

August 4, 2008

A special meeting of the Board of Commissioners of Whidbey Island Public Hospital District was called to order at 9:00 a.m. by Board President, Roger Case, M.D. in Conference Room A at Whidbey General Hospital. Present were Commissioner Case, Commissioner Wallin, Commissioner Miller, and Commissioner Zaveruha. Also present were Chief Executive Officer, Scott Rhine, Chief Financial Officer, Joe Vessey, Chief Operating Officer, Tom Tomasino. Chief Nurse Executive, Jacque Scott, Dr. Wendy Tong, Dr. Jane Mays, Bert Speir, Grethe Cammermeyer, Laura Blankenship, Pam Hawley, Teresa Garrison, Carolyn Pape, Walt Nelson, Troy Holmes, Trish Rose, Sally Fox, Jan Maham, Debbi Williams, Randy White, Katherine Baxter, Bonnie Maley, Harry Hawn, John Bitting, Tessa Gavin, Mary Pierzchala, Renee Yanke, and Trish Nilsen.

Guests joining and welcomed to today's meeting included:

Derrill Adair & Peg Nicholaas, Ritter Construction – Project Managers for the hospital

Lindsay Sovde, Senior Vice President, Seattle Northwest Securities Company

Brad Berg, Esq, Foster Pepper PLLC

Gregg Davidson, CEO, Skagit Hospital Mount Vernon

There were no points of order noted.

Scott Rhine, CEO, reviewed the agenda for the day, noting that he felt the purpose was to review the master plan, review methods of financing and learn from others that had recently undertaken projects such as this. He indicated that he knew that many had concerns regarding timing and going before the public requesting support for an increase in property taxes to fund a project such as this. He noted that most people within the hospital and medical community realized the need and those familiar with the project seemed supportive. Patients that have had to be hospitalized overnight in our current rooms or who had to "sneak" across the hall to use the showers, certainly recognized the need. The real question was timing and how to pay for the project. He felt that today's meeting was not one where final decisions were necessarily going to be made, but a meeting for learning about the project in detail; reviewing financing alternatives; and, learning from others that have recently undertaken similar projects. He reviewed a revised case statement with a conservative timeline. Implementing single rooms is imperative, and the question really is when, not if the hospital will go forward with this. Mr. Rhine stated that Administration is not ready for the Board to make a final decision, and suggested that at this time, it is essential to get more information from hospital and medical staff and the community.

Why We Should Proceed With the Master Plan Patient Project – Senior Leadership

Tom Tomasino, Chief Operating Officer, reported that data has been gathered for over several years for the master plan. Following the initial conceptual design, Mahlum Architects was asked for a 2nd opinion and presented three options for consideration. The option on the south side of the existing hospital seems to be the best one to meet the hospital's needs. This puts inpatients and observation patients close to diagnostic services, close to the emergency department and surgical services and provides for good way finding, less phasing and allows the use of the current Med/Surg wing during construction. Tom noted that the cost for construction was \$250.00 per square foot in 2002, and has escalated significantly to \$493.00 per square foot in 2008. If we were to wait and proceed at a later date, such as 2011, it is estimated that construction costs per square foot would be even more. The benefits of this design replace a 40-year old building and infrastructure systems providing better quality, safety and patient/family support. It will bring the hospital into the 21st century and provide increased patient and staff safety, a healing environment, and a patient respectful and technologically up to date environment. The construction of single patient rooms is a significant component of this project. It was noted that this is currently not a legal requirement, but it is anticipated that it will be sometime in the future. Mr. Rhine shared a quote from a recent trade journal indicating that not building single patient rooms would be considered malpractice within five years (the article was written in the last two years). It was also noted that the community will be expecting single rooms, with most area hospitals currently providing single rooms.

Overview of Master Plan – Derrill Adair/Senior Leadership

Derrill Adair, project manager for Whidbey General Hospital from the Ritter Company, presented a conceptual cost report from Davis Langdon, cost estimators. The cost of the project is estimated at \$51 with \$3 million for financing, bringing the total to \$54 million. Mr. Adair noted that building hospitals is a very complex industry and not at all like building a retain building or personal home. He attributed the high cost of construction to many different reasons including the increased regulations for healthcare construction. Mr. Adair noted that there has been a slight improvement in the availability of general and subcontractors, and that some building materials are increasing in cost and some coming down in cost. Escalation costs have been figured in the aforementioned cost estimate. The cost to build a new wing (52,000 square feet) is less than what it would cost to remodel the older, existing space. Phasing required includes parking, new addition and renovation of the critical care and obstetrical areas for enhanced surgical services usage. Single patient rooms will be larger than they are currently. It is being recommended by senior leadership and the Ritter Company that the GC/CM (general contractor/construction manager) method of construction be used for the project. Commissioner Wallin indicated that he is not entirely comfortable with this methodology and Commissioner Zaveruha questioned the method of selecting architects and planners based upon qualifications alone (without cost proposals). Commissioner Walling also indicated that as a public hospital district we should do everything we can to promote the use of local contractors and subcontractors. He felt that if the GCCM methodology prevented this for some reason, this would need to be studied. Positive aspects of this process are that the most qualified contractor can be selected and that many feel this will keep the project on budget without any shortcuts to the project itself. The process is transparent and lends itself to a collaborative building approach as opposed to forcing the contractor to look for change orders that may impact the overall cost of the project.

