

**AMENDMENT NO. 1
TO
AGREEMENT FOR PROFESSIONAL SERVICES
INDEPENDENT CONTRACTOR
(County of Kern – KMC Management, Inc.)**

This Amendment No. 1 to the Agreement for Professional Services is made and entered into this ____ day of _____, 2014, between the County of Kern, a political subdivision of the state of California ("County"), which owns and operates Kern Medical Center ("KMC"), and KMC Management, Inc., a California corporation ("Contractor"), with its principal place of business located at 2800 Sheltenham Way, Bakersfield, California 93311.

**I.
RECITALS**

(a) The parties have heretofore entered into an Agreement for Professional Services (Kern County Agt. #911-2013, dated December 3, 2013) ("Agreement"), for the period December 16, 2013 through December 15, 2018, whereby Contractor provides supervision and management of the day-to-day operations of KMC; and

(b) It is the intent of the Parties to have the terms of the Agreement provide for the payment of all reasonably projected costs and expenses related to the services provided by Manager; and

(c) The parties agree to amend certain terms and conditions of the Agreement as hereinafter set forth; and

(d) The Agreement is amended effective April 14, 2014;

NOW, THEREFORE, in consideration of the mutual covenants and conditions hereinafter set forth and incorporating by this reference the foregoing recitals, the parties hereto agree to amend the Agreement as follows:

1. Section 3, Obligations of Contractor, paragraph 3.5, Contractor Staff, shall be deleted in its entirety and replaced with the following:

"3.5 Contractor Staff. Contractor shall engage or employ such qualified personnel as are necessary for the proper and efficient management of KMC, including without limitation, Judd, one (1) Chief Strategy Officer, one (1) Chief Operating Officer, one (1) Vice President, Ambulatory Services, one (1) Vice President, Administrative Services, and one (1) Administrative Assistant. All personnel provided by Contractor shall be compensated by Contractor and shall be employees or independent contractors of Contractor. Contractor shall be responsible for compensating all such engaged or employed persons, including, as applicable, payroll taxes, benefits, and workers' compensation insurance. Contractor shall be responsible for supervision of activities performed by all employees and independent contractors."

KERN COUNTY
ADMINISTRATIVE OFFICE

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2. Section 5, Payment for Services, paragraph 5.1, Management Fee, shall be deleted in its entirety and replaced with the following:

“5.1 Management Fee. County shall pay Contractor a monthly management fee in the amount of \$158,500 (the “Management Fee”) as follows: Contractor shall be entitled to receive two (2) payments per month, each payment being equal to \$79,250, payable on or before the 10th day and the 20th day of each month during the term of this Agreement. The fiscal provisions of the Management Fee are set forth in Exhibit “B,” attached hereto and incorporated herein by this reference.”

3. Section 5, Payment for Services, paragraph 5.3, Performance Fee, shall be deleted in its entirety and replaced with the following:

“5.3 Performance Fee. In addition to the Management Fee payable under paragraph 5.1, Contractor shall be eligible to receive from County an annual performance fee in the amount of \$402,000 (the “Performance Fee”). Contractor shall be entitled to receive one (1) payment per quarter not to exceed \$100,500, upon successful completion of the performance measures set forth in Exhibit “C,” attached hereto and incorporated herein by this reference, as determined by the Board of Supervisors. Payment of the Performance Fee shall be approved by the County Administrative Office and paid to Contractor within 60 days of the end of each quarter. The Performance Fee may be adjusted annually on the mutual agreement of the parties. If the parties are unable to reach an agreement concerning the Performance Fee before the applicable anniversary date, the Performance Fee currently in effect will remain in effect until an agreement is reached, subject to possible retroactive adjustment as may be mutually agreed. Any adjustment in the Performance Fee shall be in writing and signed by both parties through a formal amendment to this Agreement.”

4. Section 5, Payment for Services, paragraph 5.6, Maximum Payable, shall be deleted in its entirety and replaced with the following:

“5.6 Maximum Payable. The maximum payable under this Agreement shall not exceed \$2,015,000 for year one and \$9,216,000 for years two through five, with total compensation not to exceed \$11,231,000 over the five-year Initial Term of this Agreement.”

5. Exhibit “B,” Fee Schedule, shall be deleted in its entirety and replaced with Amendment No. 1 to Exhibit “B,” Fee Schedule, attached hereto and incorporated herein by this reference.

6. Exhibit “C,” Performance Measures, Calendar Year 2014, shall be deleted in its entirety and replaced with Amendment No. 1 to Exhibit “C,” Performance Measures, Calendar Year 2014, attached hereto and incorporated herein by this reference.

7. Except as otherwise defined herein, all capitalized terms used in this Amendment have the meaning set forth in the Agreement.

