

November 22, 2024

Dr. Keith Bennert
Chairman, CarolinaEast Health System Board of Directors
2000 Neuse Blvd.
New Bern, NC 28560

At the November 18, 2024, Craven County Board of Commissioners meeting, the Board of County Commissioners adopted a statement made by Chairman Jason Jones regarding issues concerning the hospital. On November 21, 2024, the hospital's legal counsel delivered a letter addressed to the County Attorney, which attempts to respond to the issues raised by Chairman Jones. Although we disagree with many, if not most, of the statements made in that letter, we feel it is imperative to respond to several of the most important issues.

Initially, we are deeply appreciative of the hospital's statements that its financial commitments and donations to various charitable organizations and non-profit organizations will not be reduced. As you can imagine, we were greatly alarmed by statements to the contrary by the hospital's leadership in its November 8, 2024 letter to its staff, particularly when those statements were directly linked to the new lease. The hospital is of course free to manage its charitable and philanthropic efforts as it sees fit, but to reduce such funding with reference to the new lease is contrary to statements made at the conclusion of the negotiations for the new lease.

Some of the statements of the hospital's leadership to various media outlets this week imply, if not outright state, that the new lease is unfair to the hospital and will cause it financial difficulties. We would like to remind you that the hospital's legal counsel wrote to our counsel in a November 4, 2024 email delivering the hospital's final version of the new lease that the new lease terms lease were "**a fair and reasonable resolution.**" We do not understand why the hospital would negotiate a new lease, sign it, represent it as "fair and reasonable" and then after the fact question the fairness of the agreement.

We also note that the parties agreed that all of the funds that the hospital will pay the County under the new lease will be used to support public health and provide healthcare in Craven County. In fact, these funds will serve to further the hospital's mission by providing care to uninsured and underinsured citizens who might otherwise seek uncompensated care at the CarolinaEast emergency department. Additionally, the largest line item will be used to purchase mental health and substance abuse treatment beds space that will be used by the hospital to move patients from their emergency department to a more appropriate and cost-effective setting. While the County could have sought to receive unrestricted rent payments from the hospital, it instead focused on using an important County asset to improve healthcare in the County. This has never been acknowledged by the hospital in any of its recent communications.

We hope that in light of your own attorney's statement on the reasonableness of the new lease and the fact that these funds will benefit public health and the hospital, both parties can dispense with any rhetoric on the issue of the lease payments going forward.

We also want to address Mr. Whitman's statement in his November 21, 2024 letter that **"CarolinaEast has never been at risk of not meeting its debt obligations, and any suggestion to the contrary is both unwarranted and misleading."** Mr. Whitman further stated that it was reckless for Mr. Jones to **"suggest that 'internal failures' at CarolinaEast put the bonds or medical services to the public in jeopardy"** and that such suggestion **"is a complete fiction that is not supported by the evidentiary record."**

It is unclear why Mr. Whitman made such a statement in light of the clear documentary evidence that the County was provided to the contrary. Specifically, the Bond Agreement plainly states that the 2022 Bond is **"subject to extraordinary mandatory redemption in whole...in the event that the Authority has not provided to the Owner of the Series 2022 Bond by December 31, 2023 a fully executed amendment or modification to the Lease that (i) extends the term of the Lease to a date no earlier than October 1, 2032."** This was not done nor was the County ever informed prior to September of 2024 that the hospital was under such obligation. Moreover, in an email dated September 11, 2024, an attorney for the hospital sent the following to the County Attorney regarding the lease renewal:

I went through the master trust agreement and supplemental trust agreement associated with CarolinaEast's refunding bond in 2022, which is the current bond. In order to not be in default and not be subject to a mandatory refunding of the entirety of the bond amount, CarolinaEast has to give the bank a lease agreement with a term lasting at least through bond maturity. Based on the express language of the trust agreement(s), a one year extension would not suffice to prevent the bank from calling the bond if we don't present what is required by the agreement. This was actually a concession by the bank, since the existing lease did not extend through bond maturity when we closed. So, essentially, the expiration date on the lease is not the triggering event that we can just move. We have a date-certain in the trust agreement to provide a compliant document. It is my understanding that the bank has contacted the hospital multiple times about this. Even if a 60 [-day] extension is agreed to by the local bank, the lender would require that to be memorialized in an amendment to the trust agreement(s), and it will take more than the time left on the lease for the lender get the amendments approved up the chain. That also doesn't include getting it approved by the other lender holding the swap agreement.

The timeline is more dire than I realized when you and I spoke. A situation where the bank calls these bonds has to be avoided.

Having to refund \$50 million would result in large cuts to existing service line items.

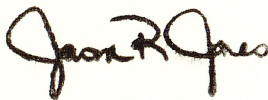
As you can imagine, we simply cannot reconcile the hospital's recent statements that the hospital's bond was never at risk of a default given the plain language of the bond documents and the representations made by the hospital's counsel.

We would also note that on many of the dates in your letter that your counsel alleges the lease was discussed in 2024, no such discussion occurred. Nevertheless, the meeting dates set forth in your letter took place after the hospital was supposed to have a new lease in place under its bond agreement. What is also clear is that the County had no knowledge until September 2024 that the hospital was in violation of a provision of its bond agreement or that failing to enter into a long-term lease, as opposed to a short-term extension, would place the hospital's bond in further jeopardy.

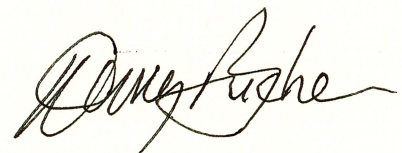
During the lease discussions, we also learned that several on the hospital board were not made aware that the hospital may have been in breach of an important bond provision or that the situation was "dire." This concerns the County, and the Chairman's request that the hospital board investigate the bond issue and the failure to have a lease in place prior to January 1, 2024 was based in part on those concerns. While we are disappointed that no such meeting has been called, as you noted in your letter, the Commissioners have no statutory power to force the hospital's board to take any action.

In closing, while we respect the hospital's attempt to provide its perspective on these various issues, there are statements made by the hospital and its leadership that are in conflict with the information and documents provided by the hospital's representatives during the negotiations for the new lease. These inconsistencies concern us, and we will continue to monitor these issues going forward. We trust that the hospital's governance and leadership will take our concerns seriously to prevent the current or future Chairman from having to exercise their statutorily prescribed powers to ensure that the hospital board is meeting its duties in an efficient and effective manner. However, subject to the clarifications set forth above, we join the hospital in considering this matter closed.

Sincerely,



Jason R. Jones
Chairman
Craven County Board of Commissioners



Denny Bucher
Vice Chairman
Craven County Board of Commissioners