

COLUMBUS COUNTY BOARD OF COMMISSIONERS
DISCUSSION of LEASE with
COLUMBUS REGIONAL HEALTHCARE SYSTEM WORKSHOP
Monday, May 14, 2012
6:30 P.M.

The Honorable Columbus County Commissioners met on the above stated date and at the above stated time in the Dempsey B. Herring Courthouse Annex Building, located at 112 West Smith Street, Whiteville, North Carolina, for the purpose of conducting a workshop for the discussion of the Lease with Columbus Regional Healthcare System.

COMMISSIONERS PRESENT:

Amon E. McKenzie, **Chairman**
Charles T. McDowell, **Vice Chairman**
James E. Prevatte
Giles E. Byrd
Lynwood Norris
Ricky Bullard

APPOINTEES PRESENT:

William S. Clark, **County Manager**
Mike Stephens, **County Attorney**
June B. Hall, **Clerk to Board**
Bobbie Faircloth, **Finance Officer**

COMMISSIONER ABSENT:

P. Edwin Russ

COLUMBUS REGIONAL HEALTHCARE SYSTEM BOARD of TRUSTEES PRESENT:

Carl Meares
Samuel Wheatley
Freda Gore
Andy Martin
Terray Suggs
Thomas Jones
Forest Riggs

COLUMBUS REGIONAL HEALTHCARE SYSTEM STAFF MEMBERS PRESENT:

Henry Hawthorne, CEO
Carl Biber, Finance Officer

Agenda Items #1, #2 and #3:**MEETING CALLED to ORDER, INVOCATION and PLEDGE of ALLEGIANCE:**

At 6:30 P.M., Chairman Amon E. McKenzie called the May 14, 2012 Columbus County Board of Commissioners Workshop for the Discussion of Lease with Columbus Regional Healthcare System to order. Vice Chairman Charles T. McDowell delivered the invocation. Everyone in attendance stood and pledged Allegiance to the Flag of the United States of America which was led by Commissioner Ricky Bullard.

Agenda Item #4:**WORKSHOP MEETINGS DEFINED:**

Chairman Amon E. McKenzie stated the following relative to workshop meetings:

- First:** the meeting is to inform the Board and permit discussion - no final action is taken;
and
Second: the procedures are less formal than at a regular meeting. But such meetings are part of the decision-making process; deliberations are going on. Therefore they constitute "official meetings".

Agenda Item #5:**DISCUSSION of LEASE with COLUMBUS REGIONAL HEALTHCARE SYSTEM:**

Henry Hawthorne, CEO for Columbus Regional Healthcare System, submitted the following

request.

The Board of Trustees of Columbus Regional Healthcare System requests the County Commissioners to approve extending the existing lease of the hospital campus to November 30, 2043, and to authorize County Manager Bill Clark to execute, on behalf of the county, an amendment to the existing lease that extends the term (as stated above), modifies the rental payment to reflect the potential for future debt, and that cleans up certain technical matters, including corporate name and board composition.

Purpose:

The primary purpose for amending the lease term is to support new debt financing for Columbus Regional Healthcare System. Due to historically low interest rates and based on projections of financial performance and health, the CRHS Board of Trustees has determined that the optimal debt financing would be approximately \$25 million over 30 years (the final amount may be modified based upon interest rates at the time of financing as well as investor requirements).

CRHS's preference is for county-issued bonds, whether revenue bonds or general obligation bonds, due to anticipated lower costs and rates.

The anticipated \$25 million debt financing would be used to :

1. Replenish \$14 million of cash reserves used for facility infrastructure improvements and replacements and for IT investments necessary to prepare for meaningful use;
2. Fund an estimated \$6 million expansion of our Operating Room Suite; **and**
3. Fund approximately \$5 million in Facilities Upgrades, including CCU and tower renovations.

These activities address current facility and community needs, and also ensure CRHS is in a position to invest in resources and strategies necessary to adapt to a rapidly changing healthcare environment.

QUESTIONS/COMMENTS/DISCUSSION:

Vice Chairman McDowell: stated the following:

1. If we do municipal bonds or whatever method, the County will ultimately be responsible for the debt;
2. Historically, the Lease has not been for thirty (30) years;
3. Why do we need to do thirty (30) years?

