



**PUBLIC HOSPITAL DISTRICT NO. 4, KING COUNTY
Board of Commissioners**

**SPECIAL MEETING
MINUTES**

**June 13, 2016, 6:30 pm
Snoqualmie Valley Hospital, East/West Conference Room, Snoqualmie, WA**

PRESENT:

Dariel Norris, President
Joan Young, Vice President
David Speikers, Secretary – via telephone
Gene Pollard, Commissioner
Emma Herron, Commissioner

ALSO PRESENT:

Tom Parker, Superintendent/CEO – via telephone
Jay Rodne, General Counsel
Steve Daniel, Chief Financial Officer
Brad Berg, Foster Pepper, Bond Counsel
Valerie Huffman, Recorder

CALL TO ORDER: The meeting was called to order by Pres. Norris at 11:03 am with roll call taken as noted above.

APPROVAL OF AGENDA - There being no changes, the agenda was approved as written with a motion made for approval by Comm. Pollard and seconded by Comm. Young. The motion unanimously passed.

NEW BUSINESS:

1. Resolution No. 509-0616 – Approving First Supplement to Trust Indenture Dated July 2, 2015.

Brad Berg, the District's bond counsel, provided some background and explanation on the above-referenced resolution.

- The resolution pertains to revenue bonds that were issued July 2015;
- The primary document for the revenue bonds is the Trust Indenture which is basically a contract between the borrower (District) and bondholders who purchased the bonds.
- The Trust Indenture contains a number of provisions, the most basic requirement being that the principal and interest is paid when due. In addition there are covenants that are

designed to provide additional protection to the bondholders. One of those covenants is called the Debt Coverage Requirement, which is simply to show that the District is generating enough revenue on an ongoing basis to pay the debt service (principal and interest) when due. In addition to the principal and interest, the coverage requirement also stipulates that a cushion be provided thereby setting the coverage requirement at 120%, i.e. debt service covered at 100% plus 20% cushion.

- If the debt coverage requirement is above 100% but below 120% the coverage ratio is below 120%, the District would be required to hire a consultant to advise what changes could be made in terms of operations to increase the likelihood that the coverage requirement would be above 120% in the future. This is not considered a default but is a requirement of the bond covenant.
- There are two ways coverage requirements can be expressed. One way is to compare the revenue generated in a given year, i.e. 2015, to the amount of debt service that is actually payable in that same year. A stricter approach, one that potentially provides more protection to the bondholders, is not to compare it to debt service in that particular year, but to compare it to the highest amount of debt service that is due while the bonds are outstanding.
- When the revenue bonds were structured last year, the Bond Indenture originally based coverage on annual debt service that included specific exception to exclude any portion that was paid from the proceeds from the bonds. In other words, if you didn't have to use revenue to pay the debt service then you didn't have to count that amount of debt service. The way these bonds were structured is in the first year of 2015 the amount borrowed was sufficient to not only cover the overall project but also to pay the first interest payment due in December 2015 paid from the proceeds of the bonds, it didn't have to be paid from the revenue that was generated from operations. If the coverage requirement is based on annual debt service then that debt service in 2015 is ignored thus the District has no debt service in 2015 because 100% was paid from the proceeds of bonds.
- When the bonds were marketed potential bond purchasers wanted to change from an annual debt service requirement to a maximum annual debt service requirement. This is a standard way to provide a little bit more protection to the bondholders. This change was made the week before the bonds were issued.
- In the case of the District, with the exception of the first year, there is not much difference between the annual debt service each year and the maximum annual debt service because the debt service throughout the term of the bonds is almost level. There was not an exception included in the Indenture when we moved to maximum annual debt service to exclude the first year that was payable from the proceeds of the bond. The consequence of this is it triggered the requirement to hire a consultant. There is no default.
- Since hiring a consultant seems like a wasted effort and will not net anything of value, plus the District will incur an added expense, as a result it is proposed in Resolution 509-0616 to amend the definition of maximum annual debt service to specifically carve out the debt service (principal and interest) that is payable from the proceeds of the bonds. If that is done, then the need to bring in a consultant will not be triggered. The amendment process under the Indenture is it specifically permits amendments but does require that approval is required from not less than 50% of the bondholders based on the principal amount of bonds that they own. In this particular case, the bondholders were purchased by a relatively small number of purchases.

