and proposed policy of the trustees for reviewing Commissioners' expenditures that only further illustrates the degree of trustee control over District fiscal practices. CP 258, 610-12. As proposed, a trustee committee passed on each Commissioner expenditure. CP 611. Moreover, in actual practice, the Commissioners have been compelled to go hat-in-hand to the trustees

---

<sup>24</sup> As the Florida Supreme Court observed: "Under any working system of government, one of the branches must be able to exercise the power of the purse, and in our system it is the legislature, as representative of the people and maker of laws, including laws pertaining to appropriations, to whom that power is constitutionally

to secure funds to communicate with their constituents or hire counsel to address the District's excessive debt load. In the final analysis, the District is now run by the trustees, many of whose members do not even live in the District, as UW Medicine admitted below. CP 25.<sup>25</sup> This is contrary to the purpose of *elected* public hospital district commissioners who, by law, must reside within the District. RCW 70.44.040(2).

In sum, the Agreement goes too far. The elected Commissioners of the District have been made largely irrelevant. Just as the Legislature cannot delegate the power to pass a bill, to enact taxes, to establish a budget to others, particularly private persons, the Board of Commissioners could not cede its core responsibilities—setting a budget, levying taxes, incurring debt, or selecting its chief administrative officer—to a largely unelected, unaccountable group of private citizens, who often do not reside in the District. The Agreement unlawfully does so. The end result is that the voters who created the District, who elected the Commissioners to oversee the District, and who support the District through their tax

---

assigned. . .” *Chiles v. Children A, B, C, D, E, & F*, 589 So.2d 260, 267 (Fla. 1991). *See also*, Wash. Const. article II, § 1; article VII, § 5.

<sup>25</sup> UW Medicine *admits* that ten of the thirteen do not live either within the actual District boundaries or the expanded District “service area.” CP 493. A number of the trustees who live in the expanded “service area” do not actually reside within the District boundaries. CP 126-30.

dollars, have lost their basic right to select the people who run the District and to hold them accountable.

#### F. CONCLUSION

The central legal argument advanced by UW Medicine, adopted by the trial court without significant analysis, is that the election of public hospital district commissioners can be ignored and that the elected commissioners of a public hospital district may contract away their core responsibilities to unelected trustees who do not even necessarily reside in the district. If citizens are aggrieved by actions of the Commissioners or their key staff as they were here, where do they go for redress of such grievances?

Both RCW 70.44 and 39.34 recognize that the elected Commissioners may delegate *some* of their responsibilities to other entities, but such authority is constrained by well-recognized common law principles that core responsibilities of the elected Commissioners may not be delegated to unelected third parties. The District's voters cannot be so readily disenfranchised.

The Agreement between the District and UW Medicine effectively ceded core functions of the District's elected Commissioners to the unelected trustees, functions inherently involving the discretion of those officials. This is dramatically emphasized by the trustee's frustration of

the Commissioners' budgetary authority, including decisionmaking as to debt. That the *elected* Commissioners are mere pawns of the unelected trustees is made crystal clear by the trustee's interference with the elected Commissioners' interactions with their constituents when the trustees refused to pay for a public survey. Without this Court's intervention, the election of Commissioners by the District's voters is rendered a mockery, a hollow exercise. The voters elected the Commissioners, not an unelected board of trustees, to run the District.

This Court should declare that the Agreement was ultra vires to the extent that the elected Commissioners' core legislative responsibilities were transferred to an unelected board of trustees. The Court should reverse the trial court's order on summary judgment and remand to the trial court with direction to grant the District's cross-motion for summary judgment. Costs on appeal should be awarded to the District.

DATED this 25<sup>th</sup> day of March, 2013.

Respectfully submitted,

  
Philip A. Talmadge, WSBA #6973  
Talmadge/Fitzpatrick  
18010 Southcenter Parkway  
Tukwila, WA 98188  
(206) 574-6661

Bruce L. Disend, WSBA #10627  
Kenyon Disend Law Firm  
11 Front Street S.  
Issaquah, WA 98027-3820  
(425) 392-7090  
Attorneys for Appellant Public Hospital  
District No. 1 of King County

DECLARATION OF SERVICE

On said day below I emailed a courtesy copy and deposited with the U.S. Postal Service for service a true and accurate copy of the Brief of Appellant Public Hospital District No. 1 of King County in Supreme Court Cause No. 88308-4 to the following parties:

Bruce L. Disend  
Kenyon Disend Law Firm  
11 Front Street S.  
Issaquah, WA 98027-3820

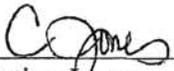
Louis Peterson  
Mary E. Crego  
Michael J. Ewart  
Hillis Clark Martin & Peterson  
1221 2<sup>nd</sup> Avenue, Suite 500  
Seattle, WA 98101-2925

Original efiled with:

Washington Supreme Court  
Clerk's Office

I declare under penalty of perjury under the laws of the State of Washington and the United States that the foregoing is true and correct.

Dated: March 25, 2013, at Tukwila, Washington.

  
\_\_\_\_\_  
Christine Jones  
Talmadge/Fitzpatrick

# APPENDIX

STRATEGIC ALLIANCE AGREEMENT

by and between

University of Washington,  
an agency of the State of Washington,  
acting through one of its component organizations, UW Medicine

and

Public Hospital District No. 1 of King County,  
a Washington public hospital district,  
d/b/a Valley Medical Center

Dated as of June 30, 2011

---

TABLE OF CONTENTS

	Page
ARTICLE I    DEFINITIONS.....	2
1.1    Definitions.....	2
1.2    General Interpretive Principles .....	2
ARTICLE II    FORMATION OF STRATEGIC ALLIANCE; STATEMENT OF PURPOSE.....	3
2.1    Common Powers, Privileges, and Authority.....	3
2.2    Strategic Alliance; Statement of Purpose.....	3
ARTICLE III    STRATEGIC ALLIANCE GOVERNANCE STRUCTURE.....	4
3.1    Authority of Board.....	4
3.2    Board Composition .....	5
3.3    Terms; Staggered Board.....	6
3.4    Nomination and Appointment of Community Trustees.....	7
3.5    Duties of Trustees .....	7
3.6    Exercise of Powers; Delegation of Authority .....	8
3.7    Removal of Trustees .....	8
3.8    Management of the District Healthcare System.....	9
3.9    Representation on UW Medicine Board .....	11
3.10    Performance Under RCW 39.34.030(5)(a).....	11
3.11    District Superintendent .....	12
3.12    Open Public Meetings Act.....	12
3.13    Board Bylaws .....	12
ARTICLE IV    OPERATIONAL GUIDELINES AND PRINCIPLES.....	13
4.1    Compliance With Laws.....	13
4.2    Compliance with Contractual Arrangements.....	13
4.3    District Employees.....	13
4.4    Medical Staff.....	14
4.5    Open Medical Staff.....	14
4.6    Books and Records; Review and Reports .....	15
4.7    Licenses.....	16
4.8    Branding; System Name .....	17

TABLE OF CONTENTS  
(continued)

	Page
4.9 Marketing of District Healthcare System.....	17
4.10 Fund-Raising .....	17
4.11 District's Tax-Exempt Bonds .....	17
4.12 Guidelines Regarding District Healthcare Practitioners .....	18
4.13 Accountable Care Organizations.....	19
4.14 Fiscal Year .....	19
4.15 Represented Employees .....	20
4.16 Expanded WWAMI Program Participation .....	20
4.17 Research Programs Within District Healthcare System.....	20
4.18 Incurring Liabilities on Behalf of District.....	21
4.19 Real Estate Transactions .....	22
ARTICLE V SEPARATE ASSETS AND LIABILITIES; PROHIBITION AGAINST COMMINGLING .....	22
5.1 Separate Assets and Separate Liabilities.....	22
5.2 Accounting for, Application and Investment of District Revenues .....	23
ARTICLE VI INTEGRATION OF DISTRICT HEALTHCARE SYSTEM.....	25
6.1 Overarching Goal of Integration .....	25
6.2 Confidential Information.....	25
6.3 Strategic Planning; Annual Budgets .....	26
6.4 Integration Activities.....	26
6.5 Core Clinical Services.....	30
6.6 New Ventures.....	30
6.7 Unwinding of Integration.....	30
ARTICLE VII RESERVED POWERS.....	31
7.1 District-Reserved Powers.....	31
7.2 Limitations on District Activities.....	33
ARTICLE VIII REPRESENTATIONS AND WARRANTIES .....	33
8.1 District's Representations and Warranties.....	33
8.2 UW's Representations and Warranties .....	35

TABLE OF CONTENTS  
(continued)

	Page
ARTICLE IX    ADDITIONAL COVENANTS .....	36
9.1    Exercise of Tax Levy Authority.....	36
9.2    Good Faith Compliance Efforts .....	37
9.3    Revenues to Support District Activities.....	37
9.4    Private Letter Ruling Request .....	38
ARTICLE X    TERM, TERMINATION AND WIND UP .....	38
10.1    Term .....	38
10.2    Termination Events .....	39
10.3    Default by UW .....	39
10.4    Default by the District.....	40
10.5    Triggering Events .....	40
10.6    Disputes Regarding Events of Default.....	41
10.7    Winding-Up Procedures.....	41
ARTICLE XI    CLOSING CONDITIONS.....	42
11.1    District Closing Conditions.....	42
11.2    Conditions Precedent to Obligations of UW.....	43
11.3    Closing; Effective Date .....	44
ARTICLE XII    INDEMNIFICATION .....	44
12.1    District's Duty to Indemnify.....	44
12.2    UW's Duty to Indemnify .....	44
ARTICLE XIII    MISCELLANEOUS .....	45
13.1    Amendment and Waiver .....	45
13.2    Notices .....	45
13.3    Expenses.....	46
13.4    Binding Agreement; Assignment.....	46
13.5    Entire Agreement .....	46
13.6    Severability .....	46
13.7    Other Remedies.....	47
13.8    Governing Law; Jurisdiction.....	47
13.9    No Third Party Beneficiaries .....	47

TABLE OF CONTENTS  
(continued)

	Page
13.10 Counterparts .....	47
13.11 Dispute Resolution .....	47
13.12 No Strict Construction .....	48
13.13 Survival .....	48

EXHIBITS

EXHIBIT 1.1	- DEFINITIONS
EXHIBIT 3.2(b)	- DELINEATION OF BOUNDARIES FOR DISTRICT AND DISTRICT SERVICE AREA
EXHIBIT 3.10(c)	- ALLOCATION OF STATUTORY OBLIGATIONS OF DISTRICT
EXHIBIT 3.13	- BOARD BYLAWS
EXHIBIT 6.4(h)	- LIST OF POTENTIAL INTEGRATION ACTIVITIES
EXHIBIT 7.1(a)(ix)	- DELINEATION OF CORE CLINICAL SERVICES

## STRATEGIC ALLIANCE AGREEMENT

THE STRATEGIC ALLIANCE AGREEMENT (the "*Agreement*") is entered into as of this 30th day of June, 2011, by and between the University of Washington, an agency of the State of Washington, acting through one of its component organizations, UW Medicine, and Public Hospital District No. 1 of King County, a Washington public hospital district, d/b/a Valley Medical Center.

### RECITALS

A. University of Washington ("*UW*") is an institution of higher education that operates an academic medical center, UW Medicine.

B. UW Medicine is a term that refers collectively to the UW Medical Center ("*UWMC*"); Harborview Medical Center ("*HMC*"); UW Medicine/Northwest d/b/a Northwest Hospital and Medical Center ("*NWH*"); UW Physicians Network d/b/a UW Neighborhood Clinics ("*UWNC*"); The Association of University Physicians d/b/a University of Washington Physicians ("*UWP*"); University of Washington School of Medicine ("*UWSOM*"); Airlift Northwest ("*ALNW*"); and UW's membership in Children's University Medical Group ("*CUMG*") and the Seattle Cancer Care Alliance ("*SCCA*").

C. Public Hospital District No. 1 of King County (the "*District*") currently owns and operates a healthcare system, including Valley Medical Center ("*VMC*"), a full-service acute care hospital on an approximately 44-acre campus, eight primary care clinics, five urgent care clinics, and nine medical and surgical specialty clinics, located throughout southeast King County.

D. UW Medicine's mission is to improve the health of the public by advancing medical knowledge, providing outstanding primary and specialty care to the people of the region, and preparing tomorrow's physicians, scientists, and other health professionals.

E. The District's mission is to improve and sustain the overall health of the community. Governed by publicly elected commissioners, the District provides, in collaboration with its medical staff and community agencies, comprehensive quality care and service in a cost-effective and compassionate manner.

F. UW Medicine and the District, both of which are governmental entities and public agencies as that term is defined in RCW 39.34.020, share common goals to provide high quality healthcare services and believe that the public would benefit by the Strategic Alliance established by this Agreement. The expected advantages include reductions in costs, increased efficiency through shared services, and improved clinical service through the alignment and growth of clinical programs.

G. The Interlocal Cooperation Act, RCW Chapter 39.34, authorizes public agencies "to permit local government units to make the most efficient use of their powers to enable them to cooperate with other localities on a basis of mutual advantage, and thereby to provide services and facilities in a manner and pursuant to forms of governmental organization that will accord

best with geographic, economic, population, and other factors influencing the needs and development of local communities."

H. The District is subject to the terms of Chapter 70.44 RCW, governing the activities of public hospital districts and specifically vested by statute with the power to "contract or join with any other public hospital district, publicly owned hospital, nonprofit hospital, legal entity, or individual to acquire, own, operate, manage, or provide any hospital or other health care facilities or hospital services or other health care services to be used by individuals, districts, hospitals, or others, including providing health maintenance services." RCW 70.44.240 creates another statutory basis for the District's entering into this Agreement to provide for the administration of the District Healthcare System and, in connection therewith, affords the District with substantial flexibility in the manner in which such arrangements are structured, including the rights to establish the governing body for such entity and to appropriate funds and to designate assets to carry out the contract or joint activity.

I. UW Medicine and the District wish to set forth the terms upon which they will integrate the District Healthcare System with UW Medicine as permitted by the Interlocal Cooperation Act for the purpose of furthering the achievement of their respective missions.

## **AGREEMENT**

NOW, THEREFORE, for and in consideration of the Parties' respective covenants, representations, and warranties, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

### **ARTICLE I DEFINITIONS**

#### **1.1 Definitions**

As used in this Agreement and the Exhibits, the capitalized terms have the meanings set forth in Exhibit 1.1 or elsewhere in this Agreement, unless the context clearly indicates otherwise.

#### **1.2 General Interpretive Principles**

Whenever used in this Agreement, except as otherwise expressly provided or unless the context otherwise requires, any noun or pronoun shall be deemed to include the plural as well as the singular and to cover all genders. The name assigned to this Agreement and the Section captions used herein are for convenience of reference only and shall not be construed to affect the meaning, construction, or effect hereof. Unless otherwise specified, the terms "hereof," "herein" and similar terms refer to this Agreement as a whole, and references herein to Articles, Sections, or Schedules refer to Articles, Sections, or Schedules of this Agreement. Whenever the words "include," "includes," or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation."

**ARTICLE II**  
**FORMATION OF STRATEGIC ALLIANCE; STATEMENT OF PURPOSE**

**2.1 Common Powers, Privileges, and Authority**

(a) The District, as a public hospital district organized as a municipal corporation under the Public Hospital District (PHD) Act, RCW Chapter 70.44, is authorized to own and operate hospitals and other Healthcare Facilities, and to provide hospital services and other healthcare services, for the residents of the District and other persons. In order to effectuate such purpose, the District is vested with the powers, privileges, and authorities specified in the PHD Act, embodied in resolutions adopted by the District's Board of Commissioners, as further supplemented by the delineation, clarification and expansion of such rights under applicable case law. The District has adopted a mission statement to the effect that it is a healthcare network committed to improving the overall health of its community. Governed by publicly elected commissioners, the District provides, in collaboration with its medical staff and community agencies, comprehensive quality care and service in a cost-effective and compassionate manner.

(b) UW Medicine, as a component organization of UW, the state university whose primary campus is located and established in Seattle, King County, Washington, is authorized to provide instruction in the various branches of medicine pursuant to RCW 28B.20.300 and RCW 28B.20.305. In order to effectuate such purpose, UW Medicine is vested with the ability to operate a hospital in conjunction with the medical school pursuant to RCW 28B.20.440 and has such other powers as have been conferred upon it by applicable action taken by the Board of Regents of UW and existing case law and statutes. UW Medicine has adopted a mission statement to the effect that it is dedicated to improving the health of the public by advancing medical knowledge, providing outstanding primary and specialty care to the public of the region, and in preparing tomorrow's physicians, scientists and other health professionals. Overseen by the UW Medicine Board, comprised of community leaders appointed by the UW Board of Regents, UW Medicine, in collaboration with its employees, faculty, students, and trainees is committed to working with public and private institutions in order to improve healthcare and advance knowledge in medicine and related fields of inquiry.

(c) In order to pursue their respective missions, the District and UW Medicine are both committed to increasing access to public healthcare services; reducing healthcare costs; expanding clinical services; increasing efficiency in delivery of clinical care; and improving the quality and safety of care.

**2.2 Strategic Alliance; Statement of Purpose**

(a) Through this Agreement, UW and the District are forming the Strategic Alliance by entering into an agreement for joint or cooperative action pursuant to RCW 39.34.030. This Agreement sets forth the statutorily mandated terms for such an agreement.

(b) This Agreement establishes the governance structure for overseeing the operation of the District Healthcare System as an integral component entity of UW Medicine in accordance with the principles and terms set forth in this Agreement.

(c) The District Healthcare System will be integrated into the operations of UW Medicine to further their mutual missions by improving the ability of the Parties to enhance and expand clinical programs, exchange electronic health information and other data, coordinate system wide compliance and quality improvement functions and explore the creation of an accountable care organization or other innovative care delivery models.

### ARTICLE III STRATEGIC ALLIANCE GOVERNANCE STRUCTURE

#### 3.1 Authority of Board

(a) The District Healthcare System shall be governed by a Board of Trustees (the "*Board*"). All actions taken by the Board shall be for, on behalf of, and in the name of the District. The Board shall have all authority, powers, privileges and rights to act for the District Healthcare System, except for those powers and rights reserved by the District's Board of Commissioners under the terms of this Agreement.

(b) Without limiting the generality of Section 3.1(a), the Board shall have the power and authority to take the following actions on behalf of the District Healthcare System to provide for high quality and safe patient care:

(i) determine the objectives and policies pertinent to the delivery of safe, high-quality, efficient patient care services of the District Healthcare System consistent with the UW Medicine Strategic Plan;

(ii) approve and adopt policies pertaining to the admission of patients to the in-patient, out-patient, short stay, and emergency services of the District Healthcare System;

(iii) assure that the medical staff and hospital/clinic administration maintain mechanisms for continued assessment of the quality and safety of patient care and ongoing performance improvement and provide reports to the Board;

(iv) approve the appointment and delineation of clinical privileges for members of the medical staff under applicable provisions of approved medical staff bylaws, policies and procedures;

(v) approve the credentialing of allied health practitioners;

(vi) approve bylaws, policies and procedures of the District Healthcare System's medical and dental staffs;

(vii) provide oversight regarding the effective use of District Healthcare System resources;

(viii) review and approve the Annual Budgets;

(ix) review and approve the annual goals established for the District Healthcare System to be used for directing performance and awarding incentive compensation to certain of the District's employees;

(x) review and monitor reports on the District Healthcare System's operating income and expenditures, utilization of services, and patient statistics;

(xi) assist in securing additional sources of income to maintain the District Healthcare System as a leading provider of healthcare services to the public;

(xii) incur Indebtedness with respect to the District Healthcare System as permitted by Section 4.18;

(xiii) review recommendations for the development, acquisition, management and operation of Healthcare Facilities within the District Service Area, consistent with the UW Medicine Strategic Plan, to meet the needs of the community served;

(xiv) approve the selection and termination of the Valley CEO and evaluate the performance of the Valley CEO annually in conjunction with the UW Medicine CEO; and

(xv) approve the selection of an external auditor, subject to the approval of the UW Medicine CEO.

(c) The Board may, in carrying out its responsibilities, seek counsel, guidance, advice, and other appropriate services from healthcare professionals, management specialists, and others with professional expertise. Any such expenses shall be included within the Annual Budgets of the District Healthcare System.

### 3.2 Board Composition

The District Healthcare System shall be governed by a multi-member Board, whose members (collectively the "*Trustees*") will be comprised of:

(a) the five Commissioners serving on the District's Board of Commissioners (subject to the qualifications of Section 3.3(a)) (collectively, the "*Commissioner Trustees*");

(b) five individuals residing within the District Service Area (Exhibit 3.2(b) shows the boundaries of both the District and the District Service Area), at least three of whom must also reside within the boundaries of the District, identified through the nominating procedures described in Section 3.4, and appointed by the UW Medicine CEO in consultation with the UW Medicine Board (collectively, the "*Community Trustees*"); and

(c) two individuals identified and appointed by the UW Medicine CEO in consultation with the UW Medicine Board, who currently serve on, or were formerly members

of, one of the boards of a Component Entity of UW Medicine or of the UW Medicine Board, and the UW Medicine CEO or an individual designated by the UW Medicine CEO as his or her representative to the Board (collectively, the "*UW Medicine Designated Trustees*").

### 3.3 Terms; Staggered Board

(a) Each Commissioner Trustee is, by virtue of being a Commissioner, entitled to serve as an *ex officio* voting member of the Board without the approval of, or action taken by, either the Board or UW Medicine, except as otherwise provided in this Section 3.3(a) and as qualified by Section 3.7(b). Any change in the identity of the Commissioners will result in an automatic simultaneous change in the Commissioner Trustees, effective when the changes in the Commissioner positions occur as a matter of law. However, if, at any time during the Term, the District has more than five Commissioners, the Commissioners, voting separately, shall determine which of the incumbent Commissioners are entitled to hold the five positions allocated to Commissioners under Section 3.2(a). In no event may there be more than five Commissioner Trustees on the Board. In addition, if the size of the District's Board of Commissioners should, at any time during the Term, be reduced to three Commissioners, the number of Commissioners serving as Commissioner Trustees shall be reduced to three, effective immediately when the size of the District's Board of Commissioners is, as a matter of law, reduced to three Commissioners.

(b) The UW Medicine CEO or an individual who has been designated by the UW Medicine CEO as his or her representative to the Board, will serve as an *ex officio* voting member of the Board, with no term limitation. Such designation may, however, be changed at any time by action taken by the UW Medicine CEO, and will be effective when written notice of such action is provided to the other Trustees on the Board.

(c) The remaining seven Trustee seats are divided into three classes, with staggered terms, to preserve continuity for Board operations. Except for the initial terms for such classes of Trustees (which are set forth below), each of these classes will provide for the designated class members to serve for a four-year term, with their successors to be appointed and in place upon the expiration of such four-year term. Initially, the first class of Board members (three Trustees) will be comprised of three Community Trustees and each will have a two-year term, the second class (two Trustees) will be comprised of one UW Medicine Designated Trustee and one Community Trustee and each will have a four-year term, and the third class (two Trustees) will be comprised of one UW Medicine Designated Trustee and one Community Trustee and each will have a six-year term.

(d) Following their initial terms, each Community Trustee may serve on the Board for two additional successive four-year terms. No Community Trustee may serve more than three successive terms. Otherwise, there are no restrictions upon the number of consecutive terms that a Trustee may serve. In order to serve as a Community Trustee, the individual must be a resident of the District or District Service Area as required by Section 3.2(b) at the time of his or her initial appointment, and at the beginning of any new term of office. If any Community Trustee ceases to reside within the District or District Service Area during his or her tenure of office, such individual shall be replaced by a substitute no later than six months after he or she no longer resides within the District or District Service Area.

