

Three Rivers Hospital

Board of Commissioners Special Meeting
November 7, 2016 Minutes

The Three Rivers Hospital Board of Commissioners called a special meeting to order at 5:06 p.m. Monday, November 7, 2016 in the McKinley Building Conference Room, 507 Hospital Way, Brewster, WA 98812. The presiding officer was Vicki Orford, Chair.

A quorum was present, including:

Vicki Orford, Chair
Mike Pruett, Vice Chair (via phone)
Tracy Shrable, Secretary

Others present:

J. Scott Graham, Chief Executive Officer
Melanie Neddo, Chief Operating Officer
Jennifer Munson, Chief Financial Officer
Jennifer Marshall, Administrative Assistant

Vision, Mission & Values

Board members and administration took turns reading the vision, mission, and values statements.

Agenda

V. Orford noted that this is a special meeting, and there is only one item on the agenda to be discussed. T. Shrable motioned to approve the agenda as presented; M. Pruett seconded. Motion passed unanimously.

Resolution 2016-10: Coastal Community Bank Agreement

T. Shrable asked if hospital administration has sought loan offers from any other banks. S. Graham explained that they did not, partly because the process of working with Coastal Community Bank has been very time-consuming. The other potential financing option considered was from the USDA. He and J. Munson met with attorney Brad Berg of Foster Pepper almost two years ago, and at the time B. Berg didn't believe the hospital would be able to secure bank financing due to its financial position. As a result of that meeting, administration decided to seek levy funding. S. Graham later was introduced to Jeff Fivecoat with RED Capital, and around the same time he met David Hajek from Coastal. D. Hajek was able to get Coastal to take a look at Three Rivers Hospital, and they requested to review our finances.

Coastal's initial feeling was that we were a high credit risk, so they were taking a chance in working with us. They imposed an additional requirement of having the USDA guarantee part of the loan. When the USDA became aware of the hospital's needs they invited administration to attend a funding workshop in Cheney, but it became apparent that obtaining direct funding through USDA would be complicated.

V. Orford asked if administration had talked to a group of retired physicians that privately loans money; nobody could recall who that group was. S. Graham stated that a couple other banks have reached out to the hospital in the last six months. David Neale, representing a different bank, approached him and V. Orford at the WSHA Meeting in October. The USDA funding is not guaranteed, and the application process is lengthy. If the hospital decides to pursue that, it may be a while until we find out if the USDA would grant funding to us.

Three Rivers Hospital

Board of Commissioners Special Meeting
November 7, 2016 Minutes

T. Shrable asked if administration sought a legal opinion on whether the loan is recommended.

S. Graham stated that the attorneys' role is to advise whether we can legally do something, but B. Berg acknowledged that we have improved our financial situation and with the added revenue from the levy lid lift starting in 2017, there is capacity to repay the loan in a way that doesn't hurt the hospital district.

M. Pruett believes the attorneys would have reviewed all the documentation to ensure the process and agreement happen legally; M. Neddo confirmed that. B. Berg has been involved in ensuring the hospital can comply with all aspects of the agreement, including the warrants payback schedule.

T. Shrable asked if administration consulted DZA for an opinion on the loan. J. Munson spoke to Shar Sheaffer about claiming loan interest on the cost report, and it is an allowable expense. S. Sheaffer didn't offer an opinion on the loan itself. S. Graham noted that DZA's role for the district wouldn't require them to opine on matters like this, but he spoke to S. Sheaffer several months ago and she is supportive of growth. He believes DZA would want us to continue to be frugal and work to pay for expenses through operational revenue. If the hospital waits until they have the resources to make the improvements, it would take years.

S. Graham outlined the history of working with Coastal and McKinstry, following the board's direction to administration to begin seeking funding options and start priority improvement projects. The hospital had to pay for McKinstry's evaluation in order to get a cost estimate for all the work that needs to be done. Part of the urgency in pursuing this funding is the condition of the roof.