- If this resolution is approved authorizing the amendment, the next step would be to contact the bondholders for approval of the amendment.
- It was clarified that if this resolution is approved, there were be no need to hire a consultant and there would be no cost to the District.
- Mr. Berg further clarified that there would be no legal fees charged by Foster Pepper in connection with this amendment.

Extensive discussion ensued.

Steve Daniel, Chief Financial Officer, provided PowerPoint slides summarizing three covenants for both the end of 2015 and thru April 2016. (PowerPoint Slides are available upon request.)

1. Covenant #1 - Cash on Hand.
 - At the end of 2015 we had 92.59 days of cash on hand. The requirement is 50 so this covenant was met.
2. Covenant #2 – Reserve Fund of 3.675 million. .
 - The District funded a reserve fund for \$3.675 million so the reserve requirement is met.
3. Covenant #3 – Debt Service Coverage
 - Calculation of debt service coverage using maximum annual debt service (\$3.675 million) in 2034. We meet the minimum. We have enough income to cover debt service and expenses but we are below 1.2 so this would trigger the requirement to engage a consultant at an estimated cost of \$10,000.

Thru April 2016:

1. Reserve Fund – We still have \$3.675 million in the reserve fund.
2. Debt service coverage is 1.53. It exceeds the target of 1.2.
3. Days cash on hand – 88.8 exceeds the requirement of 50 days cash on hand.

Further discussion ensued.

In summary, the areas of concern that were discussed and clarified by the Board were:

- Cost of a consultant
- Future surprises
- Legal fees
 - As referenced above, Brad Berg stated that Foster Pepper would not be charging legal fees to correct the debt service covenant.

Mr. Berg further explained that the only thing this resolution does is alter one definition in the Indenture. The added language of the amendment is in Section 3 and is double underlined. What this does is excludes from the calculation of maximum annual debt service any portion of the debt service that is payable from some source other than income or revenue. In other words, only in the first year (2015) where the District borrowed money and used part of those funds to pay interest, the debt service is excluded from the debt service calculation. If we were ever to do that again for some future construction project and money that was borrowed to pay principal and interest, it would be excluded from the debt service calculation.

Upon being asked by the Board to give his opinion on the resolution, General Counsel Jay Rodne prefaced his response by stating that he is not a bond counsel so it is not his area of expertise, but in terms of the actual language it solves the problem of the first year's calculation of the debt and stated it is necessary and, therefore, recommended the board approve this resolution.

To hear the full audio of this meeting, visit <http://www.snoqualmiehospital.org/audio>. A copy of the audio can also be requested by calling District Administration at 425.831.2362 or email to valerich@snoqualmiehospital.org.

PUBLIC COMMENT: None.

NEW BUSINESS – Action items:

2. Resolution No. 509-0616 – Approving First Supplement to Trust Indenture Dated July 2, 2015.

A motion was made and seconded to adopt Resolution No. 509-0616 approving the First Supplement to the Trust Indenture dated July 2, 2015. M/Speikers, S/Pollard

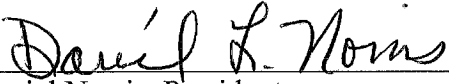
There was no further discussion and the motion unanimously passed.

NEXT SCHEDULED MEETINGS:

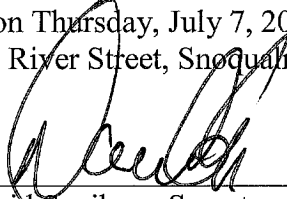
Facilities Committee – Monday, June 20, 2016 – 8:30 am, Snoqualmie Valley Hospital, East/West Conference Room

Finance Committee – Thursday, June 30, 2016 – 11:30 am, Snoqualmie City Hall, Council Chambers, 38624 SE River Street, Snoqualmie

Regular Monthly Business Meeting - will be held on Thursday, July 7, 2016, 6:30 pm, Snoqualmie City Hall, Council Chambers, 38624 SE River Street, Snoqualmie.



Dariel Norris, President



David Speikers, Secretary