

MINUTES
SPECIAL BOARD MEETING

LOS MEDANOS COMMUNITY HEALTHCARE DISTRICT

MONDAY, AUGUST 29, 2011
6:00 P.M. - BOARD ROOM

A special meeting of the Los Medanos Community Healthcare District was called to order by Vice President Condit at 6:05 p.m.

1. Call to Order/Roll Call

Present: Linda Strong, Secretary
Marilyn Condit, Vice President
Eva Vera, Treasurer
J. Vern Cromartie, Board Member

Absent: Darnell Turner, President

Also Present: Bobbi Palmer, Executive Director
Barbara Kee, Recording Secretary
Michael Peterson, Attorney, Archer Norris
Arlene Mose, CPA
Rhonda Burke, Bookkeeper
Eric Akesson, Webmaster

2. Discuss the OSHPD (Cal Mortgage) Settlement Modification

Attorney Michael Peterson gave an overview of efforts to date on the proposed settlement modification with the Office of Statewide Health Planning and Development (OSHPD).

As a result of recovering from the District's bankruptcy in 1999, the District signed a 20-year lease with Contra Costa County for an annual rent of \$100,000 per year, a Settlement Agreement with OSHPD and an Assignment of Rents. The District assigned all rents under the County lease for the 20-year term to be paid directly to OSHPD. The lease runs until July 31, 2018. Between August 1, 2018 and July 31, 2020, there is an obligation that the District guarantee to OSHPD minimum rent payments of \$500,000 each year. Additionally, any rents paid to the District for the six years following, between August 1, 2020 and July 31, 2026, would be collected by OSHPD.

Recently, the District reviewed these obligations and thought there may be an opportunity to look at a possible settlement with OSHPD. The District hired Gary Hicks, a financial consultant to public health care districts, who has a relationship with OSHPD. Mr. Hicks was assigned to review the attorney's analysis regarding the District's obligations and review some numbers scenarios to determine if there might be an arrangement that would be beneficial to the District. Following Mr. Hicks' initial study and subsequent Board Study Sessions, the Board proposed to obtain an appraisal for the current value, as well as rental value, of the property. Based on this analysis, it appeared that there might be an opportunity for the District to enter into an agreement with OSHPD in which a lump sum payment

would be made in satisfaction of all obligations under the agreements. Mr. Hicks was assigned to work with OSHPD, and following some negotiations, a deal was tentatively arrived at for \$1.6 million, in return for complete release from the signed agreements with OSHPD. This included the Absolute Assignment of Rents whereby the District would begin collecting rents directly from the County and given relief from the previously agreed to \$500,000 guarantees to OSHPD. There was recently received a \$100,000 County rent payment; therefore, the amount due would be adjusted to \$1.5 million. Based on financial scenarios provided by Mr. Hicks, it is apparent that the District would be financially better off in terminating the agreement after the current term of the County lease expired.

The proposed method to pay for this settlement would be for the District to use funds in the District's reserve, and to seek \$400,000 from a commercial lender to pay the balance. The Finance Committee has been discussing this loan with various banking institutions, and it is proposed this loan would be paid off with the rental income collected from the County.

Mr. Peterson outlined on an overhead slide various financial scenarios and potential benefits to the District. If the settlement agreement is terminated, the District would realize a positive variance on the current value basis of approximately \$3.5 million.

Under the current bankruptcy plan, if the District chooses to sell the facility before the County lease expires, all sales proceeds would go to OSHPD or to the bankruptcy trustee to pay off the unsecured creditors.

Comments from the Public

Mr. Joe Rubi, a resident of Pittsburg, inquired how much the District would have to pay Mr. Hicks to conduct the negotiations. Executive Director Palmer explained that Mr. Hicks has been working with the District for the past year under a \$20,000 contract.

Mr. Mims, a resident of Pittsburg, commented that he is concerned that the public has not had an opportunity to read the report that is being made available this evening. Ms. Palmer pointed out that tonight's meeting is for information only, and there would be a subsequent meeting prior to the regular Board meeting on September 12. She further pointed out that there was a previous open meeting which addressed the June 16 document that Mr. Mims referred to, and this meeting was sparsely attended.

Mr. Mims inquired what would be the impact on the grants program that the District currently conducts. Ms. Palmer responded that there would be no interruption to the District's current grants program.

Director Condit stated that the District has made a conscious effort to assure that the public has an opportunity to attend meetings, and therefore, has done due diligence in informing the public.

Mr. Rubi commented that the public notices should be posted in the newspaper, as well as the public library. He asked for further clarification on the settlement proposal. Ms. Palmer responded to Mr. Rubi's comments and questions.

Mr. Travis Swenson representing the County Taxpayers Association inquired if there are price agreements with the County's lease. Attorney Peterson responded to this question. Mr. Travis additionally inquired regarding the terms of the \$400,000 loan and the proposed closing date for the settlement. Ms. Palmer responded to Mr. Swenson's questions.

Arlene Mose, District Accountant, reinforced the fact that the current rents collected by the County are not being received by the District, but are paid directly to the State of California. She emphasized that under the present program, there is \$1.7 million in rent income that the District would never receive. Additionally, all future rents would go to the State. This is the reason the District decided to approach the State regarding payoff of the obligation. The money to pay off the \$400,000 loan would be paid through monthly rental income received by the District for lease of the building. Under the settlement proposal, the District grants program would not be impacted, and the District's future cash flow would increase significantly.

Attorney Peterson responded to a question by Mr. Mims, and stated that the County has control of the first right to extend the lease. If the County chooses not to renew its lease or chooses to renew it at a negotiated amount or the fair market rate, the relationship would go forward for another five years. Mr. Peterson stated that in all possible future lease scenarios, the District stands to reap a financial benefit in terminating the agreement with the State. He stated that the only scenario in which it would be materially worse for the District to terminate the agreement would be if at the end of the County lease nothing happened in terms of a sale or re-rental and the building were left vacant, which he believes is unlikely to happen. He stated that it would be very important to assure that there is no gap in cash flow following the lease expiration.

Director Condit stated that what the District wants most is what would benefit the community. She pointed out that this building provides approximately 75,000 visits by the community each year, and having a collaborative relationship with the County is very important. She stated that there is no intent to terminate the District's relationship with the County.

4. Discuss the Finance Committee's recommendation for LMCHD to request funding from a lending institution to assist with the settlement modification

Vice President Condit stated that this item was addressed under Agenda Item No. 3, and therefore, is not necessary to reopen.

5. Adjournment

There being no further business to come before the Board at this time, the meeting was adjourned at 7:08 p.m.

Barbara Kee
Board Recording Secretary

Linda Strong
Board Secretary