



Passion. People. Purpose.™

February 19, 2020

As a valued leader in our community, I am writing to let you know about Palomar Health's relationship with Kaiser Permanente.

Palomar Health has identified a number of operational challenges that we have not yet resolved with Kaiser, and we have submitted a notice of termination of our contract with Kaiser for cause. Kaiser disputes Palomar's contentions and our right to terminate the contract. Kaiser has sought an injunction from an arbitrator to prevent the termination now rather than the scheduled end of the contract on September 30, 2022. If the arbitrator rules in Kaiser's favor at a hearing scheduled in March 2020, the termination date of the contract will remain September 30, 2022, unless otherwise determined by the arbitrator. If the arbitrator rules in Palomar's favor, the termination date of the contract instead will be April 8, 2020, unless otherwise determined by the arbitrator.

If we have no agreement with Kaiser, we may no longer be considered a Kaiser Plan Hospital. But Kaiser has advised that if the contract ends it will continue to treat Palomar's facilities as in-network facilities while it works on a transition plan, which will take some additional time.

The agreement between Kaiser and Palomar was meant to ensure the financial stability of the health system so we can continue to serve the needs of the district. With changes in payment models and care delivery over the last 15 years, we believe this goal is not being met. That's why Palomar Health is asking Kaiser for an updated agreement that we believe better reflects today's healthcare environment and creates a business relationship between our organizations that looks more like the good relationships Palomar shares with other health insurers. This keeps Palomar sustainable for the long term, keeps Kaiser sustainable in the market, and ensures everyone in the community has access to the healthcare they need.

Regardless of our contractual relationship with Kaiser or any other payor, Palomar's mission is to provide care to all the residents of our District.

We are committed to working in good faith to put our patients and communities first. For us, this community is at the heart of everything we do and every decision we make. We are grateful for the community ties that have made us a trusted community provider and partner in North County for more than 70 years.

I will keep you informed of any changes that may impact the community's in-network access to their local healthcare option — Palomar Health.

We thank you for your continued support.

Sincerely,

Diane L. Hansen, CPA
President and Chief Executive Officer

Administration

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