

March 21, 2018

The special meeting of the Board of Commissioners of the Whidbey Island Public Hospital District was called to order at 2:04pm by Board President, President Wallin. Present were President Wallin; Commissioner Fey; Commissioner Cammermeyer; Chief Executive Officer, Geri Forbes, Chief Financial Officer, Ron Telles; General Counsel, Jake Kempton and several other hospital staff.

Points of Order

President Wallin stated the meeting will be audio recorded today. President Wallin stated the purpose of our special meeting today was to inform the public of an upcoming USDA Rural Health Loan Application pursuant to RCW 42.30.080, and 1942.17 (j)(9).

USDA Presentation

Ron Telles began his presentation by explaining the District's goal of seeking a USDA Rural Health Loan. Mr. Telles reviewed the financial history of WhidbeyHealth for the past twelve years.

The District's operating income began a hard downward fall in 2009. The following five years (2010, 2011, 2012, 2013, and 2014) all ended in a deficit of operating income over expenses. As a result, the hospital was primarily focused on covering daily operations, choosing to defer long-term facility maintenance to a future date. During this time the District used capital funds to pay for a variety of projects including; electronic medical records software, telemetry replacement, and West Wing Café Renovation.

In 2015 the District began construction for the new inpatient wing which was funded by the 50 million dollar bond approved by the tax payers. This bond helped pay for a new parking, 39 Beds and PACU.

However, the District still has multiple deferred maintenance needs that have accrued over the years, with an estimated total cost of approximately 35 Million dollars. Currently, the District has about 9 Million dollars in the bank and is unable to finance the long-term maintenance needs using its capital.

Of these deferred maintenance needs about 20 million dollars of these needs are mandatory to become compliant with current state regulations, including electrical system upgrades, pharmacy hood/filtration system and air handlers/HVAC systems. Ron Telles presented three ways that the District could finance the deferred maintenance; Revenue Bonds, Limited Tax General Obligation Bonds (LTGO) or USDA Loan.

Mr. Telles compared the pros and cons of the three different options and concluded that the USDA Loan was the most preferable, due to it having the lowest interest rate which would be locked down, it can be prepaid at any time, and needs no debt to reserve.

The process for applying for a USDA loan is a three phase application and approval process, which takes six to eight months. The District is currently working on entering phase two of the process by submitting its full application in April.

In closing Mr. Telles stated the deferred maintenance cannot wait any longer.

The meeting then was then opened to the public for questions or comments.

General Public Comments

Linda Wandro from Coupeville asked, “What is the backup plan if we do not get the funding from the USDA?”

Ron Telles answered that the USDA has visited onsite to tour our hospital, additionally a feasibility study was done and we are comfortable that this loan will go through for us. However, if it does not, the District will have to drastically reduce costs somehow, and go out to a local bank. This would significantly drive up the interest rates, but the hospital has to get this work done.

Inger Wittmann from Coupeville asked, “Will the laboratory be a part of the new renovations to the lobby?”

Geri Forbes answered that our team would like to update this department; however the focus is on the electrical panel and HVAC at this time. These systems are very outdated and out of code, no other plans or changes at this time are being considered until the immediate needs are met.

Anna Wang-Matheson from Freeland asked, “Was pharmacy never part of the original plan? Will this be a satellite pharmacy/outpatient pharmacy?”

Ron Telles and Geri Forbes answered that the pharmacy was never a part of the original plans. Additionally, the pharmacy will remain an inpatient only pharmacy.

Wendy Patton from Coupeville asked, “To clarify is there a penalty for repayment, and what was the interest rate?”

Ron Telles answered and confirmed that there is no repayment penalty and that the range interest rate at this time is 3.25-3.75% for the loan.

Manette Merrill from Coupeville asked, “The last renovation caused a 3 Million dollar overrun, part of this loan is going to pay for that overage correct? What is to say that this new project is not going to have the same issue, of overrun charges?”

Geri Forbes answered that the 3 Million dollar number is a projected number. When the District first received bids for the original \$50 Million dollar loan, it was in early 2015. As we are all aware, our market has boomed and changed phenomenally. This has driven the cost for all labor across the board, creating a significant overage in our costs.

Geri continued, for this project (USDA Loan) our team has based our numbers off of the estimates and heightening the contingency fund.

Manette Merrill continued, “This overrun is costing the tax payers even more money, and our fear is that the trend will continue with the new project.”

Ron Telles answered that this is not costing the tax payers more money. The USDA Loan comes from a fund set aside by the federal government. The hospital is concerned as well, and that is why our team has taken extra precautions with these numbers from what they have learned with the other project.

Manette Merrill continued, “To be clear this is tax payer money. The money that is funding the loan comes straight from the tax payers. We need to be aware that this is how our money is being spent as well as ensuring it is being used appropriately.”

Ken Hulett from Oak Harbor stated, “The reality is that the federal government finances their debt by issuing bonds, the billion dollar pool is going to get spent whether we are a part of the loan process or not. As part of the community it is of our best interest to spend this money we already pay for, to benefit our community.”

Commissioner Grethe Cammermeyer spoke and stated that she has been on the board since the inception of the construction talks. “Early on the team had many hopes and dreams for the 50 million dollar loan, hoping that every dollar could be stretched further than planned.” “President Ron Wallin and I have been at every meeting regarding this construction and we have slowly watched the money deplete due to rising costs, and inaccurate building plans.”

“We made many alterations to things such as fixtures, paintings, and furniture to cut back on costs and work on getting this project done on budget. We do not take this lightly that we are over budget, we Commissioners are residents also.”

Commissioner Cammermeyer finished by stating they have worked hard and meets every week to ensure that the money was being directly reviewed.

President Ron Wallin stated that the budget is 6% over for this project. We always aim to be under budget, or on target it just was not possible. Another large cost factor, is that the “as builds” of the old building are inaccurate, this has caused multiple stops in our construction, to reassess what has been discovered. “Our team has worked very hard to hold the architecture and construction companies accountable as much as possible.”

Wallin continued,

“We also want to shine light on the fact that our new facility has truly strengthened our efforts in Physician Recruitment.” “We have been very successful in recruiting doctors to Whidbey with the help of these updates.”

Commissioner Nancy Fey spoke and asked the public, what would our Island be like without WhidbeyHealth? “I think that we need to have some perspective about our hospital, we are one of the best Rural Hospitals in the state.”

“The board and staff have worked extremely hard to get us to where we are, but there is a reality that we need to face. We have to have updated electrical panels, and the USDA loan is the best way to facilitate those needs.”

Pamela Cassidy from Freeland asked, “What is the open shell of unfinished space going to be used for?”

George Senerth stated that we have a few items that we would like to utilize this space with however; no plans are set as we have to focus our efforts and funds on the mandatory electrical and HVAC needs.

Adjournment

There being no further business, Commissioner Wallin called for a motion to adjourn, seconded by Commissioner Cammermeyer to adjourn the meeting at 3:10pm. Motion carried.