(e) The Board will be vested with its full powers under this Agreement upon the Effective Date of this Agreement, even though at that time not all Community Trustees will have been appointed by the UW Medicine CEO in consultation with UW Medicine Board.

#### 3.4 Nomination and Appointment of Community Trustees

(a) In order to select the initial slate of Community Trustees, within 30 days of the Effective Date, the mayors of the cities located in whole or in part within the District will be asked to submit nominations for open positions to the UW Medicine CEO. In addition, within 30 days of the Effective Date, any person residing within the District Service Area may nominate himself or herself or another person residing within the District Service Area for open positions to the UW Medicine CEO. The UW Medicine CEO, in consultation with the UW Medicine Board, will have up to six months after the Effective Date to appoint the Community Trustees from the initial slate of Community Trustees; it is, however, the expectation that substantially all of such appointments will be made within 90 days after the Effective Date.

(b) After appointment of the initial Community Trustees, nominations for open positions for Community Trustees may be provided by existing members of the Board (including outgoing Trustees), past and former members of a board of a component of UW Medicine, and other persons within the District Service Area with whom UW Medicine may consult. Nominations for these open positions must be submitted to UW Medicine (i) no later than six months before a position for a Community Trustee becomes available due to the normal expiration of the terms of office, or (ii) within 60 days after a vacancy in a Board position held by a Community Trustee or a UW Medicine Designated Trustee, and whether such vacancy is due to death, removal or another cause. If UW Medicine (acting through the UW Medicine CEO in consultation with the UW Medicine Board), in its sole discretion, does not receive appropriately qualified candidates for the slate of open positions or subsequent open positions for a Community Trustee, UW Medicine may actively solicit such nominations from other individuals.

#### 3.5 Duties of Trustees

Each of the Trustees will owe the same duties and obligations in discharging his or her responsibilities and duties as a trustee under applicable law, including but not limited to fiduciary duties and the duties to act in good faith, with reasonable care, in a manner believed to be in the best interests of the District Healthcare System, and not for personal benefit. Each Trustee must discharge faithfully and honestly his or her duties and perform strictly and impartially to the best of his or her ability. Such duties and obligations are owed by the Trustee for the benefit of each of the District and UW in the furtherance of their respective interests under this Agreement. Each Trustee must comply with UW Medicine's Policy on Professional Conduct, the Ethics in Public Service Act, RCW Chapter 42.52 and RCW Chapter 42.20 and all other duties and obligations owed by a public officer under the laws of the state of Washington.

To the extent that any Trustee serves in a representative capacity on behalf of either UW or the District, such individual may, when exercising the rights reserved to UW or the District, as the case may be, exercise such rights as directed by the Party for whom such individual serves in

a representative capacity, and in doing so will not be deemed to have breached any duty, fiduciary or otherwise, owed by such individual as a Trustee.

### 3.6 Exercise of Powers; Delegation of Authority

The Board shall have overall oversight responsibility for operation of the District Healthcare System. Consistent with its By-Laws and this Agreement, the Board may, by duly-adopted resolutions, delegate to others, including its officers, employees, agents, and representatives, the performance of its authority, powers, privileges and rights granted to it by this Agreement, as the Board deems appropriate, except for the following, each of which must be approved separately by Board action:

- (i) approval of the Annual Budgets of the District Healthcare System;
- (ii) approval of the appointment and termination of the Valley CEO as recommended by the UW Medicine CEO, after consultation with UW Medicine Board;
- (iii) removal of a Commissioner Trustee for Cause pursuant to the terms of Section 3.7 (which action is not permitted without concurrent approval of the UW Medicine CEO);
- (iv) any commitment of the District Healthcare System to expend, or commit to expend, an amount exceeding the level that has been delegated by the Board; and
- (v) the approval of any Shared Support Service or Clinical Integration Activity for which Board approval is required under Section 6.4.

### 3.7 Removal of Trustees

(a) The UW Medicine CEO, in consultation with the UW Medicine Board, may, at any time and for any reason, remove a Community Trustee or a UW Medicine Designated Trustee; provided, however, that the UW Medicine CEO, in consultation with the UW Medicine Board, must promptly appoint a substitute Trustee having the requisite position qualifications.

(b) A Commissioner Trustee may be removed from the Board only for "Cause" as defined in this Agreement, and as determined by both the UW Medicine CEO and the Board. Either the UW Medicine CEO or the Board may initiate the process to remove a Commissioner Trustee. No such action shall be taken unless (i) the affected Commissioner Trustee has been given at least 30 days prior written notice of the intended action, together with an explanation of the grounds for his or her proposed removal, and (ii) the affected Commissioner Trustee has had an opportunity to appear before the Board and the UW Medicine CEO to be heard and explain why there is not "Cause" for removal. Should a Commissioner Trustee be removed for Cause, the remaining Commissioner Trustees, acting by a majority vote thereof, shall promptly designate a successor Commissioner Trustee (who need not be a Commissioner of the District and is referred to as a "*Replacement Commissioner Trustee*") to hold the position of the removed Commissioner Trustee. Such Replacement Commissioner Trustee shall have the right to remain on the Board until the Commissioner who has been

removed for Cause is no longer a Commissioner of the District, at which time the new Commissioner will occupy the position. The removal of any Commissioner Trustee will not, in and of itself, have any impact upon the right of such removed Commissioner Trustee to remain in his or her capacity as a Commissioner of the District. Any Replacement Commissioner Trustee is likewise subject to removal for "Cause" on the same basis as a Commissioner Trustee.

### 3.8 Management of the District Healthcare System

(a) **Valley CEO.** The day-to-day operations of the District Healthcare System shall be administered by a chief executive officer (the "*Valley CEO*"). The Valley CEO will select others, as provided in Section 3.8(b), to assist him or her in discharging such responsibilities. The Valley CEO is accountable to the Board and to the UW Medicine CEO and will be part of the UW Medicine leadership team. The Valley CEO is responsible for implementing the governance decisions of the Board and is accountable to the Board and the UW Medicine CEO for effectively administering the District Healthcare System in accordance with the approved Mission Statement, UW Medicine Strategic Plan, Annual Budgets, and applicable District Healthcare System and UW Medicine policies. The Valley CEO shall report, on a regular and routine basis, to the UW Medicine CEO. The performance of the Valley CEO shall be reviewed at least annually by the Board and the UW Medicine CEO. The Board will establish a subcommittee of the Trustees, to be known as the "*Board Compensation Committee*," to review executive performance and relevant market data for the purpose of providing advice and recommendations to the entire Board as to the appropriate levels of compensation for the Valley CEO and Senior Executive Team. These terms are to be set by the Board. The UW Medicine CEO may remove the Valley CEO if his or her performance is unsatisfactory at any time, subject to the approval of the Board. The UW Medicine CEO may, where appropriate, designate individuals, subject to the approval of the Board, to serve on a temporary basis as the Valley CEO, pending the selection of individuals to hold the position on a permanent basis.

The UW Medicine CEO will appoint the Valley CEO subject to the approval of the Board. The initial Valley CEO will be the chief executive officer of the District in place as of the Effective Date. The following procedure will be used to select and appoint subsequent Valley CEOs: a search committee appointed by the UW Medicine CEO, consisting of three members of the Board and three other individuals shall develop a job description and qualifications statement (which shall be subject to the approval of the UW Medicine CEO), establish criteria for measurement of applications, screen all applicants, conduct investigations and interview candidates. This committee shall identify acceptable candidates from among which the UW Medicine CEO, with the concurrence of the Board, shall select and appoint the Valley CEO.

(b) **Other District Healthcare System Management.** The Valley CEO shall select, hire and, where appropriate, terminate such executives, associates, assistants, and other administrative personnel to head the operating departments necessary to operate the District Healthcare System (collectively the "*Senior Executive Team*"). These individuals appointed by the Valley CEO shall be accountable to and act under the supervision of the Valley CEO. They shall report to the Valley CEO and the Valley CEO shall report to the Board and the UW Medicine CEO. The Valley CEO shall, at least annually, evaluate the performance of the Senior Executive Team and determine the compensation, terms of employment and other performance-

related matters associated with such executives, subject to the review of the UW Medicine CEO and the Board Compensation Committee. Decisions regarding the termination of such executives, and the appointment of replacement executives, shall be made by the Valley CEO in consultation with the UW Medicine CEO. In taking such action, however, the Valley CEO shall act in the manner consistent with the Annual Budgets, adopted from time to time by the Board, and the UW Medicine Strategic Plan.

(c) **Day-to-Day Operations.** The Valley CEO and his or her Senior Executive Team shall have the authority and responsibility to manage the day-to-day operations of the District Healthcare System. Such authority and responsibility shall be at all times consistent with the terms of this Agreement and the directives of the Board and the UW Medicine CEO, and applicable federal and state law and regulation and industry standards. Such authority and responsibility shall include oversight and management responsibility for:

(i) UW Medicine Strategic Plan implementation in the District Healthcare System; preparation of the Annual Budgets for submittal to the UW Medicine CEO and Board for approval; and managing the financial performance of the District Health System;

(ii) the District Healthcare System's Quality Improvement, Quality Assurance, Risk Management, Loss Prevention and Claims Management programs;

(iii) implementation and maintenance of the District Healthcare System's Compliance Program; coordination and oversight of state and federal licensing, accreditation, and certification activities; and state and federal regulatory compliance oversight and management;

(iv) planning and oversight of the District Healthcare System's marketing and communications activities;

(v) the District Healthcare System's information technology systems and security needs;

(vi) contracting as necessary for the regular conduct of the District Healthcare System's business and operations, including but not limited to professional and other services, supplies, and equipment, including leasing arrangements;

(vii) the District Healthcare System's Medical Staff relations, credentialing and peer review activities;

(viii) physician recruitment and physician employment needs and arrangements;

(ix) accounting and financial management, including preparing the District Healthcare System's financial statements, maintenance of financial books and records and completion of the annual independent audit of the District Healthcare System;

(x) human resources activities, including development of general employment policies and procedures, employment supervision and discipline, administration of employee benefits programs, determination of professional and staff personnel needs, including hiring and termination authority, orientation and training programs, and determination of salary and benefits levels;

(xi) maintenance, repair, and security of the District Health System campus and facilities and the clinical, administrative and financial systems; and

(xii) maintenance and implementation of policies and procedures reasonably necessary for the operation of the District Healthcare System consistent with applicable state and federal law and regulation and applicable UW and UW Medicine policies and rules.

(d) **Incentive Compensation Program.** Currently, a portion of the compensation of the District's Senior Executive Team is contingent upon the District's achievement of certain goals established prior to the commencement of the District's fiscal year (i.e., the "at risk" component of executive compensation). The incentive compensation program will be evaluated on an annual basis by the Board Compensation Committee and the UW Medicine CEO and may, from time to time, be modified subject to the terms of existing employment agreements.

### **3.9 Representation on UW Medicine Board**

Throughout the Term, the Board will be entitled to have two of its Trustees, drawn exclusively from the pool of the Commissioner Trustees and Community Trustees, serve concurrently on the UW Medicine Board. Those individuals will be selected by UW in accordance with its existing UW Medicine Board bylaw provisions, as may be amended in the future, with respect to the appointment of UW Medicine Board members. Such initial appointments to serve on the UW Medicine Board shall be completed no later than the last date upon which the final candidates for the initial slate of the Community Trustees are appointed pursuant to Section 3.4(a).

### **3.10 Performance Under RCW 39.34.030(5)(a)**

(a) **District Compliance.** This Agreement, as authorized by Chapter 39.34 RCW, provides for the exercise of certain powers and cooperative action by the District and UW in managing the District Healthcare System to advance the purpose of the Strategic Alliance as set forth in Article II. Through the activities conducted under this Agreement, the District intends to discharge certain of the obligations and responsibilities imposed upon it by law (in particular, those imposed statutorily by the PHD Act). Accordingly, to the extent that there is actual and timely performance of such obligations and responsibilities through the implementation of this Agreement, such performance is being offered by the District in satisfaction of its obligations and responsibilities under law.

(b) **UW Compliance.** UW Medicine has reviewed and is familiar with the requirements of the PHD Act. UW Medicine shall use its best efforts to comply with all of the applicable requirements of the PHD Act as relates to the operation of the District Healthcare

System, so that the activities under this Agreement are offered by the District's Board of Commissioners to satisfy their respective obligations under the PHD Act. It is, however, recognized that certain activities are unique to the District, and compliance with those provisions must be monitored and satisfied by the District's Board of Commissioners rather than through the Board.

(c) **Board Compliance.** The Parties have attached to this Agreement as Exhibit 3.10(c) a chart showing how and to what extent the various statutory obligations of the District are to be satisfied by the activities of the District and the District Healthcare System, as overseen by the Board, throughout the Term.

### 3.11 District Superintendent

The District is required, by statute, to have a superintendent who will serve as the District's chief administrative officer (the "*Superintendent*"). Such Superintendent is required to report and be accountable to the District's Board of Commissioners as required by Chapter 70.44 RCW. Nothing in this Agreement eliminates the District's obligation to cause such Superintendent to be appointed and to remain in place throughout the District's existence. There is, however, no requirement that the roles of the Superintendent and the Valley CEO be held by the same individual. The District's Board of Commissioners shall have and retain its full statutory authority to appoint and remove the Superintendent, while at the same time the Board shall have the rights to approve the Valley CEO as set forth in Section 3.8(a).

### 3.12 Open Public Meetings Act

Since both the District and UW are public bodies subject to the applicable requirements of the Open Public Meeting Act, Chapter 42.30 RCW, the Board and Board committees, if any, will, to the extent that either conducts meetings subject to the terms of such Act, ensure that such meetings are held in compliance with the Open Public Meetings Act.

### 3.13 Board Bylaws

The Board's business shall be conducted in accordance with the terms of the Board Bylaws attached hereto as Exhibit 3.13, which will, without further action, become effective as of the Effective Date; furthermore, the Board will, at its first regular meeting, ratify the adoption of such Board Bylaws. Some Board Bylaw provisions constitute an integral part of this Agreement and, as a consequence, may not be amended, modified or otherwise supplemented without the prior approval of UW Medicine and the District. Other Board Bylaw provisions address, among other matters, rules with regards to the holding of regular and special meetings, quorum requirements, the appointment of Board officers, and the composition, responsibilities and authority of Board committees, and revisions to such provisions, if proposed, may be adopted by the Board without prior approval of the Parties. The Board Bylaws sets forth the requisite approvals needed to amend the particular provisions contained therein.

**ARTICLE IV  
OPERATIONAL GUIDELINES AND PRINCIPLES**

The District Healthcare System will be operated as an integral component of UW Medicine in accordance with the following principles:

**4.1 Compliance With Laws**

The Board shall operate the District Healthcare System in material compliance with the licensing laws, rules, and regulations of the state and Medicare and Medicaid laws, rules, and regulations, as well as in compliance with all applicable federal and state environmental laws, rules, and regulations. The Board shall not cause or permit the District Healthcare System to be used in any way that violates any law, ordinance, or governmental regulation or order. The Board shall be responsible for complying with all laws applicable to the District Healthcare System, as in effect on the date hereof or as may be subsequently enacted. If the enactment or enforcement of any law, ordinance, regulation, or code during the Term requires any changes to the operation of the District Healthcare System during the Term, the Board shall take such necessary actions in order to effectuate such changes, at the expense of the District.

**4.2 Compliance with Contractual Arrangements**

The Board shall cause the District Healthcare System to be operated in a manner consistent with, and to comply with the terms of all contracts to which the District is a party or to which its assets are subject, so as to avoid breaches or events of defaults under such contracts that would expose the District to liabilities for nonperformance. Such contracts, including those existing on the Effective Date, as well as new contracts to be entered into the future, will include, among other things, contracts relating to:

- (i) collective bargaining agreements with various groups of employees represented by Unions;
- (ii) employment contracts with District's medical, executive and management staff;
- (iii) service contracts with vendors, including physician groups, providing goods and services to the District;
- (iv) the Bond resolutions and other instruments and agreements pursuant to which the District has incurred Indebtedness; and
- (v) all joint ventures and strategic alliances to which the District is and will be subject.

**4.3 District Employees**

(a) The Parties intend to operate the District Healthcare System through the District's employees. With the approval of the Board, and based upon consultation with the UW Medicine CEO, the Valley CEO will determine how to staff the services necessary to operate the

District Health System to achieve the objectives of this Agreement. Such staffing may be handled by the District's employees or contracted out to third party providers, including employees of the other Component Entities of UW Medicine. Notwithstanding the foregoing, subject to the qualification in Section 4.3(b), the employer of represented employees of the District Healthcare System will not change for at least the first ten years of the Term and the employer of the Valley CEO, Senior Executive Team and other currently non-represented groups of employees will not change for at least the first five years of the Term. The Parties recognize that any change in the employer of represented employees would require prior planning, and such planning could occur during ten-year period. To the extent District employees are subject to binding contracts, such as collective bargaining agreements that are in effect as of the Effective Date, such contracts will not be affected by the consummation of the Strategic Alliance.

(b). Nothing herein is intended to restrict the right of the Valley CEO to terminate any employee or otherwise modify the terms of employment for any employee following the Effective Date to the extent such actions are consistent with then applicable District Healthcare System policies and procedures, collective bargaining agreements, employment agreements, and applicable law and provided such actions are consistent with the terms of Section 3.8. Furthermore, nothing in this Section 4.3 affects the rights of the District Healthcare System and other Component Entities to enter into integration activities permitted under Section 6.4.

#### 4.4 Medical Staff

Entry into this Agreement will not affect the medical staff privileges of the members of the District medical staff who will remain members of the District's medical staff, holding the same category of membership and possessing the same clinical privileges as they held immediately before the Effective Date. The medical staff will be subject to the oversight of the Board, pursuant to the medical staff bylaws, policies and procedures in effect immediately prior to the Effective Date. Such oversight will be comparable to the current oversight provided by the District's Board of Commissioners and in compliance with relevant law and accreditation requirements.

#### 4.5 Open Medical Staff

The District shall maintain an open medical staff, wherein any licensed healthcare practitioner may apply for medical staff privileges consistent with the then current medical staff bylaws, policies and procedures of the District. No such practitioners shall be required to obtain faculty appointment at UW Medicine or provide call coverage or other services to any of the other UW Medicine Component Entities. The assignment of UW School of Medicine faculty to provide healthcare services in District Healthcare System facilities will be based on program plans developed pursuant to the UW Medicine Strategic Plan and Annual Budgets. Primary, specialty, and, where practical, tertiary services will continue to be provided through existing District medical staff to the extent feasible in light of the District's available staffing, cost considerations, opportunities for increased efficiency and ongoing changes in the healthcare environment.

#### 4.6 Books and Records; Review and Reports

(a) The District Healthcare System shall maintain, or cause to be maintained, a complete set of financial records that accurately reflect the financial position of the District Healthcare System, including but not limited to a balance sheet, statement of revenues and expenses, net assets, and related detailed accounts for the District Healthcare System, in accordance with GASB standards. Upon request, the Valley CEO shall furnish to the District, UW Medicine and the Board all such financial accounting records and books to ensure compliance with the terms of this Agreement, including but not limited to those related to financial matters.

(b) The District shall maintain, or cause to be maintained, complete and accurate financial records relating to the disposition of monies remitted to the District's Board of Commissioners under Section 9.3, and shall make such books and records available to the District Healthcare System to permit preparation of the reports and statements required by Section 4.6. The District acknowledges that the preparation of such records is required in order to prepare the annual and quarterly financial statements required by Section 4.6(c).

(c) The Valley CEO shall furnish, or cause to be furnished, to the Board, the District and UW Medicine:

(i) within 120 days after the end of each Fiscal Year, audited financial statements of the District (including a balance sheet, statement of revenues, expenses, and net assets), prepared in accordance with GASB standards and certified by a firm of independent certified public accountants selected and approved by the Board and subject to approval by the UW Medicine CEO;

(ii) within 45 days after the end of each fiscal quarter, unaudited financial statements for the District (including a balance sheet, statement of income and loss, and cash flows);

(iii) no later than 45 days prior to the beginning of the District's fiscal year, drafts of the Annual Budgets for review and approval by the Board;

(iv) no later than 45 days prior to the beginning of the District's fiscal year, a statement of the annual goals for the District Healthcare System, together with a proposal as to how the achievement of such annual goals is tied to executive compensation for review and approval by the UW Medicine CEO and Board;

(v) no later than 30 days prior to the beginning of the District's fiscal year, any revisions or updates proposed by the Valley CEO to a rolling 5-year capital plan consistent with the UW Medicine Strategic Plan for the District Healthcare System, for review and approval by the Board;

(vi) on or prior to November 15 of each year, the District's annual expenditure budget, in form and substance satisfying the statutory requirements of RCW 70.44.060(6), to permit the District to hold the public hearing, and to adopt the final budget, as provided for in the aforementioned provision of state law; and

(vii) to the extent that, at any time, the District is required by applicable federal or state law, to submit any other reports, financial statements, budgets, tax returns statements, affidavits or other filings (except as otherwise described in this section), such items, in form and substance sufficient to satisfy the applicable statutory requirements, to permit such items to be filed or delivered by the District prior to the applicable statutory filing deadlines.

(d) UW and the District shall, throughout the Term, have the right to an annual review and audit of the books and records of the District Healthcare System. Such review and audit rights may be carried out by the Party and its authorized representatives (including, without limitation, its accountants, legal counsel, industry experts, employees and other agents) at any time, during normal business hours, and upon reasonable notice to the other Party (the Parties acknowledging that 10 days' prior written notice of the desired review and/or audit is reasonable for this purpose). Without limiting the generality of the foregoing, such review and audit rights include the right to examine:

(i) the Board's and/ or UW Medicine's compliance with the terms of Article IV;

(ii) whether the Board has separated the District Assets and District Liabilities as and to the extent required by Article V; or

(iii) whether and to what extent Business Integration Activities, Shared Support Services and Clinical Integration Activities have been provided in accordance with the requirements of Section 6.4.

(e) The review and audit costs shall be borne by the Party conducting the review and/or audit, including without limitation all out-of-pocket expenses of third party experts (including accountants, legal counsel, industry experts, employees and other agents), and internal staff time.

#### 4.7 Licenses

(a) Throughout the Term, the Board will maintain the District Healthcare System's existing licenses and VMC National Provider Identifier number, unless the Board determines that this approach is disadvantageous due to evolution in the health care delivery system or health care reimbursement methodologies. The Board shall not consolidate such licenses into a single "system-wide" or other consolidated license, unless taking such action is deemed to be in the best interest of the District Healthcare System. Moreover, to the extent the Board provides for the growth of the District Healthcare System by adding Healthcare Facilities requiring new licenses, such new licenses shall be: (i) issued in the name of the District, consistent with the District's past practices or (ii) in the name of UW Medicine or one of its other Component Entities if it is more advantageous to do so and procuring the license in such manner is specifically approved by the Valley CEO, the UW Medicine CEO and the Board.

(b) Throughout the Term, it is anticipated that the Board will continue to use existing Medicare and Medicaid provider numbers for the District Healthcare System. However, the Parties recognize that there may be opportunities or joint activities to provide services in a

different manner and will confer as to such opportunity and take action as appropriate to maximize the potential benefits; provided that such provider numbers will not be procured in the name of any person other than the District, unless procuring such provider numbers is determined to be in the best interest of the District Healthcare System as determined by the Valley CEO, the UW Medicine CEO and the Board.

#### **4.8 Branding; System Name**

The Board will identify the facilities of the District Healthcare System by using the branding protocols currently employed by the other Component Entities of UW Medicine, with the understanding that such protocols may evolve over time. All such facilities shall be identified as being component entities of "UW Medicine." The District reserves, however, the right to have major signage for its facilities include a reference identifying such facilities as "Valley Medical Center." The Parties will in good faith confer with regard to branding decisions, with a view to taking advantage of the integration of the District's Healthcare Facilities into UW Medicine, but recognizing the unique ownership character of the assets. They will agree upon the relative font size of the lettering for any signage including references to both UW Medicine and the District.

