

Interim Funding Agreement

This Interim Funding Agreement (the “**Interim Agreement**”) is entered into on this ___ day of _____, 2018 (the “**Effective Date**”) between the San Juan County Public Hospital District #3 DBA the Orcas Island Health Care District, a Washington municipal corporation (the “**District**”) and UW Physicians Network, a Washington non-profit corporation (“**UWPN**”).

Whereas, the District was recently formed by a vote of the citizens of Orcas Island to assure the continued availability of primary care and urgent care services on Orcas Island; and

Whereas, UWPN has previously contracted with the Orcas Medical Foundation (“**OMF**”) to provide primary care and acute care medical services to residents of and visitors to Orcas through the **UW Orcas Clinic** located in the building at #7 Deye Lane, Eastsound, Orcas Island, Washington (“**Orcas Medical Center Building**”); and

Whereas, the District is in the process of purchasing the Orcas Medical Center Building from OMF; and

Whereas, the District and UWPN will enter into a new lease for the Orcas Medical Center Building effective upon the District’s purchase of the Orcas Medical Center Building (the “**Lease Agreement**”) and with a lease term that runs concurrently with this Interim Agreement and the Clinical Services Agreement (defined below); and

Whereas the District and UWPN are in the process of negotiating an agreement by which UWPN will provide specified primary care and other agreed services to residents of and visitors to Orcas Island through the UW Orcas Clinic located in the Orcas Medical Center Building and the District will provide financial resources to UWPN to support the provision of the primary care and other agreed services (the “**Clinical Services Agreement**”); and

Whereas, the UW Orcas Clinic operates at a deficit and UWPN needs financial assistance from the District to enable it to operate the UW Orcas Clinic and provide primary care and acute care medical services to residents of and visitors to Orcas Island while the Clinical Services Agreement is being negotiated.

NOW, THEREFORE, the District and UWPN agree as follows:

1. During the term of this Interim Agreement, UWPN shall continue to provide primary care services to residents of and visitors to Orcas Island through the UW Orcas Clinic (the “**Services**”) in a manner and at a level consistent with the Services being provided at the UW Orcas Clinic immediately prior to the Effective Date, except for any changes in services offered, mode of operation and providers that are mutually agreed upon in writing by the District and UWPN.
2. The Term of this Interim Agreement shall commence on the Effective Date and shall terminate on the earlier of (i) the date the Clinical Services Agreement becomes effective, or (ii) the termination

effective date set forth in a written notice of termination provided by a party pursuant to Section 5 of this Interim Agreement. This Agreement may also be terminated by either party following the complete or partial destruction of the Orcas Medical Center Building pursuant to the terms of the Lease Agreement.

3. Pursuant to this Section 3, the District shall make the Clinic Services Support Payment, as defined below, to UWPN in order to reimburse UWPN for its Operating Losses associated with the UW Orcas Clinic, all as more fully described below, during the period beginning on the Effective Date and ending on (i) the date the Clinical Services Agreement becomes effective, or (ii) the termination effective date set forth in a written notice of termination provided by a party pursuant to Section 5 of this Interim Agreement whichever occurs first (the “**Interim Funding Period**”). Operating Losses shall mean the results calculated as UWPN’s actual revenues less expenses for the categories shown on the Draft Budget attached as Exhibit A.

Beginning on the Effective Date, UWPN will provide the District with financial statements not less frequently than quarterly reflecting the actual operating loss of the UW Orcas Clinic for the periods beginning on July 1, 2018 and extending through the term of this Agreement (the “**Financial Statements**”). For the period beginning on the Effective Date, the District shall pay UWNC the lesser of (i) the actual losses or (ii) the Quarterly Maximum Funding Amounts as further defined below, pro-rated for any partial period (the “**Clinical Services Support Payment**”). Additionally, for purposes of this Interim Agreement, UWNC shall credit towards any amounts owed by the District, any amounts prepaid by OMF for the period July 1, 2018 through December 31, 2018 (i.e., FY19 Quarters 1 and 2). To the extent the OMF prepayment exceeds the amounts owing for FY19 Quarters 1 and 2, such overage shall be applied on first dollar basis to any amounts owed by the District pursuant to this Interim Agreement. Payment from the District for FY19 Quarter 3 and 4 for the UW Orcas Clinic shall be made thirty (30) days after the parties’ agreement on the final quarterly reconciliation but not earlier than November 1, 2019. For purposes of this Agreement, the “**Quarterly Maximum Funding Amounts**” for FY 19 are as follows:

	Quarterly Maximum Funding Amount
FY 19 Quarter 1	\$255,640
FY 19 Quarter 2	\$81,596
FY19 Quarter 3	\$54,537
FY 19 Quarter 4	\$137,687
FY 19 Maximum	\$529,460

During the term of this Interim Agreement the parties shall negotiate in good faith to reach agreement on the terms of the Clinical Services Agreement. Each party shall promptly provide all documents reasonably requested by the other party to enable the parties to reach agreement upon the terms of the Clinical Services Agreement in a timely fashion. The parties agree that the Clinical Services Agreement shall include a provision stating that the total annual funding amount to be paid by the District to UWNC for the Fiscal Year beginning July 1, 2018 through June 30, 2019 (“FY19”) shall be reduced by (i) any

amounts prepaid by OMF for the period July 1, 2018 through December 31, 2018, and (ii) any amounts paid by the District to UWNC pursuant to this Interim Agreement. UWNC anticipates that the maximum funding amount to be paid by the District for FY19 to be stated in the Clinic Services Agreement will be \$529,460 unless otherwise agreed upon by the parties during the good faith negotiation period.

