MINUTES OF THE BOARD OF DIRECTORS' MEETING
SWEENY HOSPITAL DISTRICT

December 9, 2021 Time 18:00

Members Present:	Mason Nichols, President; Scott Swift, Vice President; Patti Foster, Secretary Violet Weeks, Lisa Leal, Charlie Genella, Leeda Wood
Members Absent:	
Others Present:	Enrique Leal, III, M.D. Tom Ronayne Deborah Whitley – BKD Kari Schroeter – SCH Foundation Board
Employees Present:	Kelly Park, Cindy Burge, Stuart Butler, Dana Quintanilla, Travis Alford, Stephanie Crowder, Sarah Hebert, Janie Schmidt, April Nichols, Jimmy Mashaw, Lisa Orr, Hollye Skeen, Tracy White, Doug Smith (by phone)

1. **Call to Order** Mr. Nichols called the meeting to order at 1800.

2. The invocation was given by Ms. Foster.

3. **Record Members Present and Establish A Quorum**
   There being 7 members present, a quorum was established.

4. **Public Comments**
   A. Tom Ronayne said he is aware that several board members don't know what size loan was requested let alone approve it. He hopes that when proposed tonight there will be a discussion about the terms compared to a USDA loan or to a bond issued. He commented he thinks that is an important consideration in deciding to approve something this evening . He said if that is not offered as part of the presentation, he hopes that board members will ask those questions and have that discussion this evening.

5. **New Business**
   A. Frost Bank
      (1) **Consider and take action, if needed, regarding bank loan for new hospital**
      Mr. Nichols said they did receive the financial approval letter from Frost Bank. The finance team, Kelly Park and our auditor, Deborah Whitley of BKD has had a chance to look at it. They are here to explain the pros and cons about it and answer any questions you may have. He proceeded to turn it over to Ms. Park.

      Kelly Park said she would turn it over to Deborah Whitley to give a presentation.

      Ms. Whitley said she wanted to commend the group for all the diligent work for the 1st building project and 2nd building project because an enormous amount of planning has gone on with a lot of diligence to make sure all the decisions are made and made for the right reasons.

      The main question asked is can we afford the building. The first spreadsheet shown was from the first building project from back in 2018. She said the hospital spent a fairly large amount of money doing a financial feasibility study. It was for a USDA loan to determined how much we could afford and how much do we borrow. The study showed the hospital could afford a 54 million project, there was never a concern that the hospital could not afford it. The original loan was for 36 million dollars loan over 40 years. She commented she knows the hospital can afford it. There hasn't been any change from 2018 to 2021 that would change that answer.

She gave an overview of how much Medicare would pay verses how much we would have to have from other sources other than Critical Access reimbursement. She gave detail of how Critical Access Hospitals receive cost-based reimbursement on traditional Medicare patients. As Medicare continues to roll out Medicare Advantage plans, the hospital is not guaranteed to get cost based reimbursement on those plans. She said we want to get as much cost based reimbursement that we can on the front end of the loan instead of the backend of the loan.

She did a comparison between the 36 million 40-year note and the 28 million 20-year note. The cash flow requirements for the 20-year note will be higher but will pay a lot more principal on the front end of the loan than you would on a 40-year note. The depreciation will be lower and full interest paid will be lower on 20 years. On a 20-year note we would have to come up with about 1 million each year from sources other than Medicare. We will continue to have depreciation expense for an additional 20 years on the building after the note is paid off. This will allow us to grow cash on the back end as opposed to the front end. Update was given on the QIPP program and how it would help with paying the notes.

Briefly discussed was the Critical Access status, tax rate, abatements coming off and retaining the same amount of cash. Days cash on hand was briefly discussed. She suggested to have 365 days cash on hand. Travis Alford said after the down payment for the loan we would have 180 days cash on hand. Ms. Whitley said the average Critical Assess hospital has 90 days cash on hand so we would be above our peers even after a down payment.

Mr. Nichols said there are pros and cons but we would save 13.2 million in interest in district money but we would have to be more aggressive with our operating balance then, but after 20 years we would be done with the note. We would have an additional 20 years of depreciation on the building. Ms. Whitley said we would have positive cash flow on the end in the amount of 3.3 million dollars coming from Medicare paying for depreciation after the building is paid for.

