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May 2, 2007

4:00 p.m.

Commissioners Ghan, Hadley and Whitworth participated in a meeting of the PMC Citizens Panel. Commissioner Ghan opened the meeting at 2:05 p.m. Panel members present: JuDee Adkins, Grady Staley, Nancy Renn, Bob Chandler, Mark Buckalew, Michael Callaghan, Dorsey Hill, Tom Sahlburg, Tom Dial, Charles Evans, Lela Liggins, Mayor England, and Stephen Weeg as well as numerous interested parties. Cindy Hepworth was present taking minutes.

Larry reviewed the proposed meeting agenda for the panel and community meetings. Experts for the Panel Discussion could include Jim Wiehl, Carolyn Fassi, Neil Piland and someone from the Idaho Health Facilities Authority. The Chamber of Commerce, the League of Women Voters along with the County Commissioners could sponsor the expert panel. Gerald Homstead asked what question would be answered. Ghan said what governance model the Commissioners will choose. Dr. Call expressed concerns about the many methods the county can choose and the ability of the committee to make recommendation on what they have learned with the information they have. Dr. Call recommended the Commissioners choose the 501(c)(3) 3515A conversion. Whitworth said if the board comes up with that decision it will be looked at but said the most important thing is we have to keep the construction moving. We also need to make sure there are no better options available that will keep the construction moving. Dorsey Hill said the Panel could make the same decision as the PMC Board, but by having this panel we are providing a way for a number of people to comment or ask questions of the panel to include community involvement. Buckalew said the suggestion of Ben Call was a good one. That establishing the 501(c)(3) keeps things moving along, and at some time down the road the county could do something else. He said the long term decision could still involve the panel because it is such a complex issue. Short term and long term decisions were discussed. Dr Evans asked if the hospital could proceed forward with paper work to expedite any decision made to which Ghan said he believed the hospital was doing that so they could proceed swiftly if the 501(c)(3) were the decision of the panel and the commissioners. The hospital has funds to stretch out the construction but there would be about a six month delay if this decision led to a bond for the hospital. The longer the decision remains in limbo the harder it is to hire physicians and staff. Weeg said the process of opening this for community dialogue is important but the panel and the commissioners need to be educated so that they can make the best decision based on factual information. Weeg felt any decision needs to have a fair amount of permanence to it because it is hard to plan and develop and move forward without some type of permanence. Any decision should be made on what will be best for our community.

Russ Wight said he appreciated the Panel and Commissioners and their efforts to try understand this issue and proceeded to his presentation on governance through newly created 501(c)(3) corporation. PMC is currently a county hospital under Idaho Code Section 31 Title 36 and constitutes a government entity under Idaho law which means if there needed to be tax assessed to support the hospital the county could do so. Under a 501(c)(3) that could not happen. The conversion to a 501(c)(3) would allow the hospital

to obtain revenue bond financing. The corporation is created for the benefit of the community and hospital revenues are reinvested to update and upgrade the plant, facilities and equipment of the corporation and the capital fund balance or net worth of the corporation is a community asset. If the hospital were sold to St Lukes for example the excess revenues could possibly go to the system of hospitals, however that could be negotiated with a contract. The IRS approval process for 501(c)(3) status takes approximately 6 to 8 months. A 501(c)(3) allows the hospital to become a charitable organization giving them the ability to access capital through tax-exempt bonds, to receive tax deductible charitable contributions and be exempt from federal taxation as well as state and local property taxes.

Conversion Process per Idaho Code 31-3515 requires a simple majority vote of electorate to implement. Conversion can be accomplished through sale or lease to a new 501(c)(3) corporation and can be for assumption of assets and liabilities or any amount of money. Legal documentation of sale or lease (e.g., articles of incorporation, bylaws, lease agreement, purchase and sale agreement).

