

**Town Hall Meeting-** Grays Harbor County Fairgrounds Pavilion  
USDA Application & Hospital Construction Project  
Wednesday, July 07, 2010

**Commissioners present:** Brent Meldrum, Louie Figueroa, Drew Hooper, Amy Thomason, Dean Schwickerath

**Others:** Renée Dunham, Tommi Halvorsen-Gatlin, Jillian Beaudry, Otis Leathers, Ray Dudenbostel, Joy Iversen, Cathy Colley, Mitzi VandeWege, Pat Ward, Mayor Dave Osgood, Georgette Hiles, Barbara Saylor, Kristin Goldy, Mim Fry, Sven Peterson, Paul Barrow, Jim Taylor, Ron Hulscher, Betty Pierce, Dr. David Blackett, Ed Swalander.

**Meeting Start:** 6:12 p.m.

**Scope of the anticipated project:**

We plan to stick to practicing rural healthcare and medicine and continuing as a Level V trauma center. We are not trying to emulate Olympia, Aberdeen and other hospitals. We are bound to the three 75% rules: 75% of the same services, patients and staff. We are purchasing a 22.2 acre site with existing structures, whose current leases will be honored. We only plan to have 10 inpatient beds. We will keep lab, diagnostic imaging and our healthcare clinic. We hope to implement outpatient procedures, and a mobile MRI plan. We are starting small and not overbuilding and leaving adequate room for expansion. We plan to have 42,000 square feet, as opposed to our 10,000 current square feet. It will include public meeting space. Cost estimate will be about a \$19,000,000 loan and a \$2,000,000 contribution from operations. If it is funded, we will be breaking ground in Spring of 2011.

**Steps completed to date:**

All of these steps are required by the USDA for funding from federal agencies: Market analysis, property selection, negotiations for the purchase of the land, architect selection, full environmental impact study (SEPA & NEPA), a site plan, preliminary architect feasibility report (PARF), and a financial feasibility study w/ debt capacity. We have a purchase and sale agreement in the works with the county right now, but it doesn't have to be finalized before the loan goes in.

All available properties that were considered for the project were then presented in the PowerPoint, along with a map of our where our patient volumes are coming from.

**Site Map:**

Board chairman then handed out copies of the draft site plan. We explained that we are locating the building in the middle of the site plan because it leaves room for expansion in all areas of the hospital. McDonald creek will actually be improved and enhanced and two ponds will be opened. We will also have a helipad and separate entrances for emergency vehicles so they don't have to go through the front traffic and 125 parking spots. There are also two potential viable options if we decided to build a medical office park.

**Facility Plan:**

A basic space plan was shown demonstrating square foot allocations and relationships of the departments. Staff, medical providers, managers, board members were all involved in the design of this process.

**Financing- USDA:**

We chose the USDA loan last November because the USDA had stimulus money allocated that was available for construction projects. They have a low interest rate of 4.125%, which also enables the hospital to build without raising

taxes. This also brings stimulus funds in our community. It is already allocated for projects; we need this money in our community. It allows us to borrow funds without mortgaging the hospital property. We will not use levies to fund the debt. When the district was established it was authorized to levy up to 75 cents per \$1,000 of assessed value. We only do 48 cents per thousand currently. We don't have to ask to increase that to build the hospital.

Sven Petersen from Foster Pepper described his firm's role and how they interact with Red Capital Group for consulting on the project.

Ron Hulscher spoke about the plan to finance the project. The hospital already has \$2,000,000 available to make their contribution to the project. At the end of June, the hospital has \$4.1 million in the accounts. Current debt schedules, have required payments of approximately \$500,000 each year for debt. Our current debt will expire in 2014. The last payment of \$175,000 will be made in 2014. If we are in our new building in 2013, we only have about 18 months of overlap between paying both the old debt and the new debt. We are seeking a \$19 million/40 year loan, so that tends to reduce the amount of principal that has to be paid each year. The debt will have a "level" debt service- which means that we will pay the same amount each year for 40 years, which is \$1,025,000 each year. We will repay all the stimulus money that we're receiving from the USDA, plus interest. This application process with the USDA is under far more scrutiny and is far more laborious than applying for a bank loan. The hospital's financial data has to illustrate that currently, and in future years, we will have sufficient revenue in patient services to cover operating expenses and fund the debt. Ron also explained how Medicare cost reimbursement works- we are guaranteed to cover our costs plus 1%. 53% of our business comes from these patients. Medicare, i.e. Medicare and Medicaid, through reimbursement, pays 53% of our interest expenses. Critical Access Hospitals are paid for their costs which therefore reduce the risk of borrowing the money.