Briefly discussed were the Medicare Advantage plans and the nursing home QIPP program. After discussion Ms. Whitley departed.

Mr. Nichols asked Mr. Alford if he had anything to add. Travis Alford said Deborah did a good job outlining a big portion what is going to happen. The big question is what we have verses what we have on the table. The bigger take away that she did not speak to is how much of the operations do we have to cover the remainder of the 28 million dollar loan. He proceeded to give information covering previous years and the ability to cover a loan. He said he would say the same thing Deborah said, it is feasible. Either way you put it 20 years verses 40 years. It just puts more on operations on a 20-year period. As a finance person in his opinion, a 40-year puts a lot more of that ownership that doesn't make him pull his hair out as much but is that doing our financial responsibility to future boards, future CEO's, Controllers and CFOs. Is that doing what is best for the community because in year 25 this is why he posed the question on what's going on with the Medicare Advantage Medicare HMO programs. How much of that is that going to take away from our Critical Access plan reimbursement. We can get most of that uploaded in the frontloaded in his opinion. If we have a 20-year loan we will be able to take on more of that benefit early on. Early on we reduce the natural risk of Medicare dwindling down, we take more of that benefit. He will not assume we will have QIPP but if we do, he does not have a doubt in his mind that we can begin to build up funds. Financial feasibility either way it is doable. He said if the board proceeds with the 20-year loan, improving the operating margin is imperative. If we improve, we may not need QIPP. QIPP may be what helps us prepay the loan at 10 years. We want be worrying about tax dollars because we would have reduced that operating margin.

Mr. Nichols said his only concern is with financials, it can be done whether it is 20 or 40 years. Mr. Nichols spoke his personal opinion, not the full position of the board, there is that one knob of tax payor subsidy that he does not want to ever touch or raise but he knows Deborah Whitney feels a little differently about it. He feels strongly that he wants to go in the other direction. He wants to bring the revenue in through operations.

Mr. Alford said he wants to sustain the dollar amount of taxes like Deborah Whitley. The tax rate can reduce as much as it needs to as long as the total dollar remains for the hospital district. As the operating margin decreases, those dollars are even more imperative. The tax dollars are used for capital and the hospital is a capital expense.

Mr. Genella asked Ms. Park her view. Ms. Park said looking at the finances and speaking with Deborah Whitley and knowing how we operated each day, we will be okay. Knowing once we get into the new building, we will bring on dialysis, double the bed size so we can put more swingbed patients, that is where we can take it to the next level. By bringing in dialysis patients, we will be able to keep those patients, and that is good revenue that we have not seen before.

After further discussion, Scott Swift motioned to approve Kelly Park to take action to take this loan as presented with Frost Bank. Ms. Weeks asked for 20 years. He responded for the term sheet presented, yes. Ms. Weeks seconded the motion. It was unanimous decision, motion carried.

B. **Discuss, consider and approve updated resolution to open second bank account at First State Bank of Louise for Sweeny Hospital District dba The Colonnades at Reflection Bay**
After discussion, Mr. Genella motioned to amend the resolution of 9/27/2021 to open a second bank account at the First State Bank of Louise in the name of Sweeny Hospital District dba The Colonnades at Reflection Bay. It has become necessary to update the signers on the new account (sweep account).

The sweep account opened to include online services, transfers, wires, ACH and remote deposit capture. The signers and access to the accounts will be Mason Nichols, Scott Swift, Patti Foster, Kelly Park and Travis Alford.

Ms. Wood seconded the motion. Unanimous decision, motion carried.

6. CLOSED EXECUTIVE SESSION:

Mr. Nichols announced the Board would go into closed, Executive Session at 1910 to review the following:

A. Discuss Personnel Matters

B. Discuss Deliberations Concerning Real Property

End of Executive Session

Went out of Executive Session at 1935.

7. Action regarding Executive Session:

No action taken.

8. Adjournment

Ms. Wood moved for adjournment, seconded by Mr. Swift. Meeting adjourned at 1936.

Mason Nichols, President
Recorder: Cindy Burge