Henry Hawthorne: replied stating the following:

1. The primary reasons for that are where we are sitting in an interest rate environment and where we sit when we look at the cash flows related to that;
2. What would be critically important to you is that we maintain a very strong financial position and a piece of that is what our cash position is, in today's cash;
3. A piece of that also is looking at the cash flow related to borrowing;
4. For instance, to cover a \$25 million debt, for thirty (30) years, it would be \$1.6 million in annual payments, which would become what our rent payment would be;
5. If we shorten the term of financing to 20 years, it would be \$20 million, or less;
6. It would reduce the amount of funds that we would have to reinvest in the community; **and**
7. It is simply a factor of how do you maximize the opportunity today so we can invest in growth and development opportunities over the next few years.

Commissioner Prevatte: stated the following:

1. I see two (2) different things here, first, the lease, and second, the agreement to borrow the money; **and**
2. Could we shorten the lease and still borrow the money for thirty (30) years?

Henry Hawthorne: replied stating that I don't believe that we would be successful in finding investors willing to extend the debt in a term beyond the organization's existence or has a guaranteed term. That is the importance of tying the lease term to the potential debt term. In going out there selling that debt vehicle, one of the first things that any investor is going to look at is, do you have a commitment to that building, and be able to operate that building, if you are going to fund us .

Commissioner Byrd: I think the term will have to correlate with the debt amount.

Chairman McKenzie: Mr. Hawthorne, is there any other thing you would like to have changed in this Lease?

Henry Hawthorne: replied stating other than the technical changes that I have suggested, there is not anything else that I would like changed.

Commissioner Prevatte: stated the following:

1. Since we are going into a new realm of borrowing, would it be better to do a total new lease?;
2. Some of the members that signed the original Lease are no longer living;
3. The original Lease speaks in reference to the terms of the Board of Trustees and states lifetime or until resigned; **and**
4. I understand that the bylaws were changed to state two (2) ten (10) year terms.

Henry Hawthorne: they do have terms, but they do not have term lengths. The main discrepancy in the lease and the bylaws is the lease states nine (9) members of the Board of Trustees and the bylaws state ten (10) members, the difference being, four (4) years after this lease, a decision was made to add a community physician at large to have an additional medical staff member which I think was very wise. We are comfortable with the Lease, as is, making the necessary modifications, if you are.

Commissioner Byrd: To start with, we would have to cancel this Lease before we start another one because it has four (4) more years. We have to amend the existing Lease or do a complete new Lease.

Michael H. Stephens: stated the following:

1. To clean up the language in the Lease could be done by an amendment;
2. This will save the overlap of the three (3) year period of the existing Lease and serve the same purpose;
3. The thing that stood out to me was the number of members on the Board of Trustees in the original Lease, and on the amendment it stated the composition of the Board of Trustees would consist of ten (10) members;
4. Was that brought to the Board of Commissioners when that change was made?

Henry Hawthorne: replied stating that he could not answer that question.

Vice Chairman McDowell: stated the following:

1. It is my understanding that Columbus Regional Healthcare System has purchased property;
2. It is my understanding that you have set up a subsidiary so those properties will continue to pay property taxes;
3. In the event the Board of Trustees changes, or management changes, then there would be an option with new management or a new Board from withdrawing that property from actually participating in paying property taxes on this property that you have purchased;
4. Personally, I would like to see something stabilizing the fact that when you do purchase property, that in the event of eventual change in the Board of Trustees or management, that those properties would still be responsible for paying property taxes; **and**
5. Is there anything in writing in the way it is now, that would hold those properties to paying property taxes?

Henry Hawthorne: replied stating the following:

1. Mr. Clark and I have actually had a conversation about this, and I have had a conversation with some of my Board members;
2. When we acquired Southeast Primary Care, which was Southeast Internal Medicine, one of the things that we recognized when we bought that building was that is a pretty nice piece of property that was on the tax books;
3. We don't have any plans today to go and acquire additional practices, that was a merger that made sense at the time, we wanted to be sensitive to not pulling property off of the tax role;
4. We worked with our attorney and made a proposal to Mr. Clark that we actually hold that in a separate entity that would be a taxable entity and in fact that is an income taxable entity as well;
5. Our intent certainly would be to continue that, and that is an interesting question that you raise from this standpoint;
6. Technically, that is almost outside the Lease in as much as the Lease is around hospital

- property being the tax exempt property;
7. Certainly, our intent would be there, and we would be committed to finding an appropriate solution with Mr. Clark and Mr. Stephens to make you comfortable with that;
 8. Could we buy off-campus property in the future that is to be a part of the hospital and the hospital system that needs to be tax exempt? Possibly, but I think it is very different from buying a piece of property that is kind of a rental property, and income producing property; **and**
 9. We would be committed to finding a solution.