Sven Peterson spoke about revenue bonds. This project will be financed by revenue bonds instead of bonds backed by taxes. With tax bonds, the tax district is responsible for paying for the hospital. With revenue bonds, the revenue, after M&O expenses, is what the USDA has a claim on. With revenue bonds, you're not risking an increase in taxes to fund this or be responsible for it. There is no mortgage on the property so the USDA won't be able to come in and take the hospital if it were to default. The USDA would be the one out the money, if the hospital were to default, which is why they are so scrutinizing with the process.

Affordability- how is the hospital going to be able to pay this debt? The hospital had to engage independent CPA firms that did forecasts for income through 2014. The annual debt service coverage is projected at 2.5, in other words, the income could pay the debt two and a half times. Applicants should also be able to show three consecutive years of revenues exceeding expenses. We had a good year in 2008 and an outstanding year in 2009. We are currently on target with budget in the first half of 2010. For nearly three complete years, the hospital has produced excellent financial numbers.

The financial feasibility study demonstrates that the hospital will continue to achieve positive results. The rates will be adjusted in the beginning of each year and are adjusted independently from building costs. They are derivative of salaries and operating costs.

## Public Question & Answer Session:

- ***Who is responsible if the hospital defaults?***

The USDA is responsible for amount if hospital fails- not taxpayers.

- ***Will Mark Reed mortgage the property to finance the project?***

We will not mortgage hospital properties for this project.

- ***Will Mark Reed raise their rates to help fund the project?***

Rates are adjusted in the beginning of each year and are based on budget expenses.

- ***What will you do with the clinic and the old facility?***

The plan is to continue to staff the clinic in McCleary with lab draws, etc. as well as operating a clinic at the hospital location. It will also help us have dual services, like for x-ray and offset overflow volume.

- ***How will you be able to afford both facilities?***

We will have two clinics, not two hospitals. This will increase expense, but the cost has been estimated and included in the study and has been accounted for. We may possibly lease unused space.

- ***Will your electronic medical records system work in both facilities?***

The EMR system is expandable and we're working with the Elma providers to get on the same system. The clinic is the only electronic system we have. We do not currently have an EMR for the hospital.

- ***What will you do if you don't get the loan from the USDA?***

If we don't get the loan from the USDA, we will look at other options for financing.

- ***How many new jobs will the new facility create?***

We estimate an increase in our staff of 25 FTE's after the services are up and running, which will be probably about a four year period at the latest.

- ***How do other medical facilities and doctors feel about you moving to Elma and expanding?***

GHCH has been very excited about collaborating with Mark Reed on expanding the services for Grays Harbor County residents and they wrote us a letter of support for the project. We depend on the established local providers in the area for referrals for ancillary services. There is a shortage of primary care providers in our rural communities. We work with them in our medical staff meetings and we make sure they have input and recommendations.

- ***Does your budget include new equipment or will you be using your old equipment?***

The project includes a \$3 million budget for new equipment. The equipment at the current facility is so old that it would not be cost effective to try to relocate it. If it is still operational, we will probably continue to utilize it at the McCleary facility for the clinic patients there.

- ***Does the \$19 million price represent your high or low number for the project?***

The \$19 million is a high dollar amount, not including any discounts. The project's bottom line could come in under that amount if there are any discounts involved.

- ***So you plan to put the business office in the new hospital and not in McCleary?***

The business office is scheduled to move to the new site but if cost issues arise, we may need them to stay in McCleary. We may also have them on site in Elma but put financial counselors in McCleary also. Everything will depend on our budget and space needs in the new building.

- ***What will you do with the rest of the building space in McCleary?***

It is possible that we may be able to rent or lease the extra space.

Meeting Adjourned: 7:45 p.m.