

August 22, 2011

The Washington County Board of Commissioners reconvened on Monday, August 22, 2011 at 6:00 PM in the County Commissioners' Room, 116 Adams Street, Plymouth, NC. Commissioners Alexander, Collins, Johnson, Manning and McCray were present. Also present were Interim County Manager Cheryl Young, Clerk to the Board Julie J. Bennett and Finance Office Frank Milazi.

Chair Johnson called the meeting to order.

WASHINGTON COUNTY HOSPITAL(WCH) UPDATE WITH HMC/CAH: Mr. Dennis Davis, Chief Legal Officer of HMC/CAH introduced Mr. Gordon Docking, Chief Financial Officer, HMC/CAH and Mr. Harley Smith, CEO of WCH. Mr. Davis stated that Mr. Trent Scaggs and Mr. Larry Arthur are more involved in the planning and design of the building. Mr. Davis started off by acknowledging that HMC/CAH has not built the hospital per the agreement between HMC/CAH and Washington County even though HMC/CAH has tried to use their best efforts. Mr. Davis went through their timeline. HMC/CAH filed for a Certificate of Need (CON) in August 2007. HMC/CAH received approval of CON in June 2008. The first CON was denied; they filed an administrative action to overturn the denial. The first CON asked for fifteen (15) beds—the new hospital will now have eleven (11). Mr. Davis noted that the recession started in 2008. There was a stimulus bill that was loosened up for the USDA and HMC/CAH wanted to take advantage of those changes. HMC/CAH received USDA approval through Randolph Bank in August 2010. HMC/CAH partnered with Randolph Bank for 80% and partnered with High Point Bank for the additional 20% needed. JeDunn bid the project in August 2010 and HMC/CAH received the guaranteed maximum price (GMP) from JeDunn in September 2010. HMC/CAH was moving towards closing which was scheduled to be November 2010. Mr. Davis stated that the banks lawyers raised questions regarding the reverter clause. HMC/CAH hired Attorney John Crill to work with Washington County Attorney Ms. Young to handle the reverter clause, delaying the closing until February 2011. On December 27, 2010 HMC/CAH received notice from High Point Bank that their investor group was not going to fund any of the equity piece of the funding. HMC/CAH sent High Point Bank a default notice in January 2011 and entered into settlement negotiations with them. High Point Bank agreed to release the lien on WCH. HMC/CAH found new equity in June 2011 from Carter Valadez located in Florida. Carter Valadez is a real estate investment trust (REIT); they specialize in real estate property and finance 100% of the cost. With the REIT, HMC/CAH will not need the USDA stimulus. Meanwhile, HMC/CAH signed the terms sheet with High Point Bank but had not received the settlement documents. HMC/CAH was finally able to set up meetings with High Point Bank and HMC/CAH wanted High Point Bank to go ahead pay the next interest installment of \$400,000. High Point Bank didn't make payment on July 1 and HMC/CAH filed a lawsuit against High Point Bank claiming breach of contract and damages. Now that HMC/CAH is engaged in a lawsuit with High Point Bank, HMC/CAH can't do anything to move forward until the lawsuit is settled. HMC/CAH can't go forward to find additional financing for the new hospital; therefore they cannot fulfill their obligation to Washington County. HMC/CAH would like for the County to continue extending the penalty of \$700,000 on some basis that is acceptable to Washington County. Mr. Davis explained HMC/CAH's possible settlement scenario: HMC/CAH is looking for another equity party that will take High Point Bank's position, and will pay High Point off and supply HMC/CAH with the funds they need to continue to build the hospital(s). Mr. Davis reiterated that High Point Bank still has a claim on WCH.

Ms. Renea Price asked if Washington County has proof of the lawsuit that HMC/CAH is referencing. Ms. Young replied that yes, the County has proof.

Mr. Bill Sexton, former Commissioner, asked if HMC/CAH could put the \$700,000 in a fund for Washington County to gain interest until project is finished. Mr. Davis replied no, saying that WCH doesn't have the money to put up.

Dr. Carter Bennett asked why wasn't HMC/CAH rated. Mr. Davis replied it is because HMC/CAH is such a new company; they have only been in business since 2007.

Ms. Young noted that it sounded like the Washington County hospital has been used as collateral for all of HMC/CAH's other hospitals, yet we can't get the \$700,000 that is due for our hospital from the money being looked at for all of HMC/CAH's hospitals.

Mr. Davis stated that it is more in HMC/CAH's interest to build the new Washington County hospital because that is the business of HMC/CAH. HMC/CAH is in business to buy old hospitals and replace them with new ones. HMC/CAH will be paid on a cost basis by Medicare/Medicaid plus 1%. HMC/CAH also gets paid by the government on the depreciation value and the interest of their hospitals.

Mr. Jerry Phelps asked why HMC/CAH does not add on to the existing hospital with a new emergency room and radiation lab among other things, which has fifty (50) beds rather than build a new one with only eleven (11) beds. Mr. Davis stated that even though HMC/CAH would still receive money on the depreciation value for an addition; however, to bring the existing WCH up to code it would cost as much as building a new one.

Commissioner Manning asked Mr. Docking how many patients has the hospital had lately? Mr. Docking replied eight (8) to ten (10) every day. Mr. Docking also stated that soon there will be physicians in the Emergency Room twenty-four (24) hours a day, seven (7) days a week. Mr. Docking noted that the Emergency Room and Radiology bring in strong revenues at WCH. WCH has a new digital mammography machine. HMC/CAH has invested in significant equipment purchases to enhance WCH. Soon there will be General Surgery available around the clock, rotating between WCH and Martin General. An Obgyn will be doing surgery here if they can, but there will be no baby delivery at WCH. Dr. Watson and Dr. Smith will be employed by Martin General but they will also practice at WCH.

Ms. Young asked what is the value of the eight (8) hospitals in the HMC/CAH lawsuit. Mr. Docking stated that High Point Bank undercollateralized and therefore a value can't be given.

Commissioner Collins asked about the status of the HMC/CAH lawsuit. Mr. Davis stated that the lawsuit was filed on June 29, 2011. The date that High Point Bank has to answer has not yet arrived. Ms. Young requested copies of documents dealing with the HMC/CAH lawsuit be sent to her.

Mr. Docking offered monthly communications to keep dialogue between HMC/CAH and Washington County open.

Commissioner Manning made a motion to go into Closed Session pursuant to G.S. 143-318.11(a)(3) and G.S. 143-318.11(a)(6). Commissioner Collins seconded, motion carried unanimously.

Commissioner Collins made a motion to adjourn the meeting. Commissioner Manning seconded, motion carried unanimously.

Tracey A. Johnson
Chair

Julie J. Bennett
Clerk to the Board