4. UWPN shall name the District as an additional insured under all policies of commercial general liability insurance or self-insurance maintained by UWPN covering the UW Orcas Clinic. Proof of coverage shall be provided on request.
5. Following a minimum ninety (90) day period of good faith negotiations beginning upon the Effective Date, either party may terminate this Interim Agreement at any time upon by providing not less than one hundred eighty (180) days' prior written notice to the other party delivered pursuant to Section 16 below. During the six (6) month notice period (the "Wind Down Period"), UWPN agrees to continue to provide the Services under the terms of this Interim Agreement in exchange for receipt of the Clinical Services Support Payment from the District. During the Wind Down Period, the parties shall work cooperatively to effect a smooth transition of operations from UWPN to the District or the new operator of the Orcas Medical Center. UWNC will use good faith efforts to minimize the amount of financial losses incurred by the UW Medicine Orcas Clinic during the Wind Down Period. If the term of this Interim Funding Agreement extends beyond June 30, 2019 for any reason, for purposes of calculating the Clinical Services Support Payment, the Quarterly Maximum Funding Amounts shall be as agreed by the parties. If the parties are unable to reach agreement on such Quarterly Maximum Funding Amounts, the Quarterly Maximum Funding Amount shall be equal to \$136,381 per quarter for FY2020.
6. The Clinical Services Support Payment does not include the cost and expenses for equipment replacement and/or equipment repairs. The cost and expense of equipment replacement and repair shall be addressed in the new Orcas Medical Center Building lease between the parties and UWNC will separately invoice the District for such costs of equipment replacement and/or repair. Any amounts for equipment maintenance prepaid by OMF that are not used prior to effective date of the Lease Agreement shall be credited towards the District's next Clinical Support Payment.
7. UWPN shares the interest of the Orcas community in developing a model of triage and after hours care that meets the needs of the unique, island setting. The parties are committed to working collaboratively with the EMS and other local providers to evaluate options for care models at the UW Medicine Orcas Clinic, including bringing forward innovative ideas for care in rural settings from other UW Medicine regional training programs, in order to best serve the Orcas community. If the parties reach agreement on additional care models, the parties shall work in good faith to reach mutual agreement on amendments to this Interim Funding Agreement or to provisions in the Clinic Services Agreement that describe the additional services and provide for additional financial support from the District for such services.
8. This Interim Agreement may not be amended or modified in any manner except in a written amendment executed by each of the parties and any purported change or modification to the terms

of this Interim Agreement that is not evidenced in a writing signed by both parties shall be null and void.

9. UWPN and the District are each separate legal entities and no separate legal or administrative entity is intended to be created by, or for the administration of, this Interim Agreement.
10. To the full extent permitted by law, each party agrees to defend, indemnify, and hold the other party harmless from any claim, losses or damages arising from the indemnifying party's negligent, reckless or willful misconduct.
11. Each party shall carry out its duties under this Interim Agreement in full compliance with all applicable laws and regulations.
12. This Interim Agreement shall be governed by and construed in accordance with the laws of the State of Washington. Venue for any dispute or proceeding related to or arising from this Interim Agreement shall be San Juan County, Washington.
13. If any provision of this Interim Agreement is held to be invalid, illegal or unenforceable, it shall be deemed to be stricken from this Interim Agreement and shall not affect the legality, validity or enforceability of any other provision of this Interim Agreement
14. This Interim Agreement may be executed in one or more counterparts, and with facsimile, email or electronic signatures, all of which, taken together shall constitute one and the same agreement.
15. Each of the parties represents that it has the full power and authority to execute this Interim Agreement and fulfill its obligations as set forth in this Interim Agreement and that the execution and performance of this Interim Agreement does not violate the terms of any other agreement that it has entered into.
16. All notices and other communications required or permitted to be given hereunder shall be in writing and shall be considered given and delivered when personally delivered to the party or delivered by courier or deposited in the United States mail, postage prepaid, return receipt requested, properly addressed to a party at the address set forth in the signature block below, or at such other address as such party shall have specified by notice given in accordance herewith.
17. Upon request, UWPN shall provide to District a copy of the then-latest and any prior annual audited financial statements for UWPN, inclusive of the UW Orcas Clinic. UWPN will make its independent financial auditor available to respond to District's questions regarding the records and books of account of UWPN, inclusive of the UW Orcas Clinic. District and/or its authorized representative(s) shall have the right to examine the records and books of account of UWPN, inclusive of the UW Orcas Clinic, relative to the Clinic Support Payment, at any time on at least thirty (30) days advance written notice during regular business hours provided that District shall review the annual audited financial statements of UWPN as the first source of financial information prior to making any request to examine the records of UWPN and the UW Orcas Clinic. Such examination shall be performed in such a manner as to be as minimally disruptive as possible to UWPN's business

operations and delivery of patient care services. The District shall ensure that its employees or agents who examine UWPN's records, books of account and medical records (if necessary) comply with any confidentiality provisions of this Agreement and the applicable provisions of the Uniform Health Care Information Act, Ch. 70.02 RCW and HIPAA.