Conversion Process per Idaho Code 31-3515A requires no vote and can be implemented by County Commissioner decision. Conversions accomplished through sale or lease to new 501(c)(3) corporation can be for assumption of assets and liabilities or any amount of money. 501(c)(3) corporate members are defined by statute. Legal documentation of sale or lease (e.g., articles of incorporation, bylaws, lease agreement, purchase and sale agreement).

IC 31-3515A requires the new 501(c)(3) to have corporate members who are local residents. The corporate members then appoint the board of directors of the new 501(c)(3) hospital. This structure provides that the new 501(c)(3) corporate members and board of directors have a direct interest in the community. Ghan asked how this model addressed public accountability. Russ said the people deciding who the corporate members are would be appointed by the commissioners. The initial members of the board would remain on the board with flexibility as to the corporate membership. The articles of incorporation super cede the bylaws. The current board members are appointed by the Commissioners of Bannock County for staggered 3 year terms. Lila Liggins asked who represented the employees on the board which was noted. Wight said the hospitals preferred method would be a lease through 3515A so they don't have to pay off the current bonds which are currently at a very low percentage rate. Board members of the new 501(c)(3) can be a very flexible model with 8 members or numerous members This addresses community accountability. The current board of directors would initially serve on the new 501(c)(3). Articles of incorporation would indicate the new board, how many, etc., they do not all need to be from Bannock County and could include someone with specialized healthcare knowledge and only allows the board of directors to serve two consecutive 3 year terms. Careful drafting of articles and board of director bylaws will be necessary. The Board of Directors could create an advisory board or panel to address specific issues or provide additional public input.

Advantages of establishing a community non-profit 501(c)(3) include it's creation ensures continued community benefit, tax-exempt revenue bond funding can be obtained. It ensures that control of the hospital remains with local constituency, allows flexibility in governance and all excess revenues are invested in the community hospital, itself. No management fees are paid to an outside entity and taken out of state. Cost of healthcare remains reasonable. Hospital services are continued for all county residents, including those who are indigent. Physicians maintain a direct voice and active involvement in hospital governance and the Board of directors has control over hospital and its management personnel. Wight also mentioned various buildings already located or to be located on the East Campus are owned by for-profit entities that pay taxes including the new cardiac medical office building, the new orthopedic/surgery center medical office building, any other new medical office buildings, and the potential Optivus building. On the West Campus buildings may be sold to for-profit companies such as the nursing home building, west campus medical office buildings, and the parking garage would be shared among for-profit companies. Mayor Chase also said ISU may be interested in those buildings. Gerald Homstad said ISU may be interest but they have no money for the purchase of any buildings.

Wight continued that once created the county avoids any liability for 501(c)(3) debts. Future financing will constitute the debt of the 501(c)(3) only. Current tax exempt revenue bonds can be transferred to the 501(c)(3) without having to be paid off. Parris questioned if the 501(c)(3) becomes insolvent does the county have no liability at this point. Wight said no. Parris said the county might incur debt. Wight said the bond creditors would step in long before the hospital became insolvent and could take over management of the hospital. The bond rating was discussed. PMC has a stand alone bond rating that has nothing to do with the county. Parris said the county owns the building so if it was lost the county has lost that asset. Wight said there would be steps that would be taken long before that would occur.

Wight said a years delay in construction could cost approximately \$10,000,000.00. It was mentioned that hospital costs are being talked about, but human costs of having two hospitals is also causing problems. The IHC right of first refusal was discussed which would only be triggered if the hospital were sold in its entirety or a very large portion of the hospital. Parris said he spoke with IHC and they don't know what they would do if this were to occur, however they have a 50 year right of first refusal. Sale or lease to FP or NFP would trigger the IHC first right of refusal.

Wight reviewed potential transactions involving new 501(c)(3) after its creation using various scenarios and assumptions. Wight said PMC is proceeding to prepare the IRS paperwork so they are prepared if that is the decision of the Commissioners. Meeting adjourned at 6:38 p.m.