#### **4.9 Marketing of District Healthcare System**

The District Healthcare System's marketing activities will be integrated with the UW Medicine marketing plan. It is recognized that historically, the District has allocated a portion of its annual budget for marketing initiatives to promote various aspects of its healthcare programs. The Annual Budgets developed during the Term will consider this historical allocation and may include a line item for specific marketing expenses for similar promotional purposes consistent with the Annual Budgets.

#### **4.10 Fund-Raising**

UW Medicine and the District Healthcare System shall coordinate the fundraising activities for the District Healthcare System. Any funds raised through such efforts that are expressly solicited for the benefit of the District Healthcare System or that are dedicated to or intended by the donor for the benefit of the District Healthcare System shall be made exclusively available for program development or other purposes specified in the solicitation and/or donor's designation. Such funds may not be used to support other programs sponsored by UW Medicine and its other Component Entities.

#### **4.11 District's Tax-Exempt Bonds**

As of the Effective Date, the District will have outstanding several series of Bonds and may, during the Term, authorize the issuance of additional Bonds (and, pursuant to the requirements of Section 4.18, is, under certain circumstances, contractually obligated to provide for the issuance thereof) to (i) refinance all or a portion of its outstanding Bonds and/or (ii) finance capital improvements, program expansions, or other initiatives authorized under the UW Medicine Strategic Plan and the related Annual Budgets. Throughout the Term, the Parties and the Board shall: (i) take all necessary steps to ensure that operation of the District Healthcare System is in compliance with the applicable bond covenants contained in the

resolutions, indentures or other similar documents, pursuant to which such Bonds are issued; including an obligation to levy Regular Property Taxes in amounts sufficient to pay the debt service on all outstanding general obligation Bonds; (ii) not take, or omit to take, any action that would cause interest on any Tax-Exempt Bonds to be ineligible for exclusion from gross income for federal income tax purposes under the Code, including, without limitation, any action that would cause such Tax-Exempt Bonds to be or become "arbitrage bonds" or "private activity bonds" under the Code; and (iii) not take, or omit to take, any action that would cause interest on any Subsidy Bonds to be ineligible for direct payment of the subsidy payments which are payable by the federal government under applicable provisions of the Code or other federal law, which the District has elected to receive under the applicable provisions of the Code or other federal law, including, to the extent applicable and without limitation, any action that would cause such Subsidy Bonds to be or become "arbitrage bonds" or "private activity bonds" under the Code. It shall remain the District's responsibility to monitor and, to the extent within its control, maintain the tax exempt status of its Bonds.

#### 4.12 Guidelines Regarding District Healthcare Practitioners

(a) **Staffing of Healthcare Facilities Within the District Service Area.** The District Healthcare System is intended to be the primary channel through which primary and specialty care, and to the extent feasible, tertiary care is provided to patients residing within the District Service Area. UW Medicine and the District intend for such services to be staffed by District Physicians or other licensed practitioners on the District's medical staff (collectively, the "*District Healthcare Practitioners*") to the extent they have the capacity and expertise to provide such services. UW School of Medicine faculty will be used to provide such services if (i) such services are not adequately available or feasible through District Healthcare Practitioners or (ii) there are other reasons, as approved by the Valley CEO and UW Medicine CEO, for staffing these functions by UW School of Medicine faculty. With these principles in mind, UW Medicine and the District agree to the following operational guidelines for staffing of Healthcare Facilities located within the District Service Area:

(i) District Healthcare Practitioners shall be primarily used as the workforce for providing primary and specialty care for patients within the District Service Area.

(ii) To the extent available and feasible, District Healthcare Practitioners shall be used to provide tertiary care for patients residing within the District Service Area.

(iii) When appropriate, patients serviced by the District Healthcare System requiring tertiary and quaternary care will be referred, on a case-by-case basis, to other UW Medicine Component Entities or to other healthcare practitioners with the requisite specialty expertise, capacity and facilities needed. This affiliation does not supersede the discretion of the individual clinicians (and the Valley medical staff) to determine what is best for their patient as to when and where to refer their patient for consultation or transfer of care.

(iv) The assignment of UW School of Medicine faculty to practice with the District Healthcare System will be based on such business plans as may be developed from time to time by the Valley CEO and the UW Medicine CEO consistent with the UW Medicine Strategic Plan; with such assignments to UW School of Medicine faculty to be further subject to the following restrictions:

(A) they have specialty expertise not adequately available through District Healthcare Practitioners or such expertise as necessary as part of the Clinical Integration Activities pursuant to Section 6.4; or

(B) Staff privileges at any Healthcare Facility within the District Healthcare System have been conferred to a member of the UW School of Medicine faculty in accordance with the then existing staff privilege and credentialing guidelines of the District Healthcare System.

(b) **Assignment of District Healthcare Practitioners to UW Medicine Health System Facilities.** This affiliation does not affect current policies regarding the assignment of licensed healthcare practitioners in the community to a position within UW Medicine and does not contemplate assignment of District employed healthcare practitioners to any other UW Medicine Component Entity.

#### 4.13 Accountable Care Organizations

The criteria for qualifying as an "accountable care organization" have not yet been defined in detail. UW and the District may find it in their best interest to develop additional operational arrangements in order to qualify as an accountable care organization, when the definitional standards of those institutions are further developed. The Board will monitor developments in the law and, as appropriate, make recommendations to UW and the District, as to such further actions that might be taken in order to take advantage of the federal and state benefits extended to accountable care organizations. UW and the District have each separately determined there are compelling reasons for proceeding with the Strategic Alliance, regardless of the manner in which the rules regarding "accountable care organizations" may be developed over time or whether UW and the District may subsequently form an accountable care organization.

#### 4.14 Fiscal Year

The fiscal year for the District Healthcare System will be established as the 12-month period beginning July 1 and ending June 30 of the following year, effective with the fiscal year beginning July 1, 2012. Such action will bring the fiscal year used by the District Healthcare System in line with the fiscal year used by UW Medicine and its other Component Entities, hence, facilitating strategically integrated planning among such entities. The Board will nonetheless cause appropriate reports to be prepared, so that the District's Board of Commissioners can satisfy the District's statutory requirements to establish an annual expenditure budget and to levy Regular Property Taxes sufficient to meet all irrevocable Bond covenants as required by RCW 70.44.060(6) and Chapter 84 RCW. This establishment of the District Healthcare System's fiscal year will not necessarily constitute a change in the District's fiscal year, which is the 12-month period beginning on January 1 and ending on December 31 of

each year, and no such change will be made unless it can be effectuated without triggering a default or an event of default with respect to any of the District's outstanding Bonds.

#### **4.15 Represented Employees**

The District values its collaborative and effective relationship with its Unions and is committed to maintaining working relationships characterized by mutual trust and proactive problem solving. The Board will respect and continue to foster these established labor relationships and will recognize the various unions as exclusive bargaining representatives of their respective employees as required by applicable law. The Board, acting through the Valley CEO and his or her designees, shall:

(i) have control over decision making with respect to labor relations and collective bargaining, including but not limited to, grievance processing, administration of collective bargaining agreements, staffing agreements, training fund agreements, layoffs, and negotiation and ratification of successor collective bargaining agreements; subject to the qualifications of Section 4.3; and

(ii) implement the decisions reflected in the approved Annual Budgets, including their impact upon capital investments, hospital beds, core services, service lines; subject to the terms of Sections 4.3 and the rights reserved to the District under Sections 6.6 and 7.1.

#### **4.16 Expanded WWAMI Program Participation**

The Parties acknowledge the District Healthcare System's participation in the WWAMI program, a clinical medical education program conducted in Washington, Wyoming, Alaska, Montana and Idaho and overseen by UW School of Medicine, and contemplate the District Healthcare System's increased and/or enhanced participation in WWAMI as approved by the Board and the UW Medicine CEO.

#### **4.17 Research Programs Within District Healthcare System**

The District agrees to permit UW Medicine to conduct University-administered research in the District Healthcare System facilities. UW Medicine will be responsible for the administration of UW-administered research awards and contracts and for providing an appropriate level of oversight in the administration and management of such awards, including but not limited to preparing and submitting project proposals for regular UW faculty, fulfilling all applicable conditions, requirements and restrictions of the awards and contracts such as accounting, monitoring and reporting, and pre-award and post-award review and monitoring. UW Medicine will ensure compliance with applicable federal and state laws and regulations and other applicable rules in administering UW-administered research at District Healthcare System facilities. Where appropriate, if resources of the District Healthcare System are used to support such UW-administered research programs, the District Healthcare System will be reimbursed for the use of such services at appropriate levels consistent with applicable laws and grantor rules and guidelines. All such agreements will be reviewed and approved under applicable UW policy and procedures. Financial arrangements for research projects to be conducted at District Healthcare System facilities shall be comparable to those for research projects conducted at other

Component Entities. To the extent the District Healthcare System conducts District Healthcare System-administered research or permits its medical staff to conduct non-University administered research in its facilities, the District Healthcare System will ensure compliance with applicable federal and state laws and regulations and other applicable rules. Consistent with Section 4.11 of this Agreement, UW Medicine and the District Healthcare System each specifically agree not to take, or omit to take, any action that would cause any Tax-Exempt Bonds or Subsidy Bonds to be or become "private activity bonds" under the Code by reason of the conduct of such research projects in District Healthcare System facilities financed by such Tax-Exempt Bonds or Subsidy Bonds, and it shall remain the District's responsibility to monitor and, to the extent within its control, maintain the tax exempt status of its Bonds.

#### 4.18 Incurring Liabilities on Behalf of District

(a) The Board may, in operating the District Healthcare System, incur Liabilities on behalf of the District, and such Liabilities shall be exclusively those of the District, be satisfied out of District Assets and District Revenues, be duly authorized as approved by the Board, and the creditors thereof shall look solely to the District Assets and District Revenues for the repayment of such obligations (subject to whatever limitations upon such claims as may be imposed at the time the obligations are incurred). The Board does not need to obtain the approval of the District's Board of Commissioners to incur such Liabilities. The Board shall incur such Liabilities solely for the purpose of conducting the business of the District Healthcare System. Furthermore, the incurrence of such Liabilities must be consistent with the Annual Budgets prepared and approved for the District Healthcare System, together with any business plans pursuant to Article VI. In addition, the Board may borrow money on behalf of the District in connection with purchase money obligations, installment purchases, capital leases and other similar obligations, subject to the limitation provided in Section 7.1(a)(vii), as long as (i) such borrowing does not trigger an event of default under any of the outstanding Bonds of the District; and (ii) such obligations constitute revenue obligations of the District payable solely out of a special fund or funds into which the District may pledge the revenues of the District Healthcare System pursuant to RCW 70.44.060(5)(a).

(b) Notwithstanding Section 4.18(a) (except as otherwise permitted in the final sentence thereof), the Board may not incur Indebtedness or issue, or cause to be issued, on behalf of the District any Bonds but may request that the District's Board of Commissioners do so for the purposes enumerated in Section 4.18(c).

(c) While recognizing that the District is the sole party authorized to incur Indebtedness or issue Bonds as to which the District is the obligor or by which District Assets and/or District Revenues are committed for the payment thereof, the District nonetheless covenants for the benefit of the District Healthcare System that it will, throughout the Term, subject to any applicable constitutional and statutory limitations, take any and all actions necessary to authorize, and incur Indebtedness, or issue, or cause to be issued, Bonds as requested by the Board for each of the following purposes:

(i) to refinance the outstanding Bonds (including the principal and accrued interest thereon, together with necessary refinancing costs) as market conditions

may dictate, to the extent that such Bonds have not been fully amortized and paid off upon maturity or upon an earlier acceleration thereof due to an event of default); or

(ii) to finance the District's participation in the integration activities authorized under Section 6.4 or to support the expansion and/or development of programs offered by the District Healthcare System under Section 6.6, to the extent that such participation or activities cannot be funded out of the other District Revenues.

#### 4.19 Real Estate Transactions

To properly conduct the business of the District Healthcare System, the Board has, subject to certain limitations, been delegated the authority to acquire, lease, exchange, encumber, sell, or otherwise dispose of interests in real property, and related or ancillary personal property, used in the operation, or to support the activities of, the District Healthcare System. The Board does not need to secure the approval of the District's Board of Commissioners to enter into any such transactions, unless such approval is required by Section 7.1(a) or by Article VI as it may relate to proposed integration-related activities. To the extent that the District's Board of Commissioners approval is required by such provisions, the Board will not proceed with any such proposed transaction, unless and until such approval has been secured. However, where no such approval is required, the Board is empowered to take any and all actions as may be necessary in order to effectuate the desired real estate transaction and in so doing will be acting pursuant to delegated authority granted by the District's Board of Commissioners pursuant to RCW 39.34.030(5)(a). Under those circumstances, the Board may request the District's assistance in order to exercise such delegated authority, and the District will act in good faith to facilitate such transactions. That certain transactions may require actions by both the District Board of Commissioners and the Board is reflected in Item 42 and Items 44 through 46 in Exhibit 3.10(c).

### ARTICLE V

#### SEPARATE ASSETS AND LIABILITIES; PROHIBITION AGAINST COMMINGLING

##### 5.1 Separate Assets and Separate Liabilities

(a) The District shall:

(i) retain ownership of, and its interest in, and be entitled to all the economic benefits derived from, all District Assets; and

(ii) be responsible for, and be solely obligated to pay, all District Liabilities and Indebtedness.

(b) The District shall hold title to all of the District Assets included within the District Healthcare System (other than District Assets leased and/or licensed to the District, in which event the District shall continue to hold such leasehold and license interests therein).

(c) Neither UW, UW Medicine nor any of the other UW Medicine Component Entities shall acquire title to, acquire or secure a Lien against, or have any other possessory interest in any of the District Assets comprising the District Healthcare System.

Notwithstanding the foregoing, nothing in this paragraph is intended to prohibit UW and the District from entering into any of the integration activities permitted under Article VI.

(d) The Board may dispose of the District Assets owned, leased, licensed and/or otherwise controlled by the District in the ordinary course of the operation of the District Healthcare System and in accordance with public hospital district statutes concerning disposal of assets; provided, however, that such dispositions are subject to the requirements of Section 7.1, and provided further that the proceeds received upon disposing of such District Assets shall belong to, and be used exclusively for, the purpose of managing, growing and operating the District Healthcare System.

(e) The Board may not use, or permit the use of, District Assets to cover liabilities of or to subsidize the activities of UW Medicine or any of its other Component Entities; provided, however, that this prohibition shall not be construed to restrict the Business Integration Activities, Shared Support Services and/or Clinical Integration Activities authorized under Section 6.4.

(f) All District Liabilities, whether existing as of the Effective Date or subsequently incurred during the Term, shall remain exclusively the Liabilities of the District.

(g) UW shall not assume, guarantee or otherwise be deemed to have recourse liability for the payment of any District Liabilities by becoming a party to this Agreement.

(h) Nothing in this Agreement shall be deemed to impose upon UW or UW Medicine any obligation to subsidize the activities of the District, or to make its own resources available to support such activities, recognizing, however, that it is anticipated that the District Healthcare System will be integrated into UW Medicine.

(i) The District shall not assume, guarantee or otherwise be deemed to have recourse liability for the payment of any Liabilities of UW or UW Medicine or any of its other Component Entities.

## **5.2 Accounting for, Application and Investment of District Revenues**

(a) The Board shall maintain separate bank accounts, in the name of and for the benefit of the District, for receipt of all District Revenues derived from the operation of the District Healthcare System. Funds shall be promptly deposited into such accounts and shall not be commingled with the accounts maintained for UW Medicine or UW.

(b) Subject to the terms of Section 9.3, throughout the Term, the Board shall have total control over the application of the District Revenues and the use of District Assets and shall, in exercising such control, ensure that all District Revenues and District Assets are applied exclusively for the benefit of the District Healthcare System, with the understanding that such funds and assets may be used only:

(i) to pay District Liabilities (including payment of the outstanding Bonds and any other Indebtedness) as and when they become due and payable in accordance with their terms;

(ii) to establish, build and maintain reserves, in amounts required to meet Bond covenants and other obligations and as deemed appropriate by the Board;

(iii) to fund integration activities authorized under Article VI;

(iv) to support the ongoing operation of the District Healthcare System as well as its future growth and development by allowing the District to expand patient care as contemplated by Section 6.6;

(v) to cover all expenses related to the operation of the District Healthcare System;

(vi) to cover expenses of the District's operation (as distinguished from the operation of the District Healthcare System) consistent with the principles of Section 9.3; and

(vii) with respect to the proceeds (including investment proceeds) of District Bonds, for the purposes for which the District issued such Bonds.

(c) Pending the disbursement of District Revenues, the Board shall cause such monies, as directed by the Valley CEO, to be invested in investments permitted by public entities and consistent with past practices of the District. UW and the District recognize that there are different statutory frameworks in place under Washington law governing how available funds may be invested by public hospital districts subject to the PHD Act and UW as an agency of the State. The Board shall take appropriate action to ensure that the District Revenues are only invested in accordance with the rules applicable to the District.

(d) The Board shall cause financial records to be established and maintained, in reasonable detail, to evidence the segregation of the District Assets (including the District Revenues) from the assets and revenues of UW, UW Medicine or any of the other Component Entities. The District may, at any time, review and/or audit, as permitted under Section 4.6(d), such books and records to verify the requisite segregation of assets and liabilities.

(e) Nothing in this Section is, however, intended to prohibit UW and the District from entering into the integration activities pursuant to Article VI.

(f) The District acknowledges that it has delegated control over the application and use of the District Revenues and the District Assets to the Board during the Term of this Agreement. Accordingly, all revenues and/or funds generated as a result of District activities, including Bond proceeds, will be considered part of the corpus of the District Assets and will be applied by the Board for the purposes set forth in Section 5.2(b). The District will not have the right to acquire or Transfer any District Assets, since such rights have been vested in the Board; provided, however, that, pursuant to the terms of this Agreement, certain acquisitions and Transfers of assets require not only Board approval but also the approval of the District's Board of Commissioners. Furthermore, to the extent that the Board, in the exercise of its vested powers, provides for the acquisition or Transfer of assets, the District's Board of Commissioners agrees, at the Board's request, to take all necessary actions on its part in order to permit such decisions to be implemented and, in so acting, the District's Board of Commissioners

has not relinquished its powers, but instead has elected to exercise them to allow the Board to discharge the duties delegated to it under this Agreement. The preceding sentence does not however obligate the District's Board of Commissioners to so proceed, if the action to be taken is one requiring separate approval of the District's Board of Commissioners, and the District's Board of Commissioners, in the exercise of their independent judgment, choose not to support the recommended course of action.

## ARTICLE VI INTEGRATION OF DISTRICT HEALTHCARE SYSTEM

UW and the District shall observe the principles set forth in this Article VI in pursuing joint cost savings, efficiencies and improved medical care when integrating the District Healthcare System into UW Medicine. To achieve the goals of this Strategic Alliance, the District Healthcare System will be managed as an integral component entity of UW Medicine.

### 6.1 Overarching Goal of Integration

One of the Strategic Alliance's primary objectives is to have the District Healthcare System be operated as a component entity of UW Medicine during the Term. UW and the District will each use its best efforts to facilitate such integration. The integration activities will be implemented through the collaborative efforts of the District Healthcare System and UW Medicine. Without limiting the generality of the foregoing, the Parties commit that they will:

- (a) share Confidential Information, as contemplated by Section 6.2, in order to permit the necessary strategic planning to occur to facilitate the integration activities;
- (b) participate in collaborative planning processes to align their delivery of Healthcare Services and an array of clinical programs;
- (c) contract jointly for Shared Support Services pursuant to Section 6.4;
- (d) engage in Clinical Integration Activities between the District Healthcare System, and one or more of the Component Entities pursuant to Section 6.4; and
- (e) integrate to achieve improved patient care quality and access and improved efficiencies.

### 6.2 Confidential Information

In order to achieve the Strategic Alliance's objectives, UW Medicine and the District agree to make available to the other, throughout the Term, Confidential Information regarding its healthcare system. The Confidential Information exchanged between the parties shall be used solely for purposes of pursuing the objectives of the Strategic Alliance. Neither the District nor the Board will withhold Confidential Information regarding the District Healthcare System, even though such information is otherwise Confidential Information, since the sharing of such Confidential Information is critical to the integration of the District Healthcare System with UW Medicine. UW Medicine will not withhold its Confidential Information to the extent that the disclosure thereof is critical to achieving the integration of the District Healthcare System into

UW Medicine. The District and UW acknowledge that both Parties are subject to the Washington Public Records Act, and may be obligated to disclose documents when it receives a public records request. Should any Public Records Act request for Confidential Information be received by either Party, it will provide the other Party with notice to enable that Party to seek a protective order or other judicial relief. This paragraph supersedes the provisions of that certain Mutual Non-Disclosure and Confidentiality Agreement, dated January 18, 2011, between UW and the District.

### 6.3 Strategic Planning; Annual Budgets

(a) As soon as is reasonably practicable after the Effective Date, the UW Medicine CEO will enlist the Valley CEO and the Senior Executive Team and appropriate executives and staff at UW Medicine to initiate the integration of the District Healthcare System into UW Medicine consistent with the UW Medicine Strategic Plan. The UW Medicine Strategic Plan is intended to give overall direction to the specific initiatives to be pursued within the District Healthcare System and to provide for the desired alignment of clinical, research and teaching programs between the Parties. The UW Medicine Strategic Plan may be amended, from time to time, to take into account new developments. Notwithstanding the foregoing, the UW Medicine Strategic Plan will not incorporate terms that are inconsistent with, or that take away, the specific benefits conferred upon the District and the District Healthcare System by this Agreement.

(b) Furthermore, to further integrate the activities of the District Healthcare System with those of the other Component Entities and promote appropriate and necessary program growth, the Board and the Senior Executive Team will participate in UW Medicine's comprehensive and ongoing strategic planning and capital planning and budgeting processes. This process will include aligning the District Healthcare System's programs, resource allocations and services with those of the other UW Medicine Component Entities.

(c) The Valley CEO and his/her Senior Executive Team will also prepare Annual Budgets with reasonable detail, and comparable with the similar budgets prepared by the other UW Medicine Component Entities.

(d) The Annual Budgets shall be prepared in accordance with the timeline used for the UW Medicine budget calendar, and shall be subject to the approval of the Board and the UW Medicine CEO in consultation with the UW Medicine Board.

### 6.4 Integration Activities

(a) **Special Definitions.** For purposes of this Agreement and this Section 6.4, the following terms have the meanings assigned below:

"*At Cost*" means, with respect to any Shared Support Services provided by one Component Entity to another, an amount equal to the actual costs incurred in providing such services, determined in accordance with GASB, computed on a consistent basis, subject to the following special rules: (i) to the extent that such Shared Support Services are provided by the service provider to one or more Component Entities (such as would be the case if the services were rendered by UW Medicine for and on behalf of the District and one or more of the other

Component Entities), consistent methods shall be applied by UW Medicine in allocating costs among the serviced entities, so as to ensure that each entity is treated no less favorably than another; (ii) if such Shared Support Services are provided by persons who do not work exclusively in rendering services for and on behalf of the other Component Entities, reasonable methods shall be adopted by the service provider to ensure an appropriate allocation of such employee's time between all recipients of the employee's services, with appropriate records maintained to evidence that the allocations have been made on a reasonable and equitable basis; and (iii) overhead allocations are permissible, subject to demonstration that they relate to reasonable costs, and have been fairly allocated among the Component Entities benefiting from such services.

*"Business Integration Activity"* means any alignment and integration of the business and activities of the District Healthcare System with one or more of the other Component Entities, including but not limited to activities related to patient safety, quality metrics, compliance activities, business planning processes, and strategic planning, where there is no sharing of either revenues or expenses between such entities.