Financing the Project – Joe Vessey/Lindsay Sovde/Brad Berg

Joe Vessey, CFO, stated that in his experience with building two new hospitals, operating costs were actually reduced with single rooms as they are more efficient and help to reduce the labor costs of transferring patients to other rooms and areas of the hospital. Mr. Vessey reported that the hospital's existing bonds approved in 2000 by voters will mature in 2011. As he reviewed a 2007-2008 comparison of Island County levy amounts, it was emphasized that the hospital levy is a very minor percentage of the county property taxes, at slightly over 2% during both years. Grethe Cammermeyer noted that the 2% did not include the EMS levy and that the hospital needs to clarify to the public that the EMS levy is separate from

the hospital levy.

Mr. Vessey then introduced Lindsay Svorde, Senior Vice President for Seattle Northwest Securities Company. Ms. Svorde stated that her company only underwrites municipal bonds. The vote on the hospital bond would require 40% of the previous general election to validate, which is of concern as the last general election would be the presidential election in November, 2008 if the bond is put to the voters in 2009 for construction in 2010. Ms. Svorde reviewed the process for preparing for the bond sale, "pricing" the bonds, and what happens after the bond sale. The bond issuance process generally can be completed in 6-8 weeks. On a positive note, Whidbey General Hospital's debt level is extremely low. The District's last rating was A3 (Moody's), which is reasonable, and will help with a lower interest rate, which helps with lower tax rates for bond payors. Commissioner Miller indicated that she is concerned about the District's current rating and that we should explore this in the near future. Interest rates are determined when the bonds are sold. State Initiative 747 limits annual property tax increases to 1%. Some districts do a survey of taxpayers to see what they would support (although this is not currently approved of by the Public Disclosure Commission if the municipality pays for the survey as they consider this spending of public funds for campaigns). There are tools online to help with communication with voters. One suggestion was to provide a calculator on the hospital's website so homeowners could calculate what they would pay based on the value of their property. It was noted that springtime seems to be the best time to put a levy on the ballot. The mail-in balloting process has helped with validation. Ms. Svorde presented several debt service scenarios that would work for the hospital project. The current availability of bond insurance was noted as a concern, and probably felt that it would be difficult, if not impossible, to obtain due to the current bond insurance market.

There was a break for lunch at 12:10.

Brad Berg, Esq. of Foster Pepper PLLC presented information on taxing and borrowing powers and limitations for the public hospital district, and also presented guidelines for ballot proposition elections. Mr. Berg provided a list of election dates, as well as the dates that the resolution would have to be filed. The law allows the district to make one district wide mailing with factual material, and additional mailings can be done if they are included as part of regular monthly mailings. Mr. Berg recommended that the Public Disclosure Commission (PDC) review questions for any surveys the hospital sends out. Funding for surveys can come from private sources. Mr. Berg felt that the hospital Foundation could campaign and/or fund a survey for the hospital bond campaign. Public officials and employees should make it clear to the public that any participation in the bond campaign is personal rather than officially sponsored and should not be done while on government work schedules.

Should it be decided to go forward with the bond, Mr. Berg would prepare a resolution for Board approval authorizing sale of the debt to the bond purchaser. After approval of the bond resolution, preparations would be made for closing, i.e. the date the district would receive payment for bonds, and bonds are delivered to bond purchaser. Bond counsel then prepares and compiles for distribution to all financing participants.

The Importance of Unity and Internal Support (Hospital Staff, Medical Staff, Volunteers, Foundation, Patients)

Mr. Rhine talked about the importance of us all "being on the same page" when talking with the community about the project. One idea was to run a series of articles in the PULSE. The need for internal unity is essential. We all need to work to get correct information and the vision of the project out to the community.

Learning from Others – Gregg Davidson, CEO Skagit Hospital

Gregg Davidson, CEO Skagit Hospital, presented information on the process and experiences they had with their recently completed construction projects. Mr. Davidson recommended the following from what they learned:

- be very clear on the message taken to the community regarding the bond, citing what it will pay for and what it won't pay for
- medical staff and nurses' opinions are very important to the community

- form a strong bond committee (Skagit had over 100 volunteers on their committee)
- partner with the city(s)
- promote good neighbor relations, be proactive, be honest
- pass the G & O bond
- collect the right team of consultants, owner representatives and architect
- monitor the budget and schedule
- monitor the square footage creep
- utilize the GC/CM method for construction
- set guidelines and expectations and be involved in the design phase
- involve staff, physicians and patients in planning

Mr. Davidson was very positive about the overall experience of their project.

Discussion on Conceptual Approval

After further discussion, there was consensus from the Board that we need to move ahead with the hospital construction project. It was agreed that hospital and affiliated leadership needs to inform the public and share the vision of how the project will impact voters both monetarily and from a health perspective. It was recognized that more community input is needed, and representatives of the Hospital Foundation (separate organization) indicated that they felt their board would be supportive of the project and participating in a survey sponsorship. It was noted that talking points are in today's meeting packet, an article in the PULSE asking the community for comments will be formulated, and a committee of volunteers to work on the bond campaign will be formed. Commissioner Miller made a motion, seconded by Commissioner Wallin to move forward conceptually with the hospital expansion project. Motion carried.

President Case thanked everyone for the input, and acknowledged that it will be a long, but worthwhile struggle to get this project supported and accomplished.

There being no further business, the meeting was adjourned at 2:58 p.m.