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VIA EXPRESS MAIL AND E-MAIL

April 7, 2022

Lily Weaver, Esq.
Neli Palma, Esq.
California Department of Justice
Healthcare Rights and Access, California Department of Justice
Office of the Attorney General
1300 I Street, 12th Floor
Sacramento, California 95814

Re: Notice of Proposed Sale of Assets of California-Nevada Methodist Homes (our file 9736.37)

Dear Ms. Weaver and Ms. Palma:

We are writing to notify your Office of the proposed sale of substantially all of the assets of California-Nevada Methodist Homes ("CNMH") the owner/operator of two continuing care retirement communities ("CCRCs"): Lake Park in Oakland, California and Forest Hill in Pacific Grove, California.

Lake Park consists of a residential care facility for the elderly ("RCFE") that includes 143 residential (independent) living units and 37 assisted living apartments, plus a 35-unit skilled nursing facility ("SNF"). Forest Hill consists of an RCFE that includes 91 residential living units and 18 assisted living apartments, plus a 26-unit SNF. In addition, CNMH owns a small office building in downtown Oakland. CNMH proposes to sell Lake Park, Forest Hill, the office building, and substantially all other assets of CNMH to two buyers: Lake Merritt Senior Living, LLC (to purchase Lake Park) and Pacific Grove Senior Living, LLC (to purchase Forest Hill). The two LLCs are referred to below as "Buyers."

For several years, CNMH has encountered serious occupancy challenges, particularly at Forest Hill. It first attempted to sell its assets in 2018. In September 2019, we submitted a notice of proposed sale of CNMH's assets to your Office. The sale was approved in December 2019, but in February 2020, on the eve of the COVID pandemic, the buyers terminated the contract.

CNMH immediately circulated a second request for proposal, but by mid-March 2020, all but one candidate withdrew from consideration as COVID lock-downs and quarantines were imposed in California. The remaining candidate proposed joint exploration potentially leading to affiliation; however, after several weeks of due diligence and discussions with regulators, the parties agreed to discontinue their talks.

By March 2021, CNMH was unable to pay its debts as they became due and, significantly, was unable to meet its debt service obligations under its Cal-Mortgage insured tax-exempt bonds.

On March 16, 2021, CNMH filed a voluntary Chapter 11 bankruptcy case in the United States Bankruptcy Court for the Northern District of California, Oakland Division (Case No. 21-40363). On February 8, 2022, after a Court-approved auction, the Court issued an order approving a proposed sale of all or substantially all of CNMH's assets to Pacifica Companies, LLC (the "Bidder") or its designees. The Bidder has assigned its rights under the Purchase and Sale Agreement to the two Buyers identified above.

On behalf of CNMH, we have prepared the enclosed notice of sale pursuant to California Corporations Code Section 5914 *et seq.* The notice describes the reasons for the sale, the auction of CNMH's assets in bankruptcy, the sale price, and other relevant details of the transaction. We believe you will agree with us that:

1. **The terms and conditions are fair and reasonable to the seller.** As described more fully in the enclosed notice, the marketing process to identify potential buyers was robust. The investment bank, Ziegler, circulated an executive summary of the opportunity to acquire CNMH's assets to about 100 prospects. Interested persons were asked to sign a nondisclosure agreement ("NDA") before receiving a detailed description of the opportunity. Fifty three entities signed the NDA. Ziegler then circulated a confidential memorandum and elicited non-binding letters of interest from ten potential purchasers or affiliation or merger partners. Finally, the Court-approved auction process helped to assure that the bidder that offered the best overall terms was selected.
2. **The sale will not result in inurement to any private person.** As described in the notice, no person or entity with any control over the seller or insider status with respect to the seller will benefit from the transaction.
3. **The property is being sold at fair market value.** The property is being sold to the bidder that offered the best non-financial terms to protect residents and staff. This bid was only \$250,000 (or 0.7%) less than the final bid made by an entity that had less experience in California, had a financing contingency, planned to burden the properties with substantial secured debt, and (we felt) was not likely to close the sale as quickly as the Buyers could.
4. **The market value has not been manipulated by the actions of the parties.** Both parties were independently represented in the auction, which was held pursuant to bidding rules approved by the Bankruptcy Court. CNMH's assets are being sold to the bidder that offered the best overall terms. There was no manipulation of the price.
5. **The proposed use of the property is consistent with the charitable trust under which the assets are held.** CNMH was formed to "(1) to develop and operate housing specially designed for the elderly, with arrangements for residents' health care and financial security, and otherwise to promote the interests and serve the needs of the elderly, provided that such activities are consistent with this corporation's exempt purposes; and (2) to engage in any other activities that further such purposes." CNMH has fulfilled its purpose by operating two senior care communities, each of which includes an RCFE offering multiple levels of care and a SNF. The Buyers will continue to provide the same levels of care for the elderly, and will honor the contractual commitments made to existing residents.

6. **The sale involves no breach of charitable trust.** As described in item 5 above, the proposed use of the two senior care communities by Buyers is entirely consistent with the charitable purposes of CNMH.
7. **The Attorney General has received sufficient information to evaluate the transaction.** We believe you will find that the narrative description and supporting documents are both comprehensive and responsive to your Office's questions.
8. **The transaction will not adversely affect access to health care services in the community.** As described in the notice, the sale of CNMH should have no adverse effect on health services in Oakland or Pacific Grove or surrounding regions, because under the Buyers' ownership, both senior care communities will continue to provide needed services to the community.
9. **The transaction is in the public interest.** The residents and staff of the two communities will benefit from the introduction of financially strong Buyers and seasoned RCFE managers and SNF operators.
10. **Other factors.** This sale is uncontroversial. We are aware of no opponents to the sale. The parties to the transaction, the primary secured party (the Department of Health Care Access and Information), the Official Committee of Unsecured Creditors, and the key regulatory agencies all support the sale. Prompt approval from your Office will allow fiscally strong buyers to assume operations of the two senior care communities and give residents and staff needed security.

Please do not hesitate to contact me, Joyce Chang, or Johanna Williams at the email addresses and telephone numbers below if you have any questions.

Pamela Kaufmann: pkaufmann@hansonbridgett.com; 415-995-5043

Joyce Chang: jchang@hansonbridgett.com; 415-995-5864

Johanna Williams: jwilliams@hansonbridgett.com; 916-551-2924

For the protection of residents and staff, the parties wish to close this transaction as soon as possible. Thank you in advance for your prompt consideration of this notice.

Very truly yours,



Pamela S. Kaufmann

cc: Garrett B. Cross
Neal Wolf
Joyce Chang
Johanna Williams

Enclosures 2 CDs and one hard copy