*"Clinical Integration Activity"* means an alignment of the clinical activities and programs of the District Healthcare System with one or more of the other Component Entities and potentially with others, through the creation of new or expanded programs providing for patient care, where there is a sharing of revenues and expenses among the participating entities.

*"Material Transaction"* means, with respect to either a Shared Support Service or Clinical Integration Activity, any proposed activity falling within one or more of the following criteria: (i) it requires, or is projected to call for, the District Healthcare System to expend \$25 million or more in any 12-month period or \$50 million or more over the proposed life of the activity; (ii) it cannot be implemented fully unless the participants secure a "certificate of need" from the Washington State Department of Health; or (iii) it involves the sale, contribution, leasing, licensing, conveyance or other disposition of District Assets having a value in excess of 5% of the District's total assets as reflected on its most recent annual financial statements.

*"Shared Support Services"* means the delivery of goods and/or services through one or more of the UW Medicine Component Entities. Such Shared Support Services may relate to shared administrative, technical and other support services. Furthermore, an additional defining characteristic is that each such arrangement provides for the participants to share costs related to the Shared Support Services, but does not involve the sharing of revenues with respect to such Shared Support Services.

(b) **Origination of Ideas; Refinement of Proposals.** UW and the District acknowledge that potential opportunities for integration may be generated from a variety of sources, including but not limited to: (i) the executives of the Component Entities; (ii) the senior executive teams, employees, consultants, advisors and vendors of the Component Entities; (iii) while it remains in existence, the OIOC established under Section 6.4(n); and (iv) the executive leadership of UW Medicine. Proposed integration opportunities will be screened, evaluated, refined, documented and processed pursuant to such protocols as may be established from time to time by the UW Medicine CEO.

(c) **General Requirements.** No integration proposal, irrespective of its form, will be implemented until:

- (i) the terms of the proposal have been documented in written form;
- (ii) the Valley CEO and ultimately the UW Medicine CEO approve its implementation; and
- (iii) the Valley CEO and ultimately the UW Medicine CEO have determined that the participants' involvement in the integration proposal can be reasonably funded out of their respective available resources.

(d) **Shared Support Services.** In addition to the general requirements of Section 6.4(c), before implementing a proposed Shared Support Service, where either the District Healthcare System or one of the other Component Entities provides such services for the benefit of one or more of the other Component Entities, the following additional requirements must be met:

- (i) the service provider agrees to render the services At Cost;
- (ii) the service provider treats the District Healthcare System no less favorably than it treats any of the other Component Entities; and
- (iii) the service provider agrees to be held to the same standard of care expected of a reasonably prudent person providing similar services in the King County, Washington area.

If one or more of the requirements noted above cannot be satisfied, the terms of the proposal may nonetheless be implemented if the terms upon which it is to be provided are disclosed to and separately approved by (A) the Board and (B) if the proposed Shared Support Services would constitute a Material Transaction, the District's Board of Commissioners.

(e) **Clinical Integration Activities.** In addition to the general requirements of Section 6.4(c), before implementing a proposed Clinical Integration Activity, the following additional requirements must be met:

- (i) the documentation includes the information itemized in Section 6.4(f);
- (ii) the participants share in the revenues and expenses in proportion to the relative values of their respective contributions to the activity (whether consisting of cash, property and/or services), as the values of such contributions have reasonably been determined by the Valley CEO and the UW Medicine CEO; and
- (iii) the Valley CEO and the UW Medicine CEO have each confirmed that, in their respective opinions, the terms of the Clinical Integration Activities are equitable to the participants.

If one or more of the requirements noted above cannot be satisfied, the terms of the proposal may nonetheless be implemented if the terms upon which it is to be provided are disclosed to and separately approved by (A) the Board and (B) if the proposed Clinical Integration Activity would constitute a Material Transaction, the District's Board of Commissioners.

(f) **Documentation of Clinical Integration Activities.** Each of the Clinical Integration Activities will be documented in writing and address the following in either a business plan or a written agreement:

(i) the identification of all participants to the arrangement and a statement of the purposes and objectives of the arrangement;

(ii) the manner in which the activity is to be governed by the participants, including an itemization of all matters requiring approval of the participants before being implemented;

(iii) the relative contributions of the participants to the activity, whether consisting of cash, property, services, staffing support or some combination thereof, as well as the values assigned to such contributions and the respective obligations of the participants to contribute additional capital to the activity, separate and above the capital contributions;

(iv) the manner in which the revenues and expenses of the activity are to be allocated among the participants;

(v) any periodic reports to be prepared and distributed to report on the financial performance of the activity, including but not limited to required financial statements, tax returns as applicable, and status reports; and

(vi) such other provisions as are normal and customary for initiatives similar to the proposed activity.

(g) **Unwinding.** Since one of the Strategic Alliance's primary objectives is to achieve integration, neither UW nor the District may, at any time during the Term, take action to unwind integration activities without first securing the approval of the other, which approval may be granted, denied, or granted subject to conditions in the other Party's discretion.

(h) **Establishment and Operation of OIOC.** As soon as reasonably practicable after the Effective Date, the UW Medicine CEO will establish a management committee, to be designated as the "Operational Integration Oversight Committee," consisting exclusively of management representatives (the "*OIOC*"). The OIOC will be charged with the responsibility of reviewing the potential integration activities identified on Exhibit 6.4(h) and proposed pursuant to Section 6.3(a) to determine whether to recommend to the UW Medicine CEO the implementation of any of such proposals. No later than June 30, 2012, the OIOC shall provide its initial report, including recommendations, to the UW Medicine CEO. It is contemplated that the OIOC will remain in existence for the first three years after the formation of the Strategic Alliance to provide ongoing input regarding the advisability of pursuing various

integration proposals, but it will be left to the discretion of the UW Medicine CEO to decide how long the OIOC shall remain in place to provide advice regarding proposed integration activities. The Board will be periodically briefed on the work of the OIOC.

(i) **Separate Clinical or Support Services.** To the extent that either the District Healthcare System or one of the other Component Entities provides, for the benefit of the other, clinical or support services (not falling within the other terms of this Section 6.4), the service provider shall be entitled to reimbursement At Cost for such services or upon such other terms as are mutually acceptable to the Valley CEO and the UW Medicine CEO.

#### 6.5 Core Clinical Services

The UW recognizes the particular community services mission of the District and agrees to retain the institutional identity in a manner that, to the extent funds are available, achieves the aims of the District to meet its community obligations identified in its mission statement. Consistent with the UW Medicine Strategic Plan and the community obligations of the District, core clinical services will be maintained and opportunities for increased efficiencies explored as needed to improve access, reduce duplication and improve overall cost effectiveness and value of services. Expansion, contraction, or relocation of services will be completed within the overall context of the UW Medicine Strategic Plan and the community needs and obligations of the District. In furtherance of such objective, the Board will not eliminate any of the clinical services referenced on Exhibit 7.1(a)(ix) unless such elimination is approved by the District's Board of Commissioners or otherwise permitted by the terms of such exhibit.

#### 6.6 New Ventures

The District Healthcare System is intended to serve as the primary vehicle through which Healthcare Services are rendered to individuals residing within the District. Accordingly, if at any time during the Term there is perceived to be a need to expand the scope of existing, or to add new, Healthcare Services located within the District Service Area, UW and the District intend, to the fullest extent possible, to have such Healthcare Services be incorporated into and be rendered as a part of the District Healthcare System, unless such services are already provided directly or indirectly by a Component Entity of UW Medicine through ownership or contract or arise pursuant to the evolution of such services. If the Valley CEO and the Board do not wish to pursue the new venture, but UW Medicine wishes to proceed independent of the District Healthcare System, UW Medicine may not pursue such new venture until it has first received the approval of the District's Board of Commissioners.

#### 6.7 Unwinding of Integration

(a) If the decision is made to not extend this Agreement, or in the event of the earlier termination of this Agreement, no later than 30 days from the occurrence of a termination event under Section 10.2, UW and the District shall confer to establish a plan for unwinding integration activities, so that the District Healthcare System can operate on a separate stand alone basis, with its own employees, and not dependent upon UW Medicine or any of the other Component Entities, upon the expiration of the Term, without disruption of services or impairment of patient care and safety. The Parties shall work in good faith to devise the

necessary transition plan and to achieve the necessary unwinding of integrated activities and services. However, in lieu of unwinding all such integrated activities, UW and the District may, upon mutually acceptable terms, provide for some integrated services to remain in place after expiration of the Term or to allow one or more of the Parties to provide desired services on a post-termination basis as approved by the Valley CEO and the UW Medicine CEO.

(b) At any time from two years prior to the expiration of the Term until a decision to extend the Term is reached, no contracts may be entered into that commit the District Healthcare System to obligations surviving the termination or expiration of the Term except to the extent that such obligations are incurred in the ordinary course of business, and are terminable by the District without liability no later than 180 days after delivery of a termination notice from the District, unless approved in advance by the Valley CEO or his or her designee; provided, however, this restriction will not apply to any action otherwise previously approved by the District's Board of Commissioners;

(c) The cost of unwinding integrated activities shall be borne equitably by the District and UW Medicine. The Valley CEO and the UW Medicine CEO will instruct their respective staffs to estimate the costs of unwinding integrated activities and proposing an equitable allocation of the unwinding costs, after taking into account all relevant factors, including but not limited to the participants' relative benefits from participating in the integrated activities, the difficulties in unwinding the integration, and the cost of establishing new stand alone operations with comparable functionality. If, for whatever reason, the Valley CEO and the UW Medicine CEO cannot agree upon either the proper allocation of the unwinding expenses or the method of unwinding the integration, the matter may be submitted, by either Party, for dispute resolution under this Agreement.

## ARTICLE VII RESERVED POWERS

### 7.1 District-Reserved Powers

(a) Notwithstanding anything in this Agreement to the contrary, none of the following actions may be taken by or on behalf of the District Healthcare System by either the Board or the UW Medicine CEO, unless first approved by the District's Board of Commissioners:

(i) the Transfer or Encumbrance of any Material Asset of the District Healthcare System; provided, however, that the foregoing shall not apply to purchase money security interests as long as such Encumbrances are created in connection with the acquisition of property, equipment, machinery, or other tangible or intangible acquisitions, whose acquisitions has been approved in the Annual Budgets or separately approved by either the District's Board of Commissioners or the Board pursuant to authority otherwise granted under this Agreement;

(ii) the decision to expend for annual capital improvements, equipment expenditures, or other significant acquisitions an amount greater than two times the average annual amount of capital expended for such purposes during the period from

2005 through 2010, adjusted annually, starting in 2012, by an amount equal to the change in the CPI Index from the first day of the prior year through the last day of the prior year;

(iii) the exercise of the District's statutory power to raise revenues by the levy of Regular Property Taxes on taxable property within the District's boundaries; provided, however, the District is subject to the requirements of Section 9.1;

(iv) relocation of the Hospital or the creation of any other new acute-care hospital facilities that are on a new site within the District Service Area (this prohibition does not relate to clinics but only to hospital facilities);

(v) change in any bed license applicable to the Hospital that would result in a reduction in licensed bed capacity;

(vi) the sale or transfer of any bed license or certificates of need or other hospital licenses applicable to the District Healthcare System to another entity;

(vii) the incurrence of Indebtedness except as otherwise permitted by Section 4.18(a) and as long as such Indebtedness does not exceed the amounts permitted under Section 7.1(a)(ii);

(viii) the issuance of Bonds by the District, which actions may be taken only by resolutions duly adopted by the District's Board of Commissioners; provided, however, the District has committed itself to incur Indebtedness and issue, or cause to be issued, Bonds as and to the extent required to fund the expenses referenced in Section 4.18(c);

(ix) any event eliminating core clinical services unless the elimination of such services is permitted within the terms of Exhibit 7.1(a)(ix); and

(x) any amendment to this Agreement or the provisions of any of the exhibits attached hereto, except as otherwise provided in this Agreement (the terms of all such exhibits having been incorporated herein by reference).

(b) The District's Board of Commissioners may exercise its statutory and other common law powers to:

(i) levy taxes as and to the extent contemplated by this Agreement, subject to the qualifications of Section 9.1;

(ii) sponsor educational or other outreach programs (not involving patient care) designed to encourage overall wellness and preventive health initiatives within the District Service Area so long as these programs are not duplicative of other programs already in place and recognizing that such activities are to be conducted pursuant to the terms of this Agreement rather than separately conducted by the District's Board of Commissioners in some other manner; provided, further, that this does not preclude the District Healthcare System from offering similar programs and, should it elect to do so, the District and Board will, in good faith, coordinate their efforts to make

them available to the public with a view to achieve the optimal impact given the limited resources each makes available for such services; and

- (iii) preserve and protect its rights under this Agreement.

## 7.2 Limitations on District Activities

(a) Notwithstanding anything in this Agreement to the contrary, none of the following actions may be taken by and on behalf of the District Healthcare System either by the Board or the District, unless approved in writing by the UW Medicine CEO after consultation with the UW Medicine Board:

- (i) the establishment of a new facility, including a Healthcare Facility in the District Service Area;

- (ii) any activity requiring a Certificate of Need;

- (iii) the District shall not, outside of the Strategic Alliance, offer or directly or indirectly provide or invest in Healthcare Services within the District Service Area; provided, however, that this restriction will not prohibit the District from sponsoring the programs referenced in Section 7.1(b)(ii);

- (iv) the Transfer of any Material Assets of the District Healthcare System;

- (v) any amendment to this Agreement or the provisions of any of the exhibits attached hereto, except as otherwise provided in this Agreement (the terms of all such exhibits having been incorporated herein by reference); and

- (vi) the District's Board of Commissioners may not approve, by resolution or otherwise, or recommend the approval of, any plan to de-annex, or to otherwise remove from the District, any portion of the District, unless a showing has been made to the UW Medicine CEO that such action does not adversely impact the tax base of the District or the District's ability to service its outstanding Bonds and to comply with all of the covenants, representations and warranties made in connection with the issuance thereof.

- (b) The UW may take any action to preserve and protect its rights under this Agreement.

## ARTICLE VIII REPRESENTATIONS AND WARRANTIES

### 8.1 District's Representations and Warranties

The District represents and warrants to UW that the statements contained in this Article VIII are correct and complete as of the date of this Agreement and will be true as of the Effective Date as if each such representation and warranty were remade as of the Effective Date.

(a) **Organization and Authority.** The District is a municipal corporation duly organized, validly existing, and in good standing under the laws of the State of Washington. Subject to obtaining the consent of the District's Board of Commissioners, the District has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated by this Agreement. As of the Effective Date, the execution and delivery of this Agreement by the District and the consummation by the District of the transactions contemplated by this Agreement shall have been duly authorized by all requisite corporate action of the District, including, but not limited to, approval of the transaction by the District's Board of Commissioners and any creditor whose consent is required by contract or law and shall constitute the valid and binding obligations of the District enforceable in accordance with its terms.

(b) **Noncontravention.** Neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated by this Agreement, shall (i) violate any statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any Governmental Body, to which the District or the District Assets is subject or any provision of the charter or bylaws of the District; or (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any Party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, lien, security interest, or other arrangement to which the District is a Party or by which the District is bound or to which any of the District Assets is subject (or result in the imposition of any security interest upon any of its assets). Except as is otherwise expressly set forth in this Agreement, the District does not need to give any notice to, make any filing with, or obtain any authorization, consent, or approval of any Governmental Body in order for the Parties to consummate the transactions contemplated by this Agreement.

(c) **Compliance with Law; Litigation.** The District is in compliance with all applicable laws (including rules, regulations, codes, plans, injunctions, judgments, orders, decrees, rulings, and charges thereunder) of all Governmental Bodies. There is no action, suit, proceeding, or investigation in progress or pending before any Governmental Body, and there is no threat thereof against or relating to the District or its properties, assets, or business, nor, to the knowledge of the District, is there any basis for any such claim, suit, or other proceeding. There is no suit, action, investigation, or other proceeding commenced, pending, or, to the knowledge of the District, threatened against, or affecting the District in any Governmental Body, in which it is sought to restrain, prohibit, or otherwise adversely affect the ability of the District to perform any or all of the obligations required of it under this Agreement or the consummation of the transactions contemplated by this Agreement.

(d) **Program Exclusion.** Neither the District or any of its employees, agents, officers, directors, or managers:

(i) Have been convicted of a criminal offense related to, or are currently sanctioned, excluded, proposed for exclusion, or otherwise ineligible to participate in, any federal or state funded health care program, including but not limited to Medicare and Medicaid programs; and

(ii) Have not otherwise been excluded from doing business with the federal government as provided in the list maintained by the United States General Services Administration or the Department of Health and Human Services Office of Inspector General.

## 8.2 UW's Representations and Warranties

UW hereby represents and warrants to the District, that each of the following representations and warranties is true and correct as of the date hereof and will be true and correct as of the Effective Date.

(a) **Organization and Authority.** UW is an agency of the State of Washington, validly existing and in good standing under the laws of the State of Washington. UW has all requisite power and authority to enter into this Agreement and to consummate the transactions contemplated by this Agreement. As of the Effective Date, the execution and delivery of this Agreement by UW and the consummation by UW of the transactions contemplated by this Agreement shall have been duly authorized by all requisite action of UW, including, but not limited to, approval of the transaction by the UW's Board of Regents and any creditor whose consent is required by contract or law and shall constitute the valid and binding obligations of UW enforceable in accordance with its terms.

(b) **Noncontravention.** Neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated by this Agreement, shall (i) violate any statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any federal, state, local, or foreign governments, governmental agency, or court (collectively, the "*Governmental Bodies*") to which UW or the UW Assets is subject or any provision of the charter or bylaws of UW; or (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any Party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, lien, security interest, or other arrangement to which UW is a Party or by which UW is bound or to which any of the UW Assets is subject (or result in the imposition of any security interest upon any of its assets). Except as is otherwise expressly set forth in this Agreement, UW does not need to give any notice to, make any filing with, or obtain any authorization, consent, or approval of any Governmental Body in order for the Parties to consummate the transactions contemplated by this Agreement.

(c) **Compliance with Law; Litigation.** UW is in compliance with all applicable laws (including rules, regulations, codes, plans, injunctions, judgments, orders, decrees, rulings, and charges thereunder) of all Governmental Bodies. There is no action, suit, proceeding, or investigation in progress or pending before any Governmental Body, and there is no threat thereof against or relating to UW or its properties, assets, or business, nor, to the knowledge of UW, is there any basis for any such claim, suit, or other proceeding. There is no suit, action, investigation, or other proceeding commenced, pending, or, to the knowledge of UW, threatened against or affecting UW in any Governmental Body, in which it is sought to restrain, prohibit, or otherwise adversely affect the ability of UW to perform any or all of the obligations required of it under this Agreement or the consummation of the transactions contemplated by this Agreement.

(d) **Program Exclusion.** Neither UW Medicine, nor any of its other Component Entities engaged in providing patient care, nor any of their respective employees, agents, directors or managers:

(i) have been convicted of a criminal offense related to, or are currently sanctioned, excluded, proposed for exclusion, or otherwise ineligible to participate in, any federal or state funded health care program, including but not limited to Medicare and Medicaid programs; and

(ii) have not otherwise been excluded from doing business with the federal government as provided in the list maintained by the United States General Services Administration or the Department of Health and Human Services Office of Inspector General.

## ARTICLE IX ADDITIONAL COVENANTS

### 9.1 Exercise of Tax Levy Authority

(a) The District, pursuant to the authority vested in it under RCW 70.44.060(6), may, from time to time, raise revenues by levying annual Regular Property Taxes on all taxable property within the District subject to certain constitutional and statutory limitations. The exercise of this statutory Regular Property Tax levy authority is reserved exclusively to the District and may not be exercised by the Board, even though the Board is vested with the authority to manage and operate the District Healthcare System throughout the Term. In addition, the District agrees, covenants represents and warrants that it shall:

(i) maintain its Regular Property Taxes against taxable property within the District's boundary (subject to constitutional and statutory limits) at such levels as are necessary to ensure that, at no time, there is a breach of, or an event of default under, any of the District's outstanding Bonds or the covenants contained in the District resolutions pertaining to such Bonds, and that the District will not take any other action, whether or not related to tax levies, which results in, or could reasonably be expected to result in, the breach or an event of default under any of the outstanding Bonds or bond covenants;

(ii) not take action to reduce the current level of tax support for the District's services and care, unless each of the following conditions is satisfied:

(A) such action does not result, nor is it reasonably expected to result, in causing the District Healthcare System to operate at a deficit during any fiscal year;

(B) such action does not result, nor is it reasonably expected to result, in reducing the level of care or scope of services then offered by the District Healthcare System to the public, including its support for charity cases, indigents, and the uninsured, as well as its delivery of services, at historical levels for all other patients; and

(C) such action does not result, nor is it reasonably expected to result, in the withdrawal or a downgrade in the credit rating of any outstanding District Bonds by any nationally recognized statistical rating organization.

(b) Certain of the District's outstanding Bonds are "limited tax" general obligation Bonds. The District has irrevocably covenanted in its resolutions authorizing the issuance of such Bonds to include in its budget and to make annual levies of Regular Property Taxes within the constitutional and statutory tax limitations provided by law without a vote of the electors of the District upon all property within the District subject to taxation in amounts that, together with any other money legally available therefor, should be sufficient to pay the principal of and interest on such Bonds as the same shall become due. The District has irrevocably pledged its full faith, credit and resources to the annual levy and collection of such Regular Property Taxes and for the prompt payment of such principal and interest.

(c) Notwithstanding the terms of Section 9.1, the District's Board of Commissioners will retain the discretion as to whether to increase annually, subject to applicable constitutional and statutory limits, the Regular Property Taxes to be levied upon taxable property within the District without voter approval. No later than March 1 of each year, the District's Board of Commissioners shall advise the Valley CEO and the Board as to its decisions regarding the Regular Property Taxes to be levied in the upcoming year. Providing such notice will permit the Board to take such decision into account in establishing the Annual Budgets for the District Healthcare System for the following fiscal year. Nothing in this section is intended, however, to relieve the District of its obligations under Section 9.1(a)(i).

## **9.2 Good Faith Compliance Efforts**

Neither the District's Board of Commissioners nor UW Medicine shall, directly or indirectly, take actions that (i) arrogate to itself any of the power, authority, privileges or rights vested in the Board or (ii) are intended to circumvent, undermine, or otherwise frustrate the purposes for which the Strategic Alliance was organized. The District will, upon the reasonable request of the UW Medicine CEO, amend the District's Bylaws, mission statement, or contractual arrangements, if such action is necessary in order to synchronize the terms of those agreements with the commitments of the District in this Agreement. Notwithstanding the foregoing, the exercise by either the District's Board of Commissioners or UW of the rights reserved to them in Article VII or elsewhere in this Agreement shall not be deemed to be a violation of this Section 9.2.

## **9.3 Revenues to Support District Activities**

(a) To permit the District to pursue its separate activities (i.e., activities not related to the operation of the District Healthcare System), the Board shall, at the District's request, remit funds to the District's Board of Commissioners to permit timely payment of the following expenditures, as and when incurred:

(i) the compensation and expense reimbursements to which the Commissioners of the District are entitled under applicable law, including amounts related to ongoing education;

(ii) the funds needed to permit the District's Board of Commissioners to exercise their respective rights and discharge their obligations as such rights and obligations are itemized in Exhibit 3.10(c);

(iii) the funds needed by the District to support community outreach programs for general health awareness and preventative care pursuant to the rights reserved under Section 7.1(b)(ii), which expenditures will be in amounts comparable to similar expenditures in the years preceding the Strategic Alliance's creation;

(iv) the funds needed by the District to protect its interests under this Agreement (including, without limitation, to exercise its review and audit rights under Section 4.6); and

(v) the funds necessary to pay the debt service on, and satisfy other financial obligations with respect to, District Indebtedness and Bonds.

