

**MINUTES OF THE SPECIAL MEETING OF THE BOARD OF DIRECTORS OF THE
WINNIE-STOWELL HOSPITAL DISTRICT**

The meeting of the Board of Directors of the Winnie-Stowell Hospital District (“District”) was noticed and filed pursuant to the Texas Open Meetings Act a full 72 hours prior to the opening of said meeting for 9:00 a.m. on the 10th of July, 2017 at the Winnie Community Hospital (“Hospital”) Conference Room, Broadway, Winnie Texas (a copy of said Notice being placed amongst the files of the District).

The roll was called of the members of the Board, to wit:

Ed Murrell, President
Jeff Rollo, Vice-President
Raul Espinosa, Secretary
Sharon Burgess, Director
Anthony Stramecki, Director

All said Board members were present with the exception of Sharon Burgess. In addition, to the above named Board members, also present at the meeting were: Sherrie Norris, District Administrator; Yani Jiminez, Indigent Care Director; Hubert Oxford, IV, General Counsel; David Sticker, District CPA; Steve Lucas with Post Oak Bank; Stephanie Spiller with Post Oak Bank; Gloria Roemer, Seabreeze Beacon; and Rebeckah McDonald, Hometown Press.

At approximately 9:07 a.m., a quorum was established and President Murrell made introductions that were followed by a request for public comment. There being no public comment, President Murrell called on Attorney Oxford to address Agenda Item 3, to discuss and take action, if necessary on approving the District’s participation in the Minimum Payment Amount Program 3 (“MPAP 3”). Prior to Mr. Oxford’s discussion, he advised the Board that the discussion on Agenda Item No. 3, would also be applicable to Agenda Items No. 4 and 5 as well, however, consideration of Agenda Items Nos. 4 and 5 would be unnecessary if the Board decided to not move forward with MPAP 3.

According to Attorney Oxford, the State of Texas recently called for an Intergovernmental Transfer (“IGT”) for the Minimum Payment Amount Program 3 (“MPAP 3”). The amount of the IGT for the District on behalf of its thirteen (13) nursing facilities was \$9,691,582.00 and the District was being asked to make a commitment on July 12th, 2017 with the funds being withdrawn from the District’s Texnet account on July 14, 2017. In exchange, if MPAP 3 was approved, the District’s MPAP return would be \$19,026,906.10.

With this said, Attorney Oxford reviewed with the Board a number of his concerns. First, as of the time of the IGT, MPAP 3 will not have been approved by the Centers for Medicare and Medicaid (“CMS”) and it was not known whether the program was going to be approved or when it may be approved. In addition, the Board was told that the amount of the IGT they were being asked to make was \$3,400,000.00 more than originally forecasted because the State was using actual numbers and but, if MPAP 3 was approved there would no reconciliation payments.

Despite the concerns, Attorney Oxford recommended the Board participate in the program. Before explaining the reasons for the recommendations, he passed out a number of financial assessments used in making the decision. (*See Exhibit “A”*). With the information distributed, Attorney Oxford explained:

1. It was believed by LTC and the nursing facility managers that the State has worked with CMS and approval of the program was imminent as CMS’s did not have a solid legal reasoning for originally denying the state’s requests. That is, CMS’s original denial of MPAP 3 was based on a regulation that had not yet been formally approved.
2. Since the State of Texas’s IGT requests was based on accurate numbers, as opposed to proxy numbers, those at the Texas Health and Human Services Commission informed LTC and the Managers that the Supplemental Payment would most likely come shortly after an approval by CMS and in one payment as opposed to the MPAP 1 and MPAP 2 three monthly payments system.
3. Due to the increase in the IGT amount and the uncertainties involved, Attorney Oxford explained that he, along with help from the LTC, were able to negotiate a six (6) month

loan for \$7,000,000.00 with Salt Creek Capital that provided for 6% interest until, or if, MPAP 3 was approved. Initially, Salt Creek Capital demanded a nine (9) month loan which would have costs an additional \$294,000.00. If MPAP 3 was approved, the interest rates increases to 16.