T. Shrable has no problem going forth with the projects, but he wants to be sure this is the most prudent financial decision for the hospital district and taxpayers. S. Graham agreed.

M. Pruett has heard from constituents in the Methow Valley over the last four months who feel very positive that the hospital is working on growing to be successful. Their primary concern is ensuring the emergency services remain, and they'd like to be able to access the ancillary services. They understand that we need to do something. He thinks the board is supporting what the public wants by working toward maintaining and providing a safe and modern facility.

T. Shrable has heard questions from district residents about the loan and the USDA financing. He asked if the hospital would be able to refinance with the USDA in five years. M. Neddo isn't sure, but in five years when the projects are complete we hope to see improved revenue from increased volumes, and we'll be in a better financial position to seek more options and have better negotiating power. Voters may not be willing to fund a bigger levy now, but there may be an appetite for it as they see the hospital making progress. J. Munson said it's possible we could eventually negotiate a bond or other funding that could allow us to pay off the loan faster, although there would be a penalty fee from Coastal if the loan is paid off sooner than five years.

V. Orford asked if the USDA is backing part of the loan from Coastal; that has not been finalized yet and may not be until the end of the month. Coastal, meanwhile, is asking for a commitment. She asked about the Stryker offer to finance patient furniture and equipment. S. Graham stated that D. Hajek doesn't believe there would be an issue moving forward with the offer. The idea is to rework the loan budget if it is approved and finalized, so we could remove the furniture from that and add other needs.

Three Rivers Hospital

Board of Commissioners Special Meeting
November 7, 2016 Minutes

The deal with Stryker demonstrated that we do have the capacity to borrow, therefore we would not be eligible for a direct loan from the USDA.

If the board feels this loan isn't the most prudent way to go, S. Graham said administration can take a step back but there would be other consequences besides losing the loan. McKinstry has a set timeframe for doing the work based on their evaluation, and we wouldn't be able to move the ER until we secure funding. He believes in the board's direction to make the facility improvements. V. Orford wants to be sure all the board members feel that their decision is well-informed.

T. Shrable asked what the impact would be if the board approves the loan. The annual payment is about \$280,000, and the levy lid lift will bring in about that much additional revenue. It would take all of the additional revenue to cover the annual payment, assuming the interest rates don't rise dramatically. S. Graham doesn't anticipate negative impacts, barring unforeseen circumstances in the future. As for a positive impact, his hope is that the hospital will be able to attract better providers and more patients once the improvements are made. The appearance and condition of the facility is one of the barriers patients cite when they explain why they don't seek care here.

M. Neddo stated that there would be some cash flow incoming on the cost report depending on what we spend. She believes that if the roof isn't addressed soon, there will come a point when we're forced to. The cost to replace it once something goes wrong could be much higher than the project planned.

M. Pruett stated that when you seek loans you can shop around, but there typically isn't a lot of difference in the options due to your finances. He feels that as a representative of the hospital district, Coastal provides a fair and reasonable approach to what we're trying to do. He is a firm believer in "If you build it, they will come." If people see this hospital is continually working to modernize and improve its services, they will have stronger confidence in the hospital and it will draw more patients.

V. Orford asked for J. Munson's opinion on the loan. She stated building improvements are needed, and the only way to do it is to have some sort of debt. The Coastal proposal carries some concerns for her; she wonders why they don't work through the USDA for a year and then roll it into a bond. It's a business decision for Coastal. V. Orford stated the hospital needs to do what's best for the district, and we have to do what we can with the information we have.

V. Orford read Resolution 2016-10. M. Pruett motioned to accept the resolution as presented and read by the chairperson. T. Shrable seconded. Motion passed unanimously.

Adjournment

T. Shrable motioned and M. Pruett seconded to adjourn the meeting at 5:59 p.m. Motion passed unanimously.

Vicki Orford, Chair

Mike Pruett, Vice Chair

Tracy Shrable, Secretary

Cherri Thomas, Member