(b) No later than 60 days prior to the beginning of each fiscal year of the District Healthcare System, the District's Board of Commissioners shall deliver, or cause to be delivered, to the Valley CEO a budget of its projected expenditures (for which remittances from the District Healthcare System are expected under Section 9.3(b)) for the upcoming fiscal year and, if the fiscal year does not end on December 31, and for the period between the end of the fiscal year and December 31. Such information will be used by the Board to prepare the statutory expenditure budget required by RCW 70.44.060(6), as well as the operating budgets to be included in the Annual Budgets. The District's right to receive District Revenues to cover Section 9.3 expenses will, during each fiscal period, be limited to the budgeted amounts set forth for such fiscal period, except to the extent that expenditures in excess of such amounts are either approved by action of the Board or are needed to preserve the District's rights pursuant to Section 9.3(a)(iv).

#### 9.4 Private Letter Ruling Request

The District has filed, or expects to shortly file, a private letter ruling request with the IRS seeking a determination that the District's participation in the Strategic Alliance will not adversely affect the tax-exempt status of the District's outstanding Bonds. Until the District receives such determination from the IRS, the Board will not permit the District Healthcare System to become party to any revenue-sharing arrangement with any of the other Component Entities.

### ARTICLE X TERM, TERMINATION AND WIND UP

#### 10.1 Term

The term of this Agreement (the "*Term*") shall commence as of the Effective Date and shall continue until December 31, 2026; provided, however, that with the approval of the District's Board of Commissioners and UW Medicine, the Term may be extended for each of two successive 15-year periods. In order to extend the Term for either of the two 15-year extensions, the District's Board of Commissioners and UW Medicine must agree in writing to the extension

no later than two years prior to the expiration of the then-existing Term of the Strategic Alliance. Furthermore, the Term may be terminated prior to the date set forth for its expiration pursuant to the occurrence of certain termination events identified in Section 10.2.

## 10.2 Termination Events

This Agreement will terminate prior to the expiration of its Term (as defined in Section 10.1) upon the first to occur, if any, of the following events:

- (i) the written election of the District and UW to mutually terminate this Agreement;
- (ii) the written election of the District to terminate this Agreement if there has been a UW Event of Default and such UW Event of Default has not been cured within the grace period provided for in Section 10.3;
- (iii) the written election of UW to terminate this Agreement if there has been a District Event of Default, and such District Event of Default has not been cured within the grace period provided in Section 10.4; or
- (iv) the written election of the District or UW following the occurrence of a Triggering Event.

The date upon which any termination under this Section 10.2 is effective shall be the date stipulated in the election notice giving rise to such termination; provided, however, that such termination shall not be effective earlier than 180 days after written notice has been given of the election to terminate this Agreement has been given, unless the Parties jointly consent in writing to an earlier termination date.

## 10.3 Default by UW

The following occurrences shall each be deemed to be an Event of Default by UW (each a "*UW Event of Default*") (whatever the reason for such UW Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree, or order of any court or any order, rule, or regulation of any administrative or governmental body):

- (i) UW defaults in the performance of, or breaches, any covenant or warranty of UW in this Agreement, and such default or breach continues for a period of 180 days after written notice has been given to UW specifying such default or breach in reasonable detail and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder;
- (ii) UW, pursuant to or within the meaning of any Bankruptcy Law, (A) commences a voluntary case, (B) consents to the entry of an order for relief against it in an involuntary case, (C) consents to the appointment of a custodian of it or for all or substantially all of its property, or (D) makes a general assignment for the benefit of its creditors; or

(iii) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that (A) is for relief against UW in an involuntary case, (B) appoints a custodian of UW or for all or substantially all of its property, or (C) orders the liquidation of UW; and the order or decree remains unstayed and in effect for 90 consecutive days.

#### 10.4 Default by the District

The following occurrences shall each be deemed to be an Event of Default by the District (each a "*District Event of Default*") (whatever the reason for such District Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree, or order of any court or any order, rule, or regulation of any administrative or governmental body):

(i) the District defaults in the performance of, or breaches, any covenant or warranty of the District in this Agreement, and such default or breach continues for a period of 180 days after written notice has been given to the District specifying such default or breach in reasonable detail and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder;

(ii) the District, pursuant to or within the meaning of any Bankruptcy Law, (A) commences a voluntary case, (B) consents to the entry of an order for relief against it in an involuntary case, (C) consents to the appointment of a custodian of it or for all or substantially all of its property, or (D) makes a general assignment for the benefit of its creditors;

(iii) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that (A) is for relief against the District in an involuntary case, (B) appoints a custodian of the District or for all or substantially all of its property, or (C) orders the liquidation of the District; and the order or decree remains unstayed and in effect for 90 consecutive days; or

(iv) the District Healthcare System, in whole or in substantial part, is taken by execution or other process of law directed against the District, or is taken upon or subject to any attachment by any creditor of the District, if such attachment is not discharged within 90 days after being levied.

#### 10.5 Triggering Events

The following shall each constitute a triggering event (a "*Triggering Event*") under this Agreement:

(i) the District Healthcare System operates below budgeted operating income levels for three or more consecutive years;

(ii) the District fails to comply with relevant Internal Revenue Service rules related to tax-exempt status of existing or future bonds;

(iii) the District fails to receive a favorable determination from the IRS in response to its request for a private letter ruling that the District's participation in the Strategic Alliance will not adversely affect the tax-exempt status of the District's outstanding Bonds;

(iv) the District is in default or fails to meet any of its bond covenants and such event of default is not cured within the notice and grace periods provided for in the applicable bond documents pursuant to which Bonds were issued; or

(v) the existence or continuation of the Strategic Alliance established through this Agreement is prohibited by applicable laws or is in violation of any court or governmental order, decree, judgment or other declaration of relief and such court or governmental action is final and binding and is not subject to appeal, by either the District, UW Medicine or both of them.

#### 10.6 Disputes Regarding Events of Default

If either Party should give written notice of an Event of Default against the other, and the recipient of such notice contests the existence of such Event of Default, such recipient may refer the matter for resolution pursuant to the dispute resolution provisions of Section 13.11. During the period that such matter is being resolved through such mechanisms, the Party alleging the Event of Default may not terminate this Agreement. Notwithstanding the foregoing, such Party may nonetheless seek injunctive or other special relief if, in such Party's judgment, such action is necessary to preserve the value of the District Healthcare System from irreversible damages or to prevent irreparable harm to either Party, and such action may be taken without the need of posting bond or other collateral.

#### 10.7 Winding-Up Procedures

The following provisions shall apply to the expiration or termination of this Agreement, irrespective of whether such occurs upon the expiration of a stated Term or pursuant to any of the termination provisions of this Article X:

(a) **Cooperation.** The Parties agree to cooperate fully with each other to achieve an orderly transfer of the management of the District Healthcare System, so that the District can effectively and safely operate the District Healthcare System in a manner that ensures continuity of patient care and compliance with all applicable laws, regulations, and licensing, accreditation, and contractual requirements. To the extent permitted by contract or law, all rights under contracts, permits, licenses, certificates of need, and other intangible assets as are necessary to allow the continued operation of the District Healthcare System shall be conveyed to and vested in the District; provided, however, in no event will permits, licenses or certificates of need be obtained in the name of any party other than the District, unless a determination has been made in advance that such permits, licenses and certificates of need can be transferred, without undue difficulty or expense, to the District upon the termination of this Agreement.

(b) **Transition Plan.** During the period between the date of receipt of any written notice to terminate this Agreement and the actual effectiveness of the termination, the

Parties shall cooperate to develop a plan, including the steps to be taken to unwind integration activities ("*Transition Plan*") to effectuate the transfer of the operation of the District Healthcare System to the District or such other person or persons designated by the District as a successor manager of the District Healthcare System. During the Transition Period, the Board will continue to have the oversight functions, and UW Medicine the managerial rights, as set forth in this Agreement and will continue to provide such services until the end of the Transition Period. If, for whatever reason, there are delays in implementing the Transition Plan, so as to confer total control over the District Healthcare System without interruption of patient care, the Parties may extend, on a temporary basis, the Term of this Agreement, with the Board to continue its oversight of the District Healthcare System as provided for herein, in order to ensure continuity of care and patient safety.

## ARTICLE XI CLOSING CONDITIONS

### 11.1 District Closing Conditions

Notwithstanding anything herein to the contrary, the obligations of the District to enter into this Agreement are subject to the fulfillment, on or prior to the Closing, of the following conditions precedent, unless (but only to the extent) waived in writing by the District at the Closing:

(a) **UW Representations and Warranties.** The representations and warranties of UW contained in this Agreement shall be true and correct when made and as of the Closing. All of the terms, covenants, and conditions of this Agreement to be complied with or performed by UW on or before the Closing pursuant to the terms hereof shall have been duly complied with and performed.

(b) **Regulatory Approvals.** All regulatory consents and approvals required in connection with the execution, delivery, and performance of this Agreement by UW shall have been obtained or made by UW when so required, including such evidence as is satisfactory to the District that entering into the Strategic Alliance does not violate applicable federal or state antitrust laws and rules.

(c) **Consents, Approval and Authorizations.** All consents, approvals and authorizations of third parties necessary in connection with the performance of this Agreement shall have been obtained.

(d) **Actions and Proceedings.** No action or proceeding before a court or any other Governmental Body shall have been instituted or threatened to restrain or prohibit the transactions contemplated in this Agreement, and no Governmental Body shall have taken any other action or made any request of any Party hereto as a result of which the District reasonably and in good faith deems it inadvisable to proceed with the transactions herein.

(e) **Insolvency.** UW shall not (i) be in a receivership or dissolution; (ii) have made any assignment for the benefit of creditors; (iii) have admitted in writing its inability to pay its debts as they mature; (iv) have been adjudicated a bankrupt; or (v) have filed a petition in involuntary bankruptcy, a petition or answer seeking reorganization, or an agreement with

creditors under the Federal Bankruptcy Law or any other similar law or statute of the United States or any state, nor shall any such petition have been filed against UW.

(f) **Due Diligence.** The District shall have completed its own due diligence investigation of UW, the results of which shall have been deemed satisfactory in the discretion of the District no later than the Closing.

(g) **Approval of Board of Commissioners.** The District's Board of Commissioners has, by resolution duly adopted, approved the District's execution, delivery, and performance of this Agreement.

#### 11.2 Conditions Precedent to Obligations of UW

Notwithstanding anything herein to the contrary, the obligations of the UW to enter into this Agreement are subject to the fulfillment, on or prior to the Closing, of the following conditions precedent, unless (but only to the extent) waived in writing by the UW at the Closing:

(a) **The District Representations and Warranties.** The representations and warranties of the District contained in this Agreement shall be true and correct when made and as of the Closing. All of the terms, covenants, and conditions of this Agreement to be complied with or performed by the District on or before the Closing pursuant to the terms hereof shall have been duly complied with and performed.

(b) **Regulatory Approvals.** All regulatory consents and approvals required in connection with the execution, delivery, and performance of this Agreement by UW shall have been obtained or made by UW when so required, including such evidence as is satisfactory to the UW that entering into the Strategic Alliance does not violate applicable federal or state antitrust laws and rules.

(c) **Consents, Approval and Authorizations.** All consents, approvals and authorizations of third parties necessary in connection with the performance of this Agreement shall have been obtained.

(d) **Actions and Proceedings.** No action or proceeding before a court or any other Governmental Body shall have been instituted or threatened to restrain or prohibit the transactions contemplated in this Agreement, and no Governmental Body shall have taken any other action or made any request of any Party hereto as a result of which UW reasonably and in good faith deems it inadvisable to proceed with the transactions herein.

(e) **Insolvency.** The District shall not (i) be in a receivership or dissolution; (ii) have made any assignment for the benefit of creditors; (iii) have admitted in writing its inability to pay its debts as they mature; (iv) have been adjudicated a bankrupt; or (v) have filed a petition in involuntary bankruptcy, a petition or answer seeking reorganization, or an agreement with creditors under the Federal Bankruptcy Law or any other similar law or statute of the United States or any state, nor shall any such petition have been filed against the District.

(f) **Due Diligence.** UW shall have completed its own due diligence investigation of the District, the results of which shall have been deemed satisfactory in the discretion of UW no later than the Closing.

(g) **Approval of Board of Regents.** UW's Board of Regents has approved the UW's execution, delivery, and performance of this Agreement.

### 11.3 Closing; Effective Date

UW and the District shall each use best efforts to complete requisite due diligence investigations and to satisfy, if possible, the conditions precedent to its obligations to close this Strategic Alliance so that the Strategic Alliance can be effective as of July 1, 2011, the first day of the new fiscal year for UW Medicine and its Component Entities. The Parties intend to close the transaction as soon as possible after the conditions precedent to their obligations have been satisfied. The date on which such conditions have been satisfied or, if applicable, waived by the Parties, in accordance with their respective rights under Article XI, is herein referred to as the "*Effective Date*."

## ARTICLE XII INDEMNIFICATION

### 12.1 District's Duty to Indemnify

District agrees to defend, indemnify, and hold UW and UW Medicine and their respective regents, officers, employees, agents or representatives harmless for any and all losses, claims, damages, costs or expenses, including reasonable attorney or consultant fees ("*Claims*") arising from the negligent acts or omissions of District, its employees, agents, or officers in the performance of duties imposed by this Agreement. This indemnification shall not apply to the extent that the claim, suit, damage, or liability is caused by the negligent, reckless or intentionally tortious acts or omissions of UW, UW Medicine or their respective regents, officers, employees, agents or representatives.

### 12.2 UW's Duty to Indemnify

UW agrees to defend, indemnify, and hold the District and its commissioners, officers, employees, representatives or agents harmless for any and all Claims arising from the negligent acts or omissions of UW, UW Medicine, their regents, officers, employees, agents, or representatives acting under this Agreement. This indemnification shall not apply to the extent that the claim, suit, damage, or liability is caused by the negligent, reckless or intentionally tortious acts or omissions of the District or its commissioners, officers, employees, representatives, or agents.

ARTICLE XIII  
MISCELLANEOUS

13.1 Amendment and Waiver

This Agreement may be amended only with the prior written consent of the District and UW. The waiver of any right, condition or covenant of this Agreement by either Party shall be effective only if and to the extent that the same shall be in writing and signed by such Party. Without limiting the foregoing, no express or implied consent to or waiver of any breach or default by a Party in the performance of such Party's obligations under this Agreement shall be deemed or construed to be a consent to or waiver of any other breach or default in the performance by such Party of the same or any other obligations of such Party under this Agreement. Failure on the part of any Party to complain of any act or omission of the other Party or to declare any Party in default, irrespective of how long such failure continues, shall not constitute a waiver by such non-complaining Party of its rights with respect to the failure of the other Party to comply with its obligations under this Agreement. No course of dealing between and among the Parties will be deemed effective to modify, amend or discharge any part of this Agreement or any rights or obligations of any Party under or by reason of this Agreement.

13.2 Notices

All notices, requests, demands, claims, and other communications hereunder shall be in writing and shall be deemed duly given when personally delivered, one business day after being sent by reputable overnight courier service (charges prepaid), or when faxed so long as such faxed message is that same day sent by reputable overnight courier (charges prepaid) to the intended recipient as set forth below:

If to the District:

Public Hospital District No. 1 of King County  
P.O. Box 50015  
Renton, WA 98058-5015  
Attention: Superintendent

with a copy (which shall not constitute notice) to:

Perkins Coie LLP  
1201 Third Avenue, Suite 4800  
Seattle, WA 98101-3266  
Attention: George M. Beal

If to the Board:

Valley Board  
P.O. Box 50015  
Renton, WA 98058-5015  
Attention: Valley CEO

If to UW:

CEO, UW Medicine  
Executive Vice President for Medical Affairs  
and Dean of the School of Medicine, University of Washington  
University of Washington  
1959 N.E. Pacific Street  
Box 356350  
Seattle, WA 98195  
Attention: CEO, UW Medicine

with a copy (which shall not constitute notice) to:

Washington State Attorney General's Office  
4333 Brooklyn Avenue NE, 18<sup>th</sup> Floor  
Seattle, WA 98195  
Attention: Division Chief

or to such other address or to the attention of such other person as the recipient party has specified by prior written notice to the sending party.

### **13.3 Expenses**

All fees and expenses incurred in connection with this Agreement including, without limitation, all legal, accounting, financial advisory, consulting, and all other fees and expenses of third Parties involving the negotiation and effectuation of the terms and conditions of this Agreement and the transactions contemplated hereby and thereby, shall be the obligation of the respective Party incurring such fees and expenses.

### **13.4 Binding Agreement; Assignment**

This Agreement and all of the provisions hereof will be binding upon and inure to the benefit of the Parties hereto and their respective successors and permitted assigns; provided, however, that neither this Agreement nor any of the rights, interests, or obligations hereunder may be assigned by either Party without the other Party's prior written consent.

### **13.5 Entire Agreement**

This Agreement and along with the exhibits attached hereto, which are incorporated herein by this reference, constitutes the entire agreement between the Parties and supersede any prior understandings, agreements, or representations by or between the Parties, written or oral, which may have related to the subject matter hereof in any way.

### **13.6 Severability**

If any provision of this Agreement or the application of such provision, becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement shall continue in full force and effect and the application of such provision to

other persons or circumstances shall be interpreted so as to effect the intent of the Parties to the maximum extent possible. The Parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that shall achieve, to the extent possible, the economic, business, and other purposes of such void or unenforceable provision.

### **13.7 Other Remedies**

Except as otherwise expressly provided for herein, any and all remedies in this Agreement expressly conferred upon a Party shall be deemed cumulative with and not exclusive of any other remedy conferred by this Agreement, or by law or equity upon such Party, and the exercise by a Party of any one remedy shall not preclude the exercise of any other remedy.

### **13.8 Governing Law; Jurisdiction**

This Agreement shall be governed by the laws of the State of Washington without giving effect to any choice of law or conflict of law provision (whether of the State of Washington or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Washington. The parties to this Agreement hereby submit to the exclusive jurisdiction of the federal and state courts located in Seattle, Washington.

### **13.9 No Third Party Beneficiaries**

This Agreement shall not confer any rights or remedies upon any person or entity other than the Parties to this Agreement and their respective successors and permitted assigns.

### **13.10 Counterparts**

This Agreement may be executed in one or more facsimiles or counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts or facsimiles have been signed by each of the Parties and delivered to the other Party, it being understood that all Parties need not sign the same counterpart.

### **13.11 Dispute Resolution**

(a) **Mediation.** Except as otherwise provided in this Agreement, in the event the Parties are unable to resolve a dispute relating to the terms of this Agreement through good faith efforts, either of the Parties may, at any time, submit such dispute to mediation before a mutually agreed upon mediator and follow the procedures directed by the mediator.

(b) **Arbitration.** Either Party may, at any time, request in writing that a dispute under this Agreement be submitted for resolution through binding arbitration if any mediation commenced by the Parties pursuant to Section 13.11(a) fails to resolve the dispute. Furthermore, the Parties are not required to proceed first with mediation; however, if one Party requests arbitration under this paragraph, the other may, within 10 days of the receipt of the written demand for arbitration, respond by demanding that the dispute be first mediated, in which event the arbitration request will be suspended until the parties have first attempted to resolve the dispute through mediation. Any arbitration initiated under this paragraph shall take place in

Seattle, Washington with an arbitrator agreed upon by the Parties. In the event that an arbitrator cannot be agreed upon within 10 business days, the arbitrator shall be designated by Judicial Dispute Resolution, LLC ("*JDR*") or if *JDR* does not then exist, by a successor organization to be agreed upon by the Parties. The *JDR* Rules shall be binding as to procedure, and fees and expenses of arbitration shall be borne equally by the parties. The arbitrator's decision will be considered to be a final and binding decision by the Parties. The Parties expressly agree to be bound by and to comply with a decision so long as the decision is in compliance with state and federal law.

(c) **Appeal Related to Compliance with Law.** If either Party asserts that it is not bound to comply with a decision because the decision is not compliant with state or federal law (a "*Legality Issue*"), the Party seeking enforcement of the decision may initiate an appeal of the *Legality Issue* by giving written notice of appeal to the other Party. Each Party will select one arbitrator and the two arbitrators will select a third arbitrator within 10 business days after written notice of appeal. The panel of three arbitrators will determine whether the decision is in compliance with state and federal law. If the decision is found to be in compliance, the Parties expressly agree to be bound by and to comply with the decision. If the decision is found not to be in compliance with state and federal law, any Party may initiate a new arbitration proceeding according to the procedures described in section 13.12(b) above, except that the Parties will select a different arbitrator. The fees and expenses of appeal shall be borne equally by the Parties.

(d) **Qualifications.** Any arbitrator selected must be an individual with the education, background, experience and expertise germane to the dispute being submitted to the arbitrator for resolution. Any arbitrator must not have a conflict of interest with any Party to this Agreement.

(e) **Confidentiality and Attorneys' Fees.** All facts and other information relating to any arbitration arising under this Agreement shall be kept confidential to the fullest extent permitted by law. Each Party shall pay its own attorneys' fees and expenses.

#### 13.12 No Strict Construction

The language used in this Agreement will be deemed to be the language jointly chosen by the Parties hereto to express their mutual intent, and no rule of strict construction will be applied against any Person.

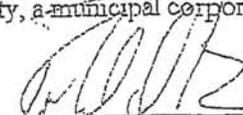
#### 13.13 Survival

The provisions of Section 6.2 Confidential Information and Article XII Indemnification shall survive the termination of this Agreement.

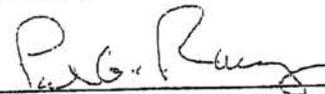
*[Signature page to follow]*

IN WITNESS WHEREOF, UW and the District have executed this Agreement as of the date set forth above.

Public Hospital District No. 1 of King  
County, a municipal corporation

By:   
Richard Roodman, Superintendent

UW Medicine, on behalf of UW

By:   
Paul G. Ramsey, MD  
CEO, UW Medicine  
Executive Vice President  
for Medical Affairs,  
Dean, School of Medicine,  
University of Washington

## EXHIBIT 1.1

### DEFINITIONS

As used in this Agreement, the Exhibits and Schedules, if any, the following capitalized terms have the meanings set forth below unless the context clearly indicates otherwise. For purposes of this Agreement, terms not defined in this Agreement shall be defined as provided in the Act, and all nouns, pronouns, and verbs used in this Agreement shall be construed as masculine, feminine, neuter, singular, or plural, whichever shall be applicable.

"*Agreement*" means this Strategic Alliance Agreement as defined in the preamble to this Agreement, as amended or restated from time to time, in accordance with the terms of this Agreement and applicable law.

"*Annual Budgets*" means, with respect to the District Healthcare System, the annual operating and capital budgets prepared by the Valley CEO for approval by the Board.

"*At Cost*" is defined in Section 6.4(a).

"*Bankruptcy Law*" means Title 11 of the U.S. Code, or any similar federal or state law for the relief of debtors.

"*Board*" means the Board of Trustees constituted under Article III for the purpose of governing the business and affairs of the District Healthcare System.

"*Board Bylaws*" means the Board Bylaws attached to this Agreement as Exhibit 3.13.

"*Board of Commissioners*" means the Board of Commissioners elected to govern the operation of the District pursuant to the applicable provisions of the PHD Act.

"*Board Compensation Committee*" is defined in Section 3.8(a).

"*Bond*" means, with respect to the District, any bond, note or other evidence of indebtedness, including, without limitation, (i) special fund revenue bonds, revenue warrants, or other revenue obligations within the meaning of RCW 70.44.060(5)(a), (ii) general obligation bonds within the meaning of RCW 70.44.060(5)(b), (iii) interest-bearing warrants within the meaning of RCW 70.44.060(5)(c), and (iv) executory conditional sales contracts within the meaning of RCW 70.44.260.