Remainder of page intentionally left blank
Signatures on following page

Signature Page to Interim Funding Agreement

IN WITNESS WHEREOF the parties having read this Interim Agreement, agree to it in each and every particular, and have executed it below.

**San Juan County Public Hospital District #3
DBA Orcas Island Health Care District**

UW Physicians Network

By: _____

Print Name: Richard Fralick

Title: President

Date: _____

Address: 18 Haven Road, Second Floor
P.O. Box 226
Eastsound, WA 98245

By: _____

Print Name: Debra Gussin

Title: Executive Director

Date: _____

Address: 1100 NE 45th Street
Suite 500
Seattle, WA 98195

UW Medicine

By: _____

Lisa Brandenburg

Chief Health System Officer, UW Medicine

Vice President for Medical Affairs, UW School of
Medicine

Date: _____

Exhibit A
FY19 Budget

UW MEDICINE ORCAS ISLAND CLINIC
FY19 Budget Spread

FINAL

	July	August	September	October	November	December	January	February	March	April	May	June	Total
REVENUE													
PATIENT REVENUE	137,067	155,278	153,357	205,526	234,117	207,046	242,577	213,814	248,378	206,804	210,672	202,471	2,417,107
DEDUCTIONS FROM REVENUE	(83,950)	(92,707)	(69,224)	(81,760)	(83,880)	(73,556)	(89,664)	(79,714)	(101,954)	(92,386)	(93,948)	(90,887)	(1,033,630)
NET REVENUE	53,117	62,571	84,133	123,766	150,237	133,490	152,913	134,100	146,424	114,418	116,724	111,584	1,383,477
PROVIDER SALARIES	51,162	51,162	55,548	59,933	59,933	59,933	59,933	59,933	59,933	59,934	59,934	59,934	697,272
PROVIDER BENEFITS	12,940	12,940	13,985	15,030	15,030	15,030	15,030	15,030	15,030	15,781	15,783	15,783	177,392
TOTAL PROVIDER SALARIES & BENEFITS	64,102	64,102	69,533	74,963	74,963	74,963	74,963	74,963	74,963	75,715	75,717	75,717	874,664
NON-PROVIDER SALARIES	43,941	48,823	43,941	46,870	42,964	43,941	45,894	41,988	47,847	44,917	46,870	45,894	543,890
NON-PROVIDER BENEFITS	18,829	16,476	15,717	16,172	15,565	15,717	20,068	16,349	17,261	16,805	17,107	16,956	203,022
TOTAL NON-PROVIDER SALARIES AND BENEFITS	62,770	65,299	59,658	63,042	58,529	59,658	65,962	58,337	65,108	61,722	63,977	62,850	746,912
TOTAL LABOR COSTS	126,872	129,401	129,191	138,005	133,492	134,621	140,925	133,300	140,071	137,437	139,694	138,567	1,621,576
OTHER EXPENSES													
BILLING FEES	7,680	8,751	8,215	11,311	9,994	8,646	10,319	9,038	10,530	8,655	8,942	8,597	110,678
SUPPLIES AND PHARMACEUTICALS	9,993	10,625	12,610	16,191	13,111	11,595	12,997	11,046	12,205	10,118	11,096	10,258	141,845
OTHER OPERATING EXPENSES	4,041	4,041	4,041	4,041	4,041	4,041	4,038	4,037	4,038	4,037	4,041	4,042	48,479
TOTAL OTHER EXPENSES	21,714	23,417	24,866	31,543	27,146	24,282	27,354	24,121	26,773	22,810	24,079	22,897	301,002
TOTAL OPERATING EXPENSES	148,586	152,818	154,057	169,548	160,638	158,903	168,279	157,421	166,844	160,247	163,773	161,464	1,922,578
NET LOSS (SHORTFALL)	(95,469)	(90,247)	(69,924)	(45,782)	(10,401)	(25,413)	(15,366)	(23,321)	(20,420)	(45,829)	(47,049)	(49,880)	(539,101)
ORIGINAL ESTIMATED SHORTFALL BY QUARTER			(255,640)			(81,596)			(59,107)			(142,758)	(539,101)
Post Budget Agreed Upon Adjustments Affecting Shortfall													
Remove Expense: Radiology Expenses due to new workflow			-						5,070			5,071	10,141
Additional Expense: Rent			-						(500)			-	(500)
ADJUSTED ESTIMATED SHORTFALL BY QUARTER			(255,640)			(81,596)			(54,537)			(137,687)	(529,460)