Vice Chairman McDowell: But it is not sustainable, it could be optional if management changes, is that correct?

Henry Hawthorne: No, not in its current structure, no, it would not, because that is not sitting in a tax exempt organization.

Vice Chairman McDowell: Could new management make it a tax-exempt organization?

Henry Hawthorne: Presumably, with the Board of Commissioners' approval. Under the terms of this lease, in order for Columbus Regional Healthcare System to acquire property under the name of Columbus Regional Healthcare System, which is our tax-exempt entity, we would have to notify you.

Commissioner Bullard: Bobbie, is borrowing this \$25 million going to affect the County's borrowing power in the future if we have to build new schools or some other emergency comes up when we need good borrowing power?

Bobbie Faircloth, Finance Officer: At the current time, we are looking at different options of borrowing it because we are also looking at the Courthouse Annex. I have talked with BB&T and what the interest rates are for a public offering versus us going bank qualified. If we do it as a public offering this year, along with the Courthouse, in the next calendar year, we could go back to bank qualified if we have to borrow any more. That is how it will affect us, bank qualified loan or not. Bank qualified loan is a lower interest rate on installment financing.

Commissioner Bullard: Is it going to restrict our borrowing power?

Bobbie Faircloth: No sir. Our borrowing power is eight (8%) percent of our ad valorem tax base. Our ad valorem tax base is over \$200 million. We don't have that much outstanding debt, and I don't see us ever borrowing that much.

William S. Clark, County Manager: Bobbie, you have stated something very interesting, in that the hospital and the County could do a joint venture in borrowing this money, and end up saving money.

Bobbie Faircloth: We are looking at a public offering, and there are two (2) folds to that. If the interest rate for a public offering is lower than the bank qualified, we could save money in that regard, and a public offering can be 25-30 years, depending on the investor, whereas, an installment financing is usually 15-20 years. We are looking at the options for that to see which way would be better to go.

Commissioner Bullard: Mr. Hawthorne, I did hear at the hospital meeting that a Wellness Center is involved in this project?

Henry Hawthorne: It is not specifically involved in this project. It is absolutely on our radar screen that it is something that is important to the community. Our foundation and hospital helped fund a group that went and prepared a preliminary business plan around that. That project is currently in the hands of Columbus Youth and Families Group who is working to develop kind of a fund raising plan. I have talked to several different groups about this, and what is really going to be important is for it to be a community-wide initiative that includes many different stakeholders. This will be very important for the following reasons:

1. A hospital wellness center tends to be centered around therapeutics or around particular purposes, and we see need for that, above what we have already; **and**
2. What this group found and validated is that there are a lot of additional community needs

around a community wellness center.

Commissioner Prevatte: I would like to see one (1) more County Commissioner serving on the Board of Trustees at the hospital. We have a lot vested in this organization. This would make it an eleven (11) member board, and avoid any tie votes.

Henry Hawthorne: The Chairman votes when a tie vote happens, and that rarely occurs. There are not a whole lot of opportunities when there is tremendous conflict. We have a Board who puts in a tremendous number of hours. This Board is more engaged than some others. This Board strives to achieve consensus. This Board delegates the day-to-day operations to me and my management team, and the clinical quality to the Medical Staff. When the Board gets bigger, it is sometimes harder to get quorums.

Commissioner Bullard: I want to see Columbus Regional Healthcare system excel and I want to see it become one of the best hospitals in our area. I want to see growth to where we have an outstanding name.