"*Business Integration Activity*" is defined in Section 6.4(a).

"*Cause*" means, with respect to any of the Commissioner Trustees, (a) the conviction, admission by consent of guilt, or plea of *nolo contendere* to fraud, embezzlement, or a similar felony involving misappropriation of funds in connection with the business of either the District Healthcare System or the District; (b) any willful or grossly negligent, material breach by such Commissioner Trustee of any of the Commissioner Trustee's material obligations or duties as a Trustee under this Agreement, in a manner that materially and adversely affects the District

Healthcare System and that is not substantially cured within 60 days (or in the process of being cured within 60 days and is substantially cured within 120 days) after receipt by such Trustee of written notice with respect thereto from the Board; or (c) failure to comply with the UW Medicine's Policy on Professional Conduct; or (d) violation of the state ethics in public services act.

"*Claims*" is defined in Section 12.1.

"*Clinical Integration Activity*" is defined in Section 6.4(a).

"*Code*" means the Internal Revenue Code of 1986, as now in existence or hereafter amended (including any successor federal income tax legislation) from time to time. Any reference to any specific provision or the Regulations thereunder shall be deemed to refer also to any successor provisions thereto.

"*Commissioner*" means any person who, at the time of reference, has been duly elected to serve as a Commissioner of the District.

"*Commissioner Trustee*" is defined in Section 3.2(a).

"*Component Entity*" means, with respect to UW Medicine, (i) each of the component organizations identified in Recital B (excluding CUMG and SCCA); (ii) the District Healthcare System; and (iii) each entity providing healthcare services to the public, or services ancillary thereto, that may be Controlled by UW subsequent to the date of this Agreement.

"*Confidential Information*" means, with respect to either UW Medicine or the District, confidential and proprietary information relating to its financial and business plans, financial performance, dealings with Third Parties, and other information treated as valuable trade secrets or confidential, including but not limited to information concerning the entity's operations, pricing, financing, technology, marketing strategies, employment and compensation arrangements, facility designs, and agreements to which such entity is a party. The term "Confidential Information" also includes information of Third Parties, which such Third Parties have contractually obligated such entity to maintain confidentiality, subject to limited disclosure rights. "Confidential Information" does not include any information which (i) at the time of disclosure or thereafter is generally available to and known by the public (other than as a result of a disclosure in violation of this Agreement), (ii) was available on a non-confidential basis from a source other than the source providing such information, which source is not and was not bound by a confidentiality agreement with the disclosing entity, or (iii) has been independently acquired or developed by either Party without violating any of the obligations of this Agreement. Notwithstanding the foregoing, if information regarding either UW Medicine or the District becomes public by virtue of a public records request, such information, after such disclosure, is not considered to be Confidential Information, even if it otherwise falls within the scope of the term as defined herein.

"*Control*" (including the terms "*Controlling*," "*Controlled by*" and "*under Common Control with*") means, with respect to any Person, the possession, directly or indirectly, of the power to direct the policies and management of such Person, whether through ownership of voting securities, by contract or otherwise.

"*CPI Index*" means the Consumer Price Index for All Urban Consumers, All Items (base year 1982-1984 = 100) published by the United States Department of Labor, Bureau of Labor Statistics, All City Average. If the Bureau of Labor Statistics substantially revises the manner in which the CPI is determined, an adjustment shall be made in the revised index which would produce results equivalent, as nearly as possible, to those which would be obtained hereunder if the CPI were not so revised. If the CPI becomes unavailable to the public because publication is discontinued, or otherwise, the Parties shall substitute therefor a reasonably comparable index based upon changes in the cost of living or purchasing power of the consumer dollar published by a governmental agency, major bank, other financial institution, university or recognized financial publisher.

"*District*" means Public Hospital District No. 1 of King County, a Washington public hospital district, d/b/a Valley Medical Center.

"*District Assets*" means, as of the date in question, property, rights, contracts, including but not limited to real property, personal property, intellectual property, contractual rights, of the District, whether such assets are wholly-owned, jointly held, licensed and/or leased.

"*District Event of Default*" is defined in Section 10.4.

"*District Healthcare Practitioners*" is defined in Section 4.12(a).

"*District Healthcare System*" includes all of the healthcare facilities and services rendered by the District (as currently in place), together with all other healthcare facilities and services, wherever located, hereafter acquired by the District or any other municipal corporation, political subdivision or tax-exempt charitable organization, the primary function of which is to operate healthcare facilities or provide healthcare services on behalf of the District; notwithstanding the foregoing, and for purposes of clarity, the separate operations of the Component Entities of UW Medicine do not come within the meaning of the term "*District Healthcare System*."

"*District Physicians*" means those physicians having medical staff privileges at Valley Medical Center, whether such physicians are employed by the District or work independently or by contract with the District.

"*District Revenues*" means, with respect to the District, all revenues, income, gains, interests, earnings, loan proceeds, Bond proceeds, tax receipts or other available sources of funds, however characterized, received by the District, including District Revenues attributable to the ownership and management of the District Healthcare System pursuant to the terms of this Agreement.

"*District Service Area*" means the geographic area delineated on Exhibit 3.2(b), which area is not identical to the geographic boundaries of the District.

"*Effective Date*" means the date on which the Term of this Agreement commences as stipulated in Section 11.3.

"*Encumbrance*" means, with respect to the District Healthcare System, the granting of any Lien on, pledge, mortgage, hypothecation, or other similar transaction granting to any third party a Lien against any of the District Assets.

"*Event of Default*" means either a District Event of Default or UW Event of Default.

"*GASB*" means generally accepted accounting principles applied on a consistent basis in effect on the date thereof as set forth in the opinions and pronouncements of the Governmental Accounting Standards Board. The Governmental Accounting Standards Board ("*GASB*") is the independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments. Established in 1984 by agreement of the Financial Accounting Foundation ("*FAF*") and 10 national associations of state and local government officials, the GASB is recognized by governments, the accounting industry, and the capital markets as the official source of generally accepted accounting principles ("*GAAP*") for state and local governments.

"*Governmental Body*" means any government or political subdivision or department thereof, any governmental or regulatory body, commission, board, bureau, agency, or instrumentality, or any court or arbitrator or alternative dispute resolution body, in each case whether federal, state, local, or foreign.

"*Healthcare Facility*" means any hospital, surgery center, rehabilitation facility, skilled care facility, nursing home, assisted living facility, primary care clinic, urgent care clinic, medical and surgical specialty clinics, physical therapy facility, pharmacy, or other physical location, however designated, staffed by physicians, nurses and/or other licensed medical professionals, for the purpose of providing healthcare, rehabilitative or other health related services to the public.

"*Healthcare Services*" means, for purposes of the Strategic Alliance, the delivery of healthcare services through Healthcare Facilities located within the District Service Area.

"*Hospital*" means the District's full-service hospital on its 44-acre campus located in Renton, Washington, together with any other similar facility that may be established by the District during the Term.

"*Indebtedness*" means any indebtedness for borrowed money and all guarantees of such indebtedness.

"*IRS*" means the Internal Revenue Service.

"*Liability*" or "*Liabilities*" means all debts, claims, liabilities, obligations, interests, damages, and expenses of every kind and nature, whether known or unknown, liquidated or unliquidated, direct or indirect, absolute, accrued, contingent, or otherwise, regardless of when such debt, claim, liability, obligation, interest, damage, or expense arose or might arise.

"*Lien*" means any mortgage, pledge, lien, security interest, claim, voting agreement (including any conditional sale agreement, title retention agreement, restriction, or option having

substantially the same economic effect as the foregoing), or encumbrance of any kind, character, or description whatsoever.

"*Material Assets*" means, with respect to the District, and as of the date of the determination, (i) any District Asset having a fair market value, as reasonably estimated by the Valley CEO, equal to or greater than 5% of the District's total assets, as reflected in the District's most recent annual financial statements; (ii) any portion of the District's existing primary campus located in Renton, Washington; or (iii) any of the District's existing clinics.

"*OIOC*" is defined in Section 6.4(h).

"*Parties*" means UW and the District.

"*Person*" means any natural person, partnership (whether general or limited), trust, estate, association, corporation, custodian, nominee, or any other individual or entity in its own or any representative capacity, in each case, whether domestic or foreign, a limited liability company, or any other legal entity.

"*PHD Act*" means Chapter 70.44 RCW.

"*Regular Property Tax*" means the ad valorem tax provided by law without a vote of the electors of the District upon all property within the District subject to taxation.

"*Regulations*" means the Income Tax and Administrative Procedure Regulations promulgated under the Code, as amended from time to time.

"*Replacement Commissioner Trustee*" is defined in Section 3.5(b).

"*Senior Executive Team*" means such executive officers with oversight responsibilities for the primary business activities of the District Healthcare System (including but not limited to finance, operations, human resources, facilities, information systems, legal), with such titles and having such delegated powers and responsibilities, as may be established by the Valley CEO from time to time. Such executive positions shall consist of vice president level employees or such other assistants thereto as the Valley CEO classifies as senior executive level personnel.

"*Shared Support Services*" is defined in Section 6.4(a).

"*State*" means the State of Washington.

"*Strategic Alliance*" means the strategic alliance between UW and the District created by this Agreement providing, among other things, for the administration and operation of the District Healthcare System and protocols for establishing Business Integration Activities, Shared Support Services, and Clinical Integration Activities, as well as those related to the pursuit of new Clinical growth and expansion within the District Service Area as authorized under Section 6.6.

"*UW Medicine Strategic Plan*" means the strategic plan adopted by UW Medicine from time to time to coordinate its business and affairs.

"*Subsidy Bond*" means, with respect to the District, any Bond issued as a "build America bond" under Section 54AA of the Code, or under any other provisions of the Code or other federal law that creates, in the determination of the District, a substantially similar direct-pay subsidy program.

"*Tax-Exempt Bond*" means, with respect to the District, any Bond the interest on which is excludable from gross income for federal income tax purposes under the Code.

"*Term*" is defined in Section 10.1.

"*Transfer*" means, with respect to the District Healthcare System, the conveyance, sale, exchange, lease, assignment, or other transfer or disposition, however characterized, of any of the District Assets; provided, however, that leases executed in the ordinary course of business do not constitute Transfers for purposes of this Agreement.

"*Transition Plan*" is defined in Section 10.7(b).

"*Triggering Event*" is defined in Section 10.5.

"*Trustees*" is defined in Section 3.2.

"*Union*" means, with respect to the District Healthcare System, UFCW Local 21, SEIU 1199 NW, OPEIU Local 8, IUOE Local 286, and/or any other union representing employees working within the District Healthcare System, at any time prior to or during the Term.

"*UW*" means the University of Washington, an agency in the State of Washington.

"*UW Assets*" means, as of the date in question, property, rights, contracts, including but not limited to real property, personal property, intellectual property, and contractual rights of UW, whether such assets are wholly-owned, jointly held, licensed and/or leased.

"*UW Event of Default*" is defined in Section 10.3.

"*UW Medicine*" is defined in Recital B.

"*UW Medicine Board*" means the board established by UW to provide guidance and advice to the Board of Regents, the President, and the CEO/EVPMA/Dean regarding the operation and governance of UW Medicine.

EXHIBIT 3.2(b)

DELINEATION OF BOUNDARIES FOR DISTRICT AND DISTRICT SERVICE AREA

The tan area represents the boundaries of the District Service Area, while the boundaries of the District are delineated by the red lines.

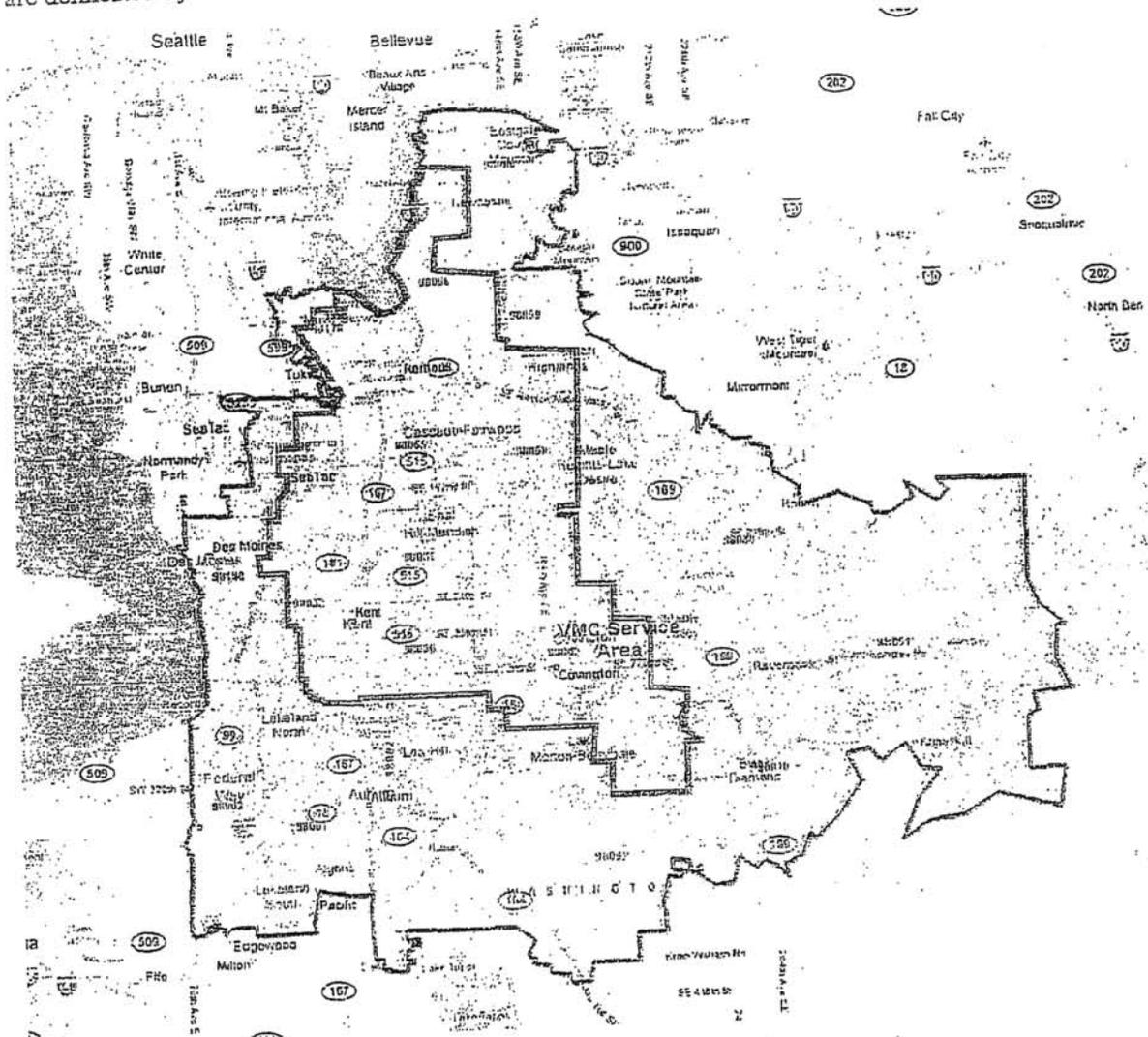


EXHIBIT 3.10(c)

ALLOCATION OF STATUTORY OBLIGATIONS OF DISTRICT<sup>1</sup>

	Action	RCW	Power / Obligation		
			Retained by BOC <sup>2,3</sup>	Delegated to Board <sup>4,5</sup>	Jointly Shared
1.	Adopting rules (bylaws) governing the BOC's transaction of business.	70.44.050	X		
2.	Appointing, removing or fixing the compensation of the District superintendent.	70.44.070(1)	X		
3.	Establishing the time to hold regular meetings of the District's commissioners.	42.30.070	X		
4.	Designating the District treasurer by resolution; if the treasurer is appointed by resolution, fixing the amount, terms and conditions of a bond to protect the District against loss.	70.44.171		X <sup>6</sup>	
5.	If the treasurer is appointed by resolution, designating the bank(s) in the state into which District funds are to be deposited.	70.44.171		X <sup>6</sup>	
6.	Approving the amount and type of surety bond or securities (in lieu of a surety bond) to be filed or deposited by the bank with the District treasurer and directing the District treasurer to deposit moneys into special funds of the District.	70.44.171		X <sup>6</sup>	
7.	Designating an officer of the District to sign warrants or checks.	42.24.180		X <sup>6</sup>	

<sup>1</sup> The Column entitled "Action" of Exhibit 3.10(c) itemizes the various statutory obligations of the District, and the columns to the right show whether such obligations are to be discharged by action taken by the District's Board of Commissioners, by the Board, or whether such duties are to be shared, in some manner, between those governing bodies. It does not, nor is it intended to, illustrate the various powers of the Board that it may exercise separately and that are not directly tied to statutory obligations imposed upon the District.

<sup>2</sup> "BOC" means the District Board of Commissioners.

<sup>3</sup> All of the powers and obligations referenced in this column are those to be performed by the BOC and that have not been delegated to the Board for performance under the Strategic Alliance Agreement.

<sup>4</sup> The obligations referenced in this column relate to the duties currently being performed by the District but that have, pursuant to the Strategic Alliance Agreement, been delegated to the Board for performance.

<sup>5</sup> Historically, the BOC has arranged for the duties in this column to be performed through the District's employees under the supervision of the Superintendent. Because such employees will continue to provide such services for and on behalf of the District Healthcare System, such employees will continue to discharge such duties, in the manner currently provided, unless and until the Board determines, in its judgment, that the duties should be discharged in some other manner.

<sup>6</sup> The parties intend, at least initially, that the Board will follow the resolutions adopted by the BOC with regard to this obligation.

	Action	RCW	Power / Obligation		
			Retained by BOC <sup>2,3</sup>	Delegated to Board <sup>4,5</sup>	Jointly Shared
8.	Authorize the issuance of warrants or checks in payment of claims before the District has acted to approve the claims; provided that the District provides for its review and approval at the next regularly scheduled public meeting.	42.24.180		X	
9.	Calling for a general or special election to increase the number of commissioners to five or seven.	70.44.053	X		
10.	Canceling the District's registered or interest-bearing warrants not presented within one year of the date of call or other warrants not presented within one year of issue.	39.56.040		X	
11.	Authorizing the filing of a bankruptcy petition under Chapter 9 of the federal Bankruptcy Act.	39.64.050	X		
12.	Adopting an accounting plan and payroll procedures to meet federal requirements for excluding payments made on account of sickness from the meaning of "wages" under federal old age and survivor's insurance.	41.48.160		X	
13.	Redistricting the District into five or seven commissioner districts.	70.44.054	X		
14.	Abolishing commissioner districts and permitting candidates for the board to reside anywhere in the District; calling for a general or special election to reestablish commissioner districts.	70.44.042	X		
15.	Setting the amounts to be paid District officers or employees: (1) as reimbursement for the use of personal automobiles or other transportation equipment in connection with officially assigned duties; or (2) in lieu of actual expenses incurred for lodging, meals or other purposes.	42.24.090		X <sup>6</sup>	
16.	Allowing reasonable advance payments of travel expenses for District officials and employees.	42.24.120		X <sup>6</sup>	
17.	Establishing a revolving fund to be used solely for advance payment of travel expenses for District officials and employees.	42.24.130		X <sup>6</sup>	

	Action	RCW	Power / Obligation		
			Retained by BOC <sup>2,3</sup>	Delegated to Board <sup>4,5</sup>	Jointly Shared
18.	Providing reimbursement to volunteers: (1) at a nominal rate for normally incurred expenses in lieu of compensation; or (2) at a nominal amount of compensation per unit of voluntary service.	49.46.065		X <sup>6</sup>	
19.	Creating (a) a procedure to determine whether the District should pay for the defense costs of a suit against a District officer, employee or volunteer if this person's acts or omissions were found to be within (or in good faith purported to be within) the scope of his or her official duties and (b) a procedure to approve District payment for any monetary judgment against a District officer, employee or volunteer who was within (or in good faith purported to be within) the scope of his or her official duties.	4.96.041(2)	X <sup>7</sup>	X <sup>6</sup>	
20.	Creating a procedure through which the District agrees to pay an award for punitive damages imposed on a District officer, employee or volunteer who has been represented at the expense of the District under the provisions of RCW 4.96.041(1).	4.96.041(4)	X <sup>7</sup>	X <sup>8</sup>	
21.	Specifying the reasons why and the extent to which compiling a current index of certain public records would be "unduly burdensome" or "interfere with agency operations."	42.56.070(4)			X <sup>9</sup>
22.	Adopting the District's annual budget and fixing the final amount of expenditures for the coming year.	70.44.060(6)		X	
23.	Annually, on or before November 15, hold a public hearing on the proposed budget and adopt the budget as finally determined and fix the final amount of expenditures for the ensuing year.	70.44.060(6)	X		
24.	Levy regular property tax annually.	70.44.060(6)	X		

<sup>7</sup> The BOC retains the power to determine these matters as it relates to actions taken by the Board of Commissioners, and persons who are acting in their capacity as employees of the District as distinguished from those serving as employees of the District Healthcare System.

<sup>8</sup> The Board has the power to take such actions as it relates to officers, employees or volunteers providing services for and on behalf of the District Healthcare System.

<sup>9</sup> The BOC and the Board each possesses this authority as it relates to public records maintained separately by such body for the conduct of its business.

	Action	RCW	Power / Obligation		
			Retained by BOC <sup>2,3</sup>	Delegated to Board <sup>4,5</sup>	Jointly Shared
25.	Providing for an increase in regular property tax revenue.	84.55.120	X		
26.	Imposing an emergency medical services levy.	84.52.069(3)	X		
27.	Providing for the issuance of general obligation bonds to acquire, construct or improve a hospital or other health care facilities. RCW 70.44.060(5) authorizes a district to incur debt. RCW 70.44.060(5)(b) authorizes a district to pay off debt through the issuance of general obligation bonds. If the debt will cause the District to exceed the limits set out in RCW 39.36.020(2)(a)(i), the BOC must pass a resolution calling for an election to obtain voter approval.	70.44.060(5)	X <sup>10</sup>		
28.	Providing for the issuance of revenue bonds to purchase, lease, condemn, or otherwise acquire, construct, develop, improve, extend, or operate any land, building, facility, or utility.	35.41.030	X <sup>10</sup>		
29.	Providing for the use of a regular property tax limit factor of 101% or less.	84.55.0101	X		
30.	Providing for the issuance of refunding bonds without an election (1) in order to pay or discharge all or any part of an outstanding series or issue of bonds, including any redemption premiums or interest thereon, in arrears or about to become due, and for which sufficient funds are not available, (2) when necessary or in the best interest of the public body to modify debt service or reserve requirements, sources of payment, covenants, or other terms of the bonds to be refunded, or (3) in order to effect a saving to the public body.	39.53.020	X <sup>10</sup>		
31.	Financing public improvements using community revitalization financing.	39.89.030(1)	X <sup>10</sup>		
32.	Allowing the exchange of fixed rate debt for variable rate debt (a swap agreement).	39.96.030(2)(a)	X <sup>10</sup>		

<sup>10</sup> The BOC retains this power but, at the same time, has made certain contractual commitments to the UJW to exercise such power in order to permit the District Healthcare System to be operated as provided for in the Strategic Alliance Agreement. Such commitments are set forth in Sections 4.11, 4.18 and 9.1 of the Strategic Alliance Agreement.