8. This Amendment shall be governed by and construed in accordance with the laws of the state of California.

9. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

10. Except as provided herein, all other terms, conditions and covenants of the Agreement and any and all amendments thereto shall remain in full force and effect.

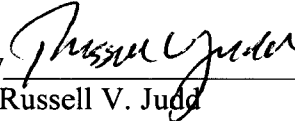
[Signatures follow on next page]

IN WITNESS WHEREOF, the parties have executed this Amendment No. 1 to the Agreement as of the day and year first written above.

COUNTY OF KERN

KMC MANAGEMENT, INC.

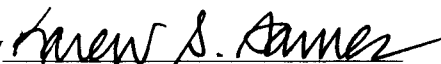
By _____
Chairman
Board of Supervisors

By  _____
Russell V. Judd
Its President

APPROVED AS TO CONTENT:
COUNTY ADMINISTRATIVE OFFICE

By  _____
John Nilon
County Administrative Officer

APPROVED AS TO FORM:
OFFICE OF COUNTY COUNSEL

By  _____
Chief Deputy

Amend1.KMC Management.030314

**AMENDMENT NO. 1
TO
EXHIBIT "B"
FEE SCHEDULE
(Effective April 14, 2014)**

Category	Amount	Total
Management Fee		
Salaries:		
• Chief Executive Officer	\$366,000	
• Chief Strategy Officer	\$232,000	
• Chief Operating Officer	\$200,000	
• Vice President, Ambulatory Services	\$150,000	
• Vice President, Administrative Services	\$150,000	
• Administrative Assistant	\$80,000	
Sub-total		\$1,178,000
Benefits (retirement, health and dental insurance, etc.)	\$324,000	\$324,000
Insurance and Taxes (workers' compensation, payroll, liability, etc.)	\$185,000	\$185,000
Business Expenses (legal, accounting professional fees, etc.)	\$80,000	\$80,000
Car Allowances	\$15,000	\$15,000
Business Travel and Sponsorships	\$110,000	\$110,000
Other Business Expenses (association fees, data research, etc.)	\$10,000	\$10,000
Total		\$1,902,000
Performance Fee Potential	\$402,000	\$402,000
Grand Total (annual not to exceed amount)		\$2,304,000

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**AMENDMENT NO. 1
TO
EXHIBIT "C"
PERFORMANCE MEASURES
CALENDAR YEAR 2014
(Effective April 14, 2014)**

Period	Item	Description	Weight
Quarter 1 (Jan 1-Mar 31)	Perform Revenue Cycle Evaluation – complete by March 31	<ol style="list-style-type: none"> 1. Cash collections analysis 2. Days unbilled analysis 3. Coding accuracy audits 4. Charge Master audit 5. Price increase audit 	25.0%
Quarter 2 (Apr 1-Jun 30)	Establish Framework and Process for Strategic Plan – complete by June 30	<ol style="list-style-type: none"> 1. Framework 2. Process 3. Timelines 	8.33%
Quarter 2 (Apr 1-Jun 30)	Implement Labor Productivity Management System – complete by June 30	<p>For each hospital cost center:</p> <ol style="list-style-type: none"> 1. Identify measurable units of service 2. Productivity standards per unit of service 3. FTE productivity targets 	8.33%
Quarter 2 (Apr 1-Jun 30)	Submit FTE Reduction Plan – complete by June 30	<p>For each hospital cost center:</p> <ol style="list-style-type: none"> 1. Establish FTE budget level 2. Identify FTE reductions 3. Conduct financial impact analysis 	8.33%
Quarter 3 (Jul 1-Sep 30)	Perform Physician Enterprise Evaluation – complete by September 30	<ol style="list-style-type: none"> 1. Medical Staff departments 2. Physician clinics 3. Residency programs 	12.5%
Quarter 3 (Jul 1-Sep 30)	Develop New Physician Compensation Model – complete by September 30	<ol style="list-style-type: none"> 1. Establish new models 2. Assign physicians who will participate in the new model 3. New contracting mechanisms with participating physicians 	12.5%
Quarter 4 (Oct 1-Dec 31)	Perform Financial Performance Assessment – complete by September 30	<ol style="list-style-type: none"> 1. Hospital market share analysis 2. Hospital baseline financial analysis 3. Hospital utilization projections 4. Hospital financial projections 5. Payer mix analysis 6. Supplies and purchased services evaluation 	12.5%

Quarter 4 (Oct 1-Dec 31)	Establish Quality, Patient Safety, and Patient Satisfaction Metrics – complete by September 30	<ol style="list-style-type: none"> 1. Establish metrics 2. Identify process for tracking/measurement 3. Identify process for reporting 	12.5%
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