Henry Hawthorne: This is an exciting week for us. On Thursday, we will do our first single-site robotic gallbladders. Our organization invested in the DaVinci Robotic Surgical Systems about one and one-half years ago to initially support women's neurological and gynecological services and that technology has been a difference maker, as well as men's neurological prostate surgery. That can make a difference in how long the patients are in the hospital, their blood loss, their pain, the whole nine yards. We got some phenomenal general surgeons in the area. The FDA approved, about six (6) months ago, a new addition which allows gallbladder removal to be done through a single port. At this point in time, the only three (3) hospitals in the State of North Carolina where you can have single-site robotic surgery done are Carolinas Medical Center in Charlotte, University of North Carolina and East Carolina University. We will be the first in the southeast to provide this service. That is important to me for our community. I am sure you have seen what we are doing with the Walters Trust Fund with women's healthcare services. We will be the first in the State of North Carolina to have breast digital mammography.

Vice Chairman McDowell: Will the hospital continue to remain independent? You made reference earlier about us losing some physician-related funding, and I would like for you to elaborate on that.

Henry Hawthorne: the latter part of that is easier to tackle. The Federal Government set up, years ago, something called health professional shortage areas, which is basically a calculation, based on your geography, of how many primary care doctors do you have versus population. Depending on where you fell on that formula, you could make application to be deemed a HIPSA. Being deemed a HIPSA added certain benefits in your community where you could use to recruit doctors and have special loan repayments or loan write offs if they did it through the National Health Service Board. There were bonuses and incentives for physicians to work in those types of HIPSA's. Technically we filled out an application for HIPSA five or six (5 or 6) years ago, but the Federal Government never did anything to withdraw that status. We saw the writing on the wall one and one-half (1 ½) years ago that that was likely to change with the budget crisis, so we went and made re-application and engaged a firm that felt like we could meet that guideline. When we submitted that application to the State, and the State submitted it to the Federal Government, they disagreed, they found a couple of doctors that had been recruited into the area, and we were over by one or two. We lost that status. I will tell you that I just got notice today that we have applied for a different type of HIPSA designation that gets us back into the loan repayment and scholarship world, so some of that we actually will have access to, effective yesterday. The ten (10%) bonuses bit, that is a fairly big number. What that means is, with Medicare patients, they will get ten (10%) percent more than Medicare would normally pay, and Medicare is a break even or a slight loss leader for most of our physicians. That is potentially big. It is yet to be seen how this will affect our group.

The bigger question is will we remain independent as a community base. I will answer that question as follows:

1. Your Board is focused on how do you maintain this as a community asset;
2. Not any of us can read the writing on the wall, but I will tell you that this organization is strong today, because they have got a good governance Board because they have been wise and good financial stewards;
3. Their decision to bring in Carolinas Healthcare System as a management partner, I think has added resources that it would not have had otherwise;
4. I think CHS as a partner, very different than some other organizations, has not helped their

- buying entities that is looking to help entities, that are like itself, a community organization;
5. I think it is as well set today to remain a community asset as it can be, I think this grants it more time. I think through good growth and development, good stewardship, good management, it can remain that way for the foreseeable future;
 6. I will tell you there is so much change going on in this industry today, that it is very difficult to predict what is going to happen next year, five years, ten years, or fifteen years down the road;
 7. These activities and this action gives it as much stability as you can possibly have there; **and**
 8. I will tell you there is nothing our Board works harder on than “how do we maintain a sustainable organization that will serve this community where our resources and assets stay in this community?”.

Comments by Robert Adams, Private Citizen:

1. Extending the lease for thirty (30) years is probably well beyond our lifetimes and beyond the management company that is running the hospital;
2. The language in the lease regarding medical care or quality control is mighty weak;
3. The elected officials in this County have very little say in what goes on in the hospital;
4. I know of several incidences that were not handled properly;
5. The quality of medical care needs to be adhered to better;
6. The complaints that are received at the hospital are not being handled properly, and I don't know where the breakdown is at;
7. Some areas are excellent, and some areas need to be improved on; **and**
8. In this new Lease, which is thirty (30) years long, that the complaints from the citizens be addressed more directly by this Board of Commissioners, in whatever manner, and the Board of Trustees.

Chairman McKenzie: stated the following:

1. The complaints that I have experienced have been handled properly;
2. The hospital situation has improved greatly;
3. You have presented this request to the Board in a professional manner; **and**
4. This request will be handled in an expeditious manner.

Agenda Item #6: ADJOURNMENT:

At 7:25 P.M., Chairman McKenzie declared the Workshop adjourned.

APPROVED:

JUNE B. HALL, Clerk to Board

AMON E. MCKENZIE, Chairman