	Action	RCW	Power / Obligation		
			Retained by BOC <sup>2,3</sup>	Delegated to Board <sup>4,5</sup>	Jointly Shared
33.	When issuing bonds as physical instruments, the bonds shall be printed, engraved, lithographed, typed, or reproduced and the manual or facsimile signatures of both a designated officer and chairperson of the BOC or chief executive shall be included on each bond.	39.46.060	X		
34.	Call a special election for the purpose of submitting to the qualified voters of the District a proposition or propositions to levy taxes in excess of its regular property taxes.	70.44.060(6)	X		
35.	For the purpose of levying District taxes, budgets or estimates of the amounts to be raised by taxation on the assessed valuation of the property in the city or district, through their chair and clerk, or secretary, make and file such certified budget or estimates with the clerk of the county legislative authority on or before the thirtieth day of November.	84.52.020	X		
36.	Approval of pension plan or 403(b) or 457 plan amendments.	N/A		X	
37.	Calling for a special election.	29A.04.330(2)	X		
38.	Supporting or opposing a ballot measure.	42.17.130(1)			X <sup>11</sup>
39.	Supporting or opposing an initiative to the Legislature.	42.17.190(4)(a)			X <sup>11</sup>
40.	Petitioning the Public Disclosure Commission to make the reporting provisions of RCW Chapter 42.17 (relating to campaign financing and financial activities of elected public officials and agencies) <u>applicable</u> to a district, its commissioners, and candidates for commissioner when the district has less than 1,000 registered voters as of the date of the most recent general election in the district.	42.17.405(3)	X		
41.	Exercising the right of eminent domain.	70.44.060(2)	X		
42.	Acquiring a hospital or other health care facility; constructing a hospital or other health care facility; making additions, improvements or extensions to a hospital or other health care facility.	70.44.110			X <sup>12</sup>

<sup>11</sup> Each of the BOC and the Board possess this authority.

<sup>12</sup> The BOC and the Board each have certain powers with respect to taking of the actions enumerated in these items. See Sections 4.19, 5.2(f) and 7.1(a) of the Strategic Alliance Agreement.

	Action	RCW	Power / Obligation		
			Retained by BOC <sup>2,3</sup>	Delegated to Board <sup>4,5</sup>	Jointly Shared
43.	Providing for the execution of executory conditional sales contracts. If the proposed contract will cause the District to exceed the limits set out in RCW 39.36.020, the BOC must pass a resolution calling for an election to obtain voter approval.	70.44.260	X		
44.	Selling and conveying real property of the District at a public or private sale.	70.44.300(1)			X <sup>12</sup>
45.	Leasing or renting real property of the District.	70.44.310			X <sup>12</sup>
46.	Selling or otherwise disposing of surplus personal property of the District.	70.44.320			X <sup>12</sup>
47.	Designating a District office holder or employee to enter bids on the District's behalf for the purchase of federal equipment, supplies, materials, or other property (real or personal). Authorizing this designated person to make any down payment or payment in full that is required in connection with this bidding.	39.32.070		X	
48.	Entering into performance-based contracts for energy equipment and supplies under RCW Chapter 39.35A.	39.35A.040		X	
49.	Waiving competitive bidding requirements when awarding contracts for public works and contracts for purchases.	39.04.280(2)(a)		X	
50.	Implementing the use of the small works roster.	39.04.155(2)(b)		X	
51.	Annexing contiguous territory into a district after the board has received a petition for annexation.	70.44.200(4)	X		
52.	Initiating annexation by calling for an election for the annexation of adjacent territory into a district.	70.44.210	X		
53.	Moving ahead with annexation by calling for a special election (after the public hearing under RCW 70.44.210).	70.44.220	X		
54.	Withdrawing an area from the District; reannexing a previously withdrawn area back into the District.	70.44.235(2) and (3)	X <sup>13</sup>		
55.	Initiating the process for withdrawing territory from the District under the provisions of RCW Chapter 57.28.	57.28.035	X <sup>13</sup>		

<sup>13</sup> The BOC retains its power over the annexation issues, but the exercise thereof is subject to the restrictions in Section 7.2(a)(vi) of the Strategic Alliance Agreement.

	Action	RCW	Power / Obligation		
			Retained by BOC <sup>2,3</sup>	Delegated to Board <sup>4,5</sup>	Jointly Shared
56.	Moving ahead with withdrawing territory from the District by adopting findings of fact (after the public hearing required by RCW 57.28.050).	57.28.050	X <sup>15</sup>		
57.	Submitting approval of the consolidation of two or more contiguous districts to the voters in a general or special election.	35.10.410	X		
58.	Dividing an existing district into two new districts.	70.44.350			X <sup>14</sup>
59.	Entering into an interlocal agreement with local and state governmental bodies in Washington State, local and state governmental bodies in other states, federal governmental bodies, and Indian tribes recognized by the federal government.	39.34.030(2)			X
60.	Delegating a labor matter to any civil service commission or personnel board similar in scope, structure and authority to the Washington Personnel Resources Board created under RCW Chapter 41.06.	41.56.100		X	

<sup>14</sup> The BOC retains its power over division of the District, but the exercise thereof is subject to the restrictions in Section 7.2(a)(vi) of the Strategic Alliance Agreement.

EXHIBIT 3.13

BOARD BYLAWS

BYLAWS  
OF THE  
DISTRICT HEALTHCARE SYSTEM BOARD  
(hereinafter "Valley Board")

These Bylaws constitute a part of that certain Strategic Alliance Agreement, dated July 1, 2011, (the "*Strategic Alliance Agreement*") by and between the University of Washington, an agency of the State of Washington, acting through one of its component organizations, UW Medicine ("*UW Medicine*"), and Public Hospital No. 1 of King County, a Washington public hospital district (the "*District*") regarding the governance and operation of the District's healthcare system (the "*District Healthcare System*"). Capitalized terms not separately defined in these Bylaws have the meaning assigned to such terms in the Strategic Alliance Agreement.

ARTICLE I  
BOARD

Section 1.1 Authority

(a) Pursuant to the terms of the Strategic Alliance Agreement, the District Healthcare System shall be governed by a Board of Trustees (hereinafter the "*Valley Board*" or "*Board*"), provided that the Board may not act or fail to act in any manner that is contrary to the Strategic Alliance Agreement. All actions taken by the Board shall be for, on behalf of, and in the name of the District.

(b) Without limiting the generality of the foregoing, the Board shall have the power and authority to take the following actions on behalf of the District Healthcare System to provide for high quality and safe patient care:

(i) determine the objectives and policies pertinent to the delivery of safe, high-quality, efficient patient care services of the District Healthcare System consistent with the UW Medicine Strategic Plan;

(ii) approve and adopt policies pertaining to the admission of patients to the in-patient, out-patient, short stay, and emergency services of the District Healthcare System;

(iii) assure that the medical staff and hospital/clinic administration maintain mechanisms for continued assessment of the quality and safety of patient care and ongoing performance improvement and provide reports to the Board;

(iv) approve the appointment and delineation of clinical privileges for members of the medical staff under applicable provisions of approved medical staff bylaws, policies and procedures;

(v) approve the credentialing of allied health practitioners;

(vi) approve bylaws, policies and procedures of the District Healthcare System's medical and dental staffs;

(vii) provide oversight regarding the effective use of Healthcare System resources;

(viii) review and approve the Annual Budgets;

(ix) review and approve the annual goals established for the District Healthcare System to be used for directing performance and awarding incentive compensation to certain of the District's employees;

(x) review and monitor reports on the District Healthcare System's operating income and expenditures, utilization of services, and patient statistics;

(xi) assist in securing additional sources of income to maintain the District Healthcare System as a leading provider of healthcare services to the public;

(xii) incur Indebtedness with respect to the District Healthcare System as permitted by Section 4.18 of the Strategic Alliance Agreement;

(xiii) review recommendations for the development, acquisition, management and operation of Healthcare Facilities within the District Service Area, consistent with the UW Medicine Strategic Plan, to meet the needs of the community served;

(xiv) approve the selection and termination of the Valley CEO and evaluate the performance of the Valley CEO annually in conjunction with the UW Medicine CEO; and

(xv) approve the selection of an external auditor, subject to the approval of the UW Medicine CEO.

(c) The Board shall operate the District Healthcare System in material compliance with the licensing laws, rules, and regulations of the State and Medicare and Medicaid laws, rules, and regulations, as well as in compliance with all applicable federal and State environmental laws, rules, and regulations. The Board shall not cause or permit the District Healthcare System to be used in any way that violates any law, ordinance, or governmental regulation or order. The Board shall be responsible for complying with all laws applicable to the District Healthcare System, as in effect on the date hereof or as may be subsequently enacted. If the enactment or enforcement of any law, ordinance, regulation, or code during the Term requires any changes to the operation of the District Healthcare System during the Term, the

Board shall take such necessary actions in order to effectuate such changes, at the expense of the District.

(d) The Board may, in carrying out its responsibilities, seek counsel, guidance, advice, and other appropriate services, from healthcare professionals, management specialists, and others with professional expertise. Any such expenses shall be included within the Annual Budget of the District Healthcare System.

#### Section 1.2 Board Composition

The District Healthcare System shall be governed by a multi-member Board, whose members (collectively the "*Trustees*") will be comprised of:

(a) the five Commissioners serving on the District's Board of Commissioners, subject to the qualifications provided in Section 1.4(a) (collectively, the "*Commissioner Trustees*");

(b) five individuals residing within the District Service Area (Exhibit 1.2(b) shows the boundaries of the District and the District Service Area), at least three of whom must also reside within the boundaries of the District, identified through the nominating procedures described in Section 3.4 of the Strategic Alliance Agreement, and appointed by the UW Medicine CEO in consultation with the UW Medicine Board (collectively, the "*Community Trustees*"); and

(c) two individuals identified and appointed by the UW Medicine CEO in consultation with the UW Medicine Board, who currently serve on, or were formerly members of, one of the boards of a Component Entity of UW Medicine or of the UW Medicine Board, and the UW Medicine CEO or an individual designated by the UW Medicine CEO as his or her representative to the Board (collectively, the "*UW Medicine Designated Trustees*").

#### Section 1.3 Appointment of Community Trustees

(a) In order to select the initial slate of Community Trustees, within 30 days of the Effective Date, the mayors of the cities located in whole or in part within the District will be asked to submit nominations for open positions to the UW Medicine CEO. In addition, within 30 days of the Effective Date, any person residing within the District Service Area may nominate himself or herself or another person residing within the District Service Area for open positions to the UW Medicine CEO. The UW Medicine CEO, in consultation with the UW Medicine Board, will have up to six months after the Effective Date to appoint the Community Trustees from the initial slate of Community Trustees; it is, however, the expectation that substantially all of such appointments will be made within 90 days after the Effective Date.

(b) After appointment of the initial Community Trustees, nominations for open positions for Community Trustees may be provided by existing members of the Board (including outgoing Trustees), past and former members of a board of a component of UW Medicine, and other persons within the District Service Area with whom UW Medicine may consult. Nominations for these open positions must be submitted to UW Medicine (i) no later than six months before a position for a Community Trustee becomes available due to the normal

expiration of the terms of office, or (ii) within 60 days after a vacancy in a Board position held by a Community Trustee or a UW Medicine Designated Trustee, and whether such vacancy is due to death, removal or another cause. If UW Medicine (acting through the UW Medicine CEO in consultation with the UW Medicine Board), in its sole discretion, does not receive appropriately qualified candidates for the slate of open positions or subsequent open positions for a Community Trustee, UW Medicine may actively solicit such nominations from other individuals.

Section 1.4 Terms: Staggered Board

(a) Each Commissioner Trustee is, by virtue of being a Commissioner, entitled to serve as an *ex officio* voting member of the Board without the approval of, or action taken by, either the Board or UW Medicine, except as otherwise provided in this Section 1.4(a) and as qualified by Section 1.10(b). Any change in the identity of the Commissioners will result in an automatic simultaneous change in the Commissioner Trustees, effective when the changes in the Commissioner positions occur as a matter of law. However, if, at any time during the Term, the District has more than five Commissioners, the Commissioners, voting separately, shall determine which of the incumbent Commissioners are entitled to hold the five positions allocated to Commissioners under Section 1.2(a). In no event may there be more than five Commissioner Trustees on the Board. In addition, if the size of the District's Board of Commissioners should, at any time during the Term, be reduced to three Commissioners, the number of Commissioners serving as Commissioner Trustees shall be reduced to three, effective immediately when the size of the District's Board of Commissioners is, as a matter of law, reduced to three Commissioners.

(b) The UW Medicine CEO or an individual who has been designated by the UW Medicine CEO as his or her representative to the Board, will serve as an *ex officio* voting member of the Board, with no term limitation. Such designation may, however, be changed at any time by action taken by the UW Medicine CEO, and will be effective when written notice of such action is provided to the other Trustees on the Board.

(c) The remaining seven Trustee seats are divided into three classes, with staggered terms, to preserve continuity for Board operations. Except for the initial terms for such classes of Trustees (which are set forth below), each of these classes will provide for the designated class members to serve for a four-year term, with their successors to be appointed and in place upon the expiration of such four-year term. Initially, the first class of Board members (three Trustees) will be comprised of three Community Trustees and each will have a two-year term, the second class (two Trustees) will be comprised of one UW Medicine Designated Trustee and one Community Trustee and each will have a four-year term, and the third class (two Trustees) will be comprised of one UW Medicine Designated Trustee and one Community Trustee and each will have a six-year term.

(d) Following their initial terms, each Community Trustee may serve on the Board for two additional successive four-year terms. No Community Trustee may serve more than three successive terms. Otherwise, there are no restrictions upon the number of consecutive terms that a Trustee may serve. In order to serve as a Community Trustee, the individual must be a resident of the District or District Service Area as required by Section 1.2(b) at the time of his

or her initial appointment, and at the beginning of any new term of office. If any Community Trustee ceases to reside within the District or District Service Area during his or her tenure of office, such individual shall be replaced by a substitute no later than six months after he or she no longer resides within the District or District Service Area.

Section 1.5    Exercise of Powers: Delegation of Authority

The Board shall have overall oversight responsibility for operation of the District Healthcare System. Consistent with these By-Laws and the Strategic Alliance Agreement, the Board may, by duly-adopted resolutions, delegate to others, including its officers, employees, agents, and representatives, the performance of its authority, powers, privileges and rights granted to it by the Strategic Alliance Agreement, as the Board deems appropriate, except for the following, each of which must be approved separately by Board action:

- (a) approval of the Annual Budgets of the District Healthcare System;
- (b) approval of the appointment and termination of the Valley CEO as recommended by the UW Medicine CEO, after consultation with UW Medicine Board;
- (c) removal of a Commissioner Trustee for Cause pursuant to the terms of Section 1.10 (which action is not permitted without concurrent approval of the UW Medicine CEO);
- (d) any commitment of the District Healthcare System to expend, or commit to expend, an amount exceeding the level that has been delegated by the Board; and
- (e) the approval of any Shared Support Service or Clinical Integration Activity for which Board approval is required under Section 6.4 of the Strategic Alliance Agreement.

Section 1.6    Board Year

The Board year, including Board member appointments and Board officer terms, shall be from July 1 to June 30.

Section 1.7    Meetings and Notice

(a) Regular meetings of the Board shall be held at least quarterly, the dates of which shall be determined by the chairperson at least one month in advance, and notice of which shall be given in accordance with Chapter 42.30 RCW. All regular meetings shall be held at the principal place of business of the District Healthcare System unless otherwise set forth in the notice for the meeting.

(b) Special meetings may be called by the chairperson at any time, or by a majority of the members of the Board, provided that written notice to all Board members and to others as required by Chapter 42.30 RCW shall be given not less than twenty-four hours prior to the meeting, stating the time, place and business to be transacted at the meeting. All special

meetings shall be held at the principal place of business of the District Healthcare System unless otherwise set forth in the notice for the meeting.

(c) Except as otherwise specified in these Bylaws, all meetings of the Board and its committees shall be conducted in accordance with the latest revision of Roberts Rules of Order.

(d) If a Trustee is outside of the state of Washington at the time of a meeting of the Board or any meeting of a committee designated by the Board, the Trustee, upon approval by the Chairperson, may participate in such meeting through use of a conference phone or similar communications equipment, so long as all of the Trustees participating in such meeting can hear and communicate with one another. Participation in a meeting pursuant to this paragraph constitutes presence in person at such meeting.

#### Section 1.8 Quorum

(a) A majority of the Trustees shall constitute a quorum for the transaction of business at any Board meeting. If less than a quorum is present at a meeting, the meeting may be adjourned in accordance with Chapter 42.30 RCW.

(b) A majority of the Trustees appointed to any committee shall constitute a quorum for the transaction of business at any meeting of the committee. If less than a quorum is present at a meeting, the meeting may be adjourned in accordance with Chapter 42.30 RCW.

#### Section 1.9 Manner of Acting

If a quorum is present when the vote is taken, the act of the majority of the Trustees present at a Board or committee meeting shall be the act of the Board or the committee, except as provided in Article IX.

#### Section 1.10 Removal

(a) The UW Medicine CEO, in consultation with the UW Medicine Board, may, at any time and for any reason, remove a Community Trustee or a UW Medicine Designated Trustee; provided, however, that the UW Medicine CEO, in consultation with the UW Medicine Board, must promptly appoint a substitute Trustee having the requisite position qualifications.

(b) A Commissioner Trustee may be removed from the Board only for "Cause" as defined in the Strategic Alliance Agreement, and as determined by both the UW Medicine CEO and the Board. Either the UW Medicine CEO or the Board may initiate the process to remove a Commissioner Trustee. No such action shall be taken unless (i) the affected Commissioner Trustee has been given at least 30 days prior written notice of the intended action, together with an explanation of the grounds for his or her proposed removal, and (ii) the affected Commissioner Trustee has had an opportunity to appear before the Board and the UW Medicine CEO to be heard and explain why there is not "Cause" for removal. Should a Commissioner Trustee be removed for Cause, the remaining Commissioner Trustees, acting by a majority vote thereof, shall promptly designate a successor Commissioner Trustee (who need not be a

Commissioner of the District and is referred to as a "*Replacement Commissioner Trustee*") to hold the position of the removed Commissioner Trustee. Such Replacement Commissioner Trustee shall have the right to remain on the Board until the Commissioner who has been removed for Cause is no longer a Commissioner of the District, at which time the new Commissioner will occupy the position. The removal of any Commissioner Trustee will not, in and of itself, have any impact upon the right of such removed Commissioner Trustee to remain in his or her capacity as a Commissioner of the District. Any Replacement Commissioner Trustee is likewise subject to removal for "Cause" on the same basis as a Commissioner Trustee.

## ARTICLE II BOARD OFFICERS

### Section 2.1    Number, Appointment, Term

The officers of the Board shall be members of the Board and shall consist of a chairperson, vice chairperson, and such other officers as the Board may deem advisable. The UW Medicine CEO shall either serve as or designate the initial chairperson and the vice chairperson, both to begin serving as of July 1, 2011 for an initial one (1) year term. Thereafter, the Board, at its first regular meeting after June 30, 2012, shall elect officers from its own members as recommended by the Nominating Committee. The terms of each officer shall be for two (2) years and until each officer's successor has been elected. No officer may serve more than three consecutive terms in the same office.

### Section 2.2    Chairperson

The chairperson of the Board shall appoint such committee members as are specified under these Bylaws; shall preside at all meetings of the Board; shall serve as an ex-officio member, without vote, on all standing and special committees, unless otherwise specified in the Bylaws; and shall perform all of the acts usually attendant upon the office of the chairperson or which may be set forth by these Bylaws or by the Board.

### Section 2.3    Vice Chairperson

During the absence of the chairperson or while he/she is unable to act, the vice chairperson shall perform the duties and exercise the powers of the chairperson.

### Section 2.4    Vacancies

In the event of a vacancy in the position of chairperson or vice chairperson, from July 1, 2011 through June 30, 2012, the UW Medicine CEO shall designate a replacement. Thereafter, in the event of a vacancy, the Nominating Committee will identify and recommend a replacement candidate to the Board who, if elected, will commence a new two (2) year term unless a shorter term is agreed to by a majority of the Board.

ARTICLE III  
BOARD COMMITTEES

Section 3.1    Standing Committees

Except as otherwise provided, the Board, by resolution adopted by a majority of the Trustees, shall approve the appointment of the following Standing Committees: Executive Committee; Joint Conference Committee; Finance, Facilities and Audit Committee; Compensation Committee; and a Nominating Committee. The Board may by resolution of a majority of the Board also appoint such other committees as it may from time to time deem advisable.

Section 3.2    Executive Committee

(a)    Purpose. The Executive Committee, as requested by the Valley CEO, shall review and provide strategic advice on issues for presentation to the Board and shall have the power to transact such business of the Board between regular meetings of the Board as the Board may hereafter authorize by resolution. All actions of the Executive Committee shall be reported to the full Board at its next regular meeting.

(b)    Composition. The Executive Committee shall consist of the chairperson, who shall serve as the chairperson of the Executive Committee; the vice chairperson; the UW Medicine CEO or his or her designated representative to the Board; the chairperson of each standing Board Committee; and such other Board Members as the chairperson may appoint.

(c)    Meetings. The Executive Committee shall meet as deemed necessary by the chairperson of the Board and/or at the request of the Valley CEO.

Section 3.3    Finance, Facilities and Audit Committee

(a)    Purpose. The Finance, Facilities and Audit Committee shall be responsible for reviewing the financial results, plans and audits of the District Healthcare System for the purpose of assessing the overall financial risks and capacities of the District Healthcare System. The Committee also has oversight over the District Healthcare System facilities.

(b)    Composition. The Finance, Facilities and Audit Committee shall consist of Board Members as follows: at least three Board members, including the chairperson of the Committee as appointed by the chairperson of the Board, one Commissioner Trustee and one additional Board member appointed by the chairperson, all as appointed annually by the chairperson of the Board in consultation with the Valley CEO.

(c)    Meetings. The Finance, Facilities and Audit Committee shall meet at the call of the chairperson. The Finance, Facilities and Audit Committee shall meet monthly, or on such other regular periodic basis as is necessary, in order to permit the regular and orderly approval of bills and warrants related to the operations of the District Healthcare System. Such action will be taken to ensure compliance with the requirements of RCW 42.24.180.

#### Section 3.4 Joint Conference Committee

(a) Purpose. The Joint Conference Committee shall serve as an advisory committee to the Board by providing a forum in which representatives of the Board, medical staff and District administration, shall jointly consider District Healthcare System policy matters governing medical practice and review quality assurance reports.

(b) Composition. The voting members of the Joint Conference Committee shall consist of at least three Board members appointed annually by the chairperson of the Board, one of whom shall serve as the chairperson of the Joint Conference Committee, the chairperson of the Board or designee, the Valley CEO, the District Executive Vice President and Chief Operating Officer, the District Medical Director, the District Chief of Staff, and one member of the medical staff nominated by the Medical Executive Committee, all as appointed annually by the chairperson of the Board in consultation with the Valley CEO. Non-voting members of the committee are the Chief Nursing Officer; three physicians on the District's medical staff; one member of the Professional Performance Committee designated by its chair; and the UW Medicine CEO or designee.

(c) Meetings. The Joint Conference Committee shall meet at the call of the chairperson, but not less than monthly.

(d) Medical Staff Credentialing and Privileging. The Joint Conference Committee shall have delegated authority from the Board to render final decisions regarding approval of medical staff initial appointments, reappointments, additions to privileges, and voluntary modifications to clinical privileges in the periods between Board Meetings. At least two Board members of the Joint Conference Committee must vote for Committee actions on approval of privileges to be valid. The Joint Conference Committee shall present its final decisions to the Board for information purposes.

#### Section 3.5 Compensation Committee

(a) Purpose. The Compensation Committee shall annually evaluate the Incentive Compensation Program applicable to the District Healthcare System's Senior Executive Team, so long as employed by the District, and provide advice and recommendations to the Board as to the appropriate levels of compensation for the Senior Executive Team and the Valley CEO.

(b) Composition. The Compensation Committee shall consist of the following Board members: the chairperson of the Board who shall serve as the chair of the Compensation Committee; the vice chairperson of the Board; UW Medicine CEO; or designee and two other Board Members appointed by the chairperson of the Board.

(c) Meetings. The Compensation Committee shall meet at the call of the chairperson, but no less than annually.

Section 3.6 Nominating Committee

(a) Purpose. The Nominating Committee shall, in collaboration with the UW Medicine CEO and the Valley CEO, identify and recommend to the Board the individuals to serve as Board officers pursuant to Article II.

(b) Composition. The Nominating Committee shall consist of the following Board members: the immediate past chairperson of the Board (initially deemed to be the chairperson of the District Board of Commissioners as of the effective date of the Strategic Alliance Agreement), who shall serve as the chairperson of the Nominating Committee; the vice chairperson of the Board; and three other Board members appointed by the chairperson of the Board.

(c) Meetings. The Nominating Committee shall meet at the call of the chairperson, at least 90 days prior to the expiration of a Board officer's term and otherwise as necessary to address vacancies in Board officer positions.

Section 3.7 Special or Ad Hoc Committees

Other special or ad hoc committees of the Board may be established by the Board by resolution adopted by a majority of the Board.

**ARTICLE IV  
STANDARD OF CONDUCT FOR TRUSTEES**

(a) Each of the Trustees will owe the same duties and obligations in discharging his or her responsibilities and duties as a trustee under applicable law, including but not limited to fiduciary duties and the duties to act in good faith, with reasonable care, in a manner believed to be in the best interests of the District Healthcare System, and not for personal benefit. Each Trustee must discharge faithfully and honestly his/her duties and perform strictly and impartially to the best of his or her ability. Such duties and obligations are owed by the Trustee for the benefit of each of the District and UW in the furtherance of their respective interests under this Agreement. Each Trustee must comply with UW Medicine's Policy on Professional Conduct, the Ethics in Public Service Act, RCW Chapter 42.52 and RCW Chapter 42.20 and all other duties and obligations owed by a public officer under the laws of the state of Washington.

(b) To the extent that any Trustee serves in a representative capacity on behalf of either UW or the District, such individual may, when exercising the rights reserved to UW or the District, as the case may be, exercise such rights as directed by the Party for whom such individual serves in a representative capacity, and in doing so will not be deemed to have breached any duty, fiduciary or otherwise, owed by such individual as a Trustee.

ARTICLE V  
INTERESTS OF TRUSTEES AND OFFICERS

Section 5.1 Compensation of Board and Board Committee Members

No Board member or any member of any committee appointed by the Board shall receive any compensation for services rendered in his/her capacity as a Board or committee member. However, nothing herein shall be construed to preclude any Board member from receiving compensation from UW Medicine or the District Healthcare System for other services actually rendered, a per diem for attending District Healthcare System Board meetings, or reimbursement for expenses incurred for serving as a Board member or in any other capacity, all in accordance with established District Healthcare System practices and procedures, Chapter 42.52 RCW, and RCW 43.03.050 and 43.03.060, as now existing or hereafter amended. Notwithstanding the foregoing, under no circumstances may a Commissioner Trustee receive any compensation or payments for serving on the Board, or any committee thereof, to the extent not permitted by Chapter 70.44 RCW.

Section 5.2 Conflict of Interest

(a) No Trustee or any person appointed by the Board in any capacity may act as an agent for any person or organization where such an act would create a conflict of interest with the terms of the person's service to the Board.

(b) The Ethics in Public Service Act, Chapter 42.52 RCW, shall apply to any Trustee and to any person appointed by the Board in any capacity.

(c) The Board will adopt and maintain specific policies to assure that potential conflicts of interest are identified and steps taken to avoid actual or apparent conflicts in the conduct of the District Healthcare System's business affairs.

ARTICLE VI  
MEDICAL STAFF

Section 6.1 General

The Board holds the Medical Staff organization accountable for establishing and maintaining standards of medical care in the District Healthcare System. The Medical Staff Bylaws, policies and procedures, including but not limited to the appeals process, in effect immediately prior to the effective date of the Strategic Alliance Agreement shall continue to apply, subject to subsequent amendment under the provisions of Section 6.5 below.

Section 6.2 Medical Staff

For purposes of this Article, the words "Medical Staff" shall include all physicians and dentists who are authorized to attend patients in any District Healthcare System facility or other medical care activity administered by the District Healthcare System, and may include such other professionals as the Medical Staff Bylaws designate.

### Section 6.3 Organization of the Medical Staff

The Board shall approve the organization of the Medical Staff so as to discharge those duties and responsibilities assigned to it by the Board, including but not limited to the following:

(a) To monitor the quality and safety of medical care and performance improvement initiatives in the District Healthcare System and make recommendations to the Board so that all patients treated at any of the facilities, departments or services of the District Healthcare System receive high quality medical care;

(b) To recommend to the Board, or where appropriate, to the Joint Conference Committee, the appointment or reappointment of an applicant to the Medical Staff, the clinical privileges such applicant shall enjoy, and action deemed necessary in connection with any member of the Medical Staff, to assure that at all times there shall be a high quality of professional performance of all persons authorized to practice in the District Healthcare System; and

(c) To establish specific policies and procedures governing actions of members of the Medical Staff.

### Section 6.4 Medical Executive Committee

As set forth in the Medical Staff Bylaws, the Medical Executive Committee is the governing committee of the Medical Staff organization. The Medical Executive Committee shall establish and maintain a framework for self-government and a means of accountability to the Joint Conference Committee, in accordance with the medical staff structure approved by the Board. It shall concern itself primarily with the quality of medical care within the District Healthcare System. It shall receive and act upon all medical staff committee reports and make recommendations regarding medical staff status and privileges to the Board or, where an expedited process is appropriate, to the Joint Conference Committee. It shall represent the Medical Staff and provide the means whereby issues concerning the Medical Staff may be discussed both within the Medical Staff organization and with the Joint Conference Committee and management of the District Healthcare System.

### Section 6.5 Medical Staff Bylaws

The Medical Executive Committee shall recommend revisions of the existing Medical Staff Bylaws, policies and procedures to the Board. When such revisions are adopted by the Board, they shall become effective and part of the Bylaws, policies and procedures of the Medical Staff.

### Section 6.6 Appointment to the Medical Staff and Assignment of Clinical Privileges

Appointments and reappointments to the Medical Staff shall be made in accordance with the appointment and reappointment procedures set forth in the Medical Staff Bylaws. Upon recommendation of the Medical Staff Committee, the Board, or where an expedited process is appropriate, the Joint Conference Committee may appoint to membership on the Medical Staff, physicians, dentists, and other professionals who meet the personal and professional

qualifications prescribed in the Medical Staff Bylaws. Appointment to the Medical Staff carries with it full responsibility for the treatment of individual patients subject to such limitations as may be imposed by the Board or the Bylaws, policies and procedures of the Medical Staff.

Whenever the Joint Conference Committee does not concur in a Medical Staff Committee recommendation relative to Medical Staff appointment, reappointment or the granting of clinical privileges, said recommendation shall be referred to the Board for decision.

#### Section 6.7 Appointment and Reappointment Requirements

Each person initially appointed to membership on the Medical Staff shall be provided with a current copy of the Bylaws, policies and procedures and shall submit to the Medical Director a signed written statement agreeing to abide by them. Each member of the Medical Staff shall as a minimum be required to:

- (a) Provide care and supervision to all patients within the District Healthcare System for whom such Medical Staff member has responsibility;
- (b) Abide by the Board Bylaws, the Medical Staff Bylaws, policies and procedures, and the policies and directives in force during the time such person is a member of the Medical Staff; and
- (c) Accept committee assignments and such other duties and responsibilities as may be reasonably assigned by the Joint Conference Committee or the Medical Staff organization.

### ARTICLE VII INDEMNIFICATION

#### Section 7.1 Generally

(a) Subject to the qualifications contained in this Article VII, the District using the District assets shall indemnify and hold harmless each person who was, is or is threatened to be made a party to or is otherwise involved (including, without limitation, as a witness) in any threatened, pending or completed action, suit, claim or proceeding, whether civil, criminal, administrative or investigative and whether formal or informal (a "proceeding"), by reason of the fact that he or she is or was a Trustee or an officer of, employee of, or physician holding an administrative position with the District Healthcare System (an "indemnitee"), whether the basis of a proceeding is alleged action in an official capacity while serving in such role or as a director or officer of any other organization or entity at the request of the Board.

(b) The indemnification provided by this Section 7.1 shall be from and against all losses, claims, damages (compensatory, exemplary, punitive or otherwise), liabilities and expenses (including attorneys' fees, costs, judgments, fines, ERISA excise taxes or penalties, amounts to be paid in settlement and any other expenses) actually and reasonably incurred or suffered by the indemnitee in connection with the proceeding, and the indemnification shall continue as to an indemnitee who has ceased to be a Trustee and shall inure to the benefit of the

indemnatee's heirs, executors and administrators. The right to indemnification conferred in this Article VII shall be a contract right.

(c) Notwithstanding the foregoing, no indemnification shall be provided to any indemnitee for acts or omissions of the indemnitee finally adjudged to be: intentional misconduct or a knowing violation of law, conduct of the indemnitee finally adjudged to be in violation of the standards set forth in Article IV; any action conducted outside of the scope of his/her duties set forth in Section 1.1; or any conduct as to which the Board is prohibited by applicable law from indemnifying the indemnitee (the "*indemnification standards*").

(d) The right of the indemnitee to receive a recovery pursuant to this Article VII shall be reduced: (i) to the extent the indemnitee is indemnified and compensated other than pursuant to terms of these Bylaws; and (ii) to the extent that the indemnitee receives a recovery pursuant to any insurance policy maintained by the Board or any other party for the benefit of the indemnitee.

(e) To obtain indemnification, indemnitee shall promptly submit to the Board a written request, including such documentation and information as is reasonably available to indemnitee and is reasonably necessary to determine whether and to what extent indemnitee is entitled to indemnification.

#### Section 7.2 Determination that Indemnification is Proper

If and to the extent that under applicable law or otherwise the Board must make a determination that the indemnitee has met the indemnification standards, any such determination must be made by: (i) a majority of a quorum of disinterested Trustees acting by resolution duly adopted by such Trustees, or (ii) if such disinterested Trustees are unable to adopt such a resolution, by independent legal counsel selected by the disinterested Trustees. For purposes of this Section 7.1(c), "disinterested Trustee" shall mean a Trustee who does not have a personal interest in the determination of entitlement to indemnification. "Independent legal counsel" shall mean a law firm or a member of a law firm that is not presently, nor has been in the past three years, retained to represent: (i) the Board, the District Healthcare System, or indemnitee in any matter material to either party, or (ii) any other party to the proceeding giving rise to the claim for indemnification. In any such determination of indemnitee's entitlement to indemnification: (a) indemnitee shall initially be presumed in all cases to be entitled to indemnification, (b) indemnitee may establish a conclusive presumption of any fact necessary to such a determination by delivering to the Board a declaration made under penalty of perjury that such fact is true and (c) unless the Board shall deliver to indemnitee written notice of a determination that indemnitee is not entitled to indemnification within sixty (60) days of the Board's receipt of indemnitee's initial written request for indemnification, such determination shall conclusively be deemed to have been made in favor of the Board's provision of indemnification and the Board agrees not to assert otherwise.

#### Section 7.3 Advancement of Expenses

The right to indemnification conferred in this Article shall include the right to be paid the expenses incurred in defending any proceeding in advance of its final disposition (an

"*advancement of expenses*"). An advancement of expenses shall be made upon delivery to the Board of an undertaking (an "*undertaking*"), by or on behalf of the indemnitee, committing to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that the indemnitee is not entitled to be indemnified. Notwithstanding the foregoing, no such advance and expenses is permitted if the claim brought against the indemnitee is one brought by the Board on behalf of the District Healthcare System, until such time as it has been finally determined that the indemnitee is entitled to such indemnification under the terms of Section 7.1.

#### Section 7.4 Right of Indemnitee to Bring Suit

If a claim under Sections 7.1 or 7.3 is not paid in full by the Board within 60 days after a written claim has been received by the Board, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be 20 days, the indemnitee may at any time thereafter bring suit against the Board to recover the unpaid amount of the claim. If successful in whole or in part, in any such suit or in a suit brought by the Board to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee shall be entitled to be paid also the expense of litigating the suit. The indemnitee shall be presumed to be entitled to indemnification under this Article upon submission of a written claim (and, in an action brought to enforce a claim for an advancement of expenses, when the required undertaking has been tendered to the Board) and thereafter the Board shall have the burden of proof to overcome the presumption that the indemnitee is so entitled.

#### Section 7.5 Nonexclusivity of Rights

The right to indemnification and the advancement of expenses conferred in this Article shall not be exclusive of any other right that any person may have or hereafter acquire under any statute or otherwise. Notwithstanding any amendment or repeal of this Article, or of any amendment or repeal of any of the procedures that may be established by the Board pursuant to this Article, any indemnitee shall be entitled to indemnification in accordance with the provisions of this Article and those procedures with respect to any acts or omissions of the indemnitee occurring prior to the amendment or repeal.

#### Section 7.6 Insurance, Contracts and Funding

The Board may cause the District to maintain insurance, at the District's expense, on behalf of any person required or permitted to be indemnified pursuant to these Bylaws against any expense, liability or loss, whether or not the Board would have the authority or right to indemnify the person against the expense, liability or loss under applicable law. The Board may enter into contracts with any director, officer, partner, trustee, employee or agent of the District Healthcare System in furtherance of the provisions of this Section and may create a trust fund, grant a security interest or use other means (including, without limitation, a letter of credit) to ensure the payment of the amounts as may be necessary to effect indemnification as provided in this Article.

Section 7.7 Indemnification of Agents of the District Healthcare System

In addition to the rights of indemnification set forth in Section 7.1, the Board may, by action of the Board, grant rights to indemnification and advancement of expenses to agents or any class or group of agents of the District Healthcare System (a) with the same scope and effect as the provisions of this Section with respect to indemnification and the advancement of expenses of the Trustees; (b) pursuant to rights granted or provided by the PHD Act or other applicable law; or (c) as are otherwise approved by the Board, provided such indemnification is permitted under applicable law.

**ARTICLE VIII  
AUXILIARY ORGANIZATIONS**

Section 8.1 General

Organizations auxiliary to the District Healthcare System may be established only under bylaws approved by the Board. Such bylaws must, at a minimum, define the purpose, organizational structure, officers, procedures for conducting business, reporting requirements, and the amendment procedures. Notwithstanding the foregoing, Volunteers in Action, a non-profit entity that provides volunteer services to the District is grandfathered and does not require Board approval.

Section 8.2 Bylaws

The approved bylaws of the auxiliary organization and any amendments thereto, shall be kept as a permanent record by the Board and filed with the minutes of Board meetings at which said bylaws or amendments thereto were approved by Board.

Section 8.3 Oversight by Board

An approved auxiliary organization's relationship with the District Healthcare System shall be subject to the oversight of the Valley CEO who will keep the Board informed of the organization's activities.

**ARTICLE IX  
AMENDMENTS**

These Bylaws will be reviewed annually and updated as needed. Except as provided below, changes in these Bylaws, whether amendments, additions, deletions or replacements, may be made by a two-thirds (2/3rds) vote of the entire Board at a meeting of which prior notice of the meeting and the proposed action shall have been given. Notwithstanding the foregoing, no amendments may be made to the following Sections without the prior written consent of UW Medicine and the District's Board of Commissioners: Article IV and Sections 1.1(a), (b) and (c); 1.2; 1.3; 1.4; 1.5; 1.10 and 7.2. In addition, if at any time UW and the District's Board of Commissioners approve amendments to Sections 3.1, 3.2, 3.3, 3.4, 3.5, 3.6 or 3.7 of the Strategic Alliance Agreement, such amendments shall automatically be deemed, to the extent inconsistent with the terms hereof, to amend the corresponding paragraphs of these Bylaws.

EXHIBIT 1.2(b)

**DELINEATION OF BOUNDARIES FOR DISTRICT AND DISTRICT SERVICE AREA**

The tan area represents the boundaries of the District Service Area, while the boundaries of the District are delineated by the red lines.

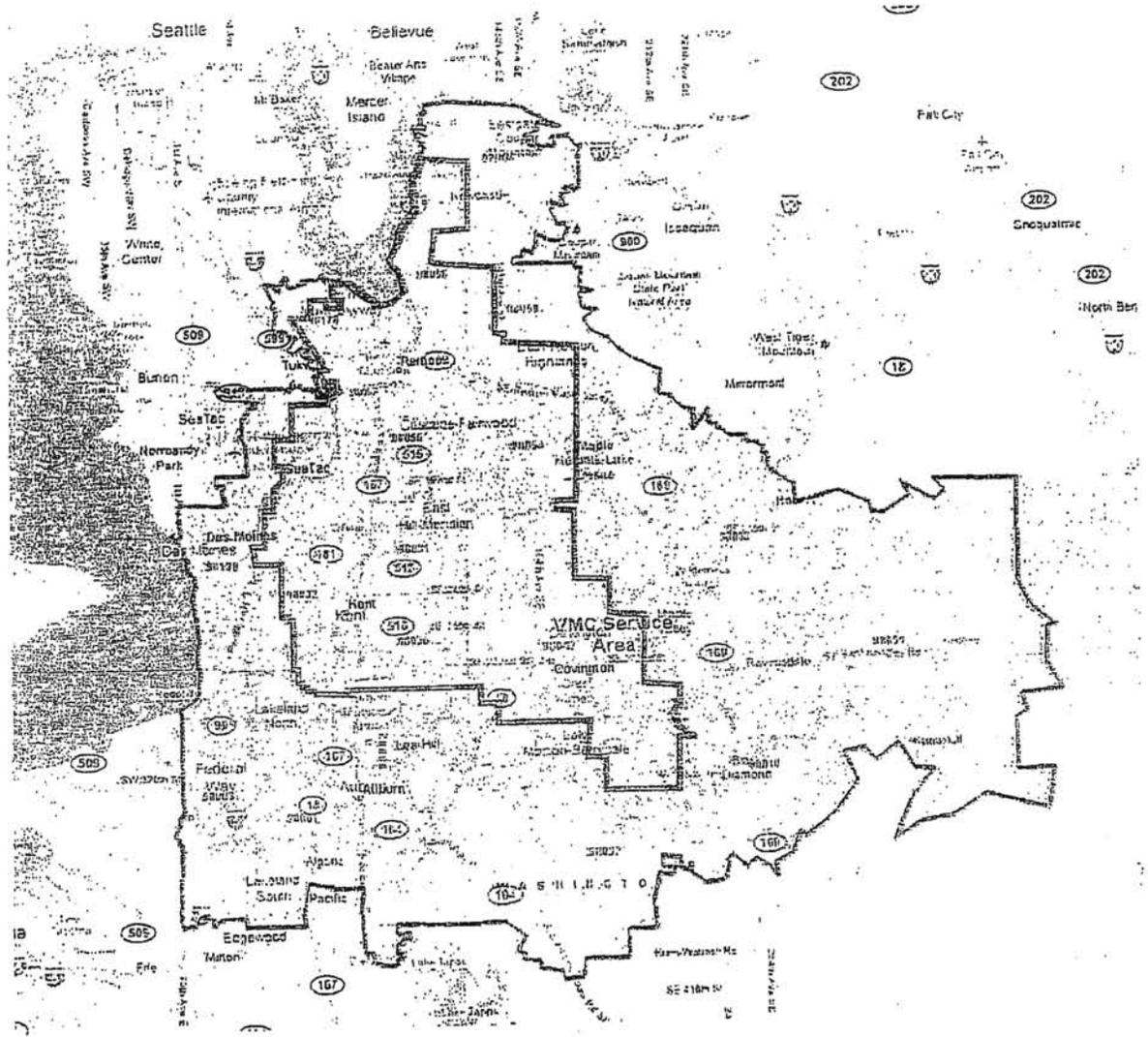


EXHIBIT 6.4(h)

LIST OF POTENTIAL INTEGRATION ACTIVITIES

The following list of potential integration and/or education and training possibilities is not intended to be a firm commitment by either party on any specifically suggested activity, or is this list intended to be seen as an exclusive or exhaustive list of such possibilities. Rather, the following is merely to be seen as illustrative of the types of activities the parties may explore as they advance the guiding principles of the Strategic Alliance Agreement:

- Secondary care access from primary care clinics
- Rheumatology
- Pain Center
- Cardiology and Cardiothoracic Surgery
- Obstetrics/High Risk OB and Neonatal ICU
- Stroke Center
- Family Medicine
- Behavioral Health
- Long Term Acute Care
- Genetic Counseling, including REI
- Senior Care/Geriatrics
- Emergency Medicine
- Cost Containment Strategies and Best Practices
- Recruitment and Retention of Physicians and other Providers
- Information Technology Platforms and Processes
- Quality Assurance and Risk Management

EXHIBIT 7.1(A)(IX)

DELINEATION OF CORE CLINICAL SERVICES

As contemplated by the Agreement, the District Healthcare System is intended to provide a broad array of Healthcare Services to address the needs of the residents within the District Service Area, in a manner similar to what one would expect of similarly-situated community hospitals. Accordingly, except as otherwise provided below, the Board will ensure that all of the following services are available through the District Healthcare System throughout the Term, unless (i) the elimination of any line of service is authorized by the District's Board of Commissioners or (ii) the continued offering of such line of services is not necessary due to the "market out" exception noted below:

**In-Patient Services**

- Surgical Services--other
- Medical Services--other
- Neurosurgery
- Neurology
- Obstetrics
- Gynecology
- Cardiology
- Gastroenterology
- Vascular Surgery
- General Surgery
- Pulmonary Medicine
- Endocrinology
- Urology
- Oncology
- Infectious Diseases
- Otolaryngology
- Nephrology
- Trauma
- Orthopedics

**Outpatient Services**

- Emergency Medicine
- ATU, PACU
- Breast Health
- Outpatient Surgery
- Radiation Oncology
- Maternal Fetal Medicine
- Angio-Cath, EEG, EKG, Cardiac Rehab, Outpatient Vascular Services

- Outpatient Imaging (Radiology, CT, MRI, PET, Ultrasound)
- Occupational Therapy/Physical Therapy/Speech Therapy/Respiratory Therapy
- Sleep Medicine
- Nuclear Medicine
- Pathology

**Clinic-Provided Services**

- General and Vascular Surgery
- Neurology
- Epilepsy
- Neurosurgery
- Ophthalmology
- Nephrology
- Rheumatology
- Occupational Medicine
- Primary Care Services
- Family Medicine Residency
- Urgent Care
- Maternal Fetal Medicine
- Nurse Midwives
- Laborists
- Wound Clinic

**Market Out Exception**

Notwithstanding the foregoing, UW and the District recognize that future changes in the delivery of healthcare services to the public may render it economically impractical or unnecessary, due to advances in medical technology and health sciences, to continue offering one or more of the listed lines of services. Accordingly, if one or more of the identified lines of services are no longer commonly and routinely provided by similarly-situated community hospitals located within the greater Puget Sound area, the Board will have no obligation to ensure that such line of service is then offered through the District Healthcare System.

## OFFICE RECEPTIONIST, CLERK

---

**To:** Christine Jones  
**Subject:** RE: Supreme Court No. 88308-4

Rec'd 3-25-13

Please note that any pleading filed as an attachment to e-mail will be treated as the original. Therefore, if a filing is by e-mail attachment, it is not necessary to mail to the court the original of the document.

---

**From:** Christine Jones [<mailto:christine@tal-fitzlaw.com>]

**Sent:** Monday, March 25, 2013 11:48 AM

**To:** OFFICE RECEPTIONIST, CLERK

**Subject:** Supreme Court No. 88308-4

Clerk:

Attached for filing in Supreme Court No. 88308-4, *Public Hosp. Dist. No. 1. v. UW*, is Brief of Appellant Public Hospital Dist. No. 1 and the Appendix to the Brief.

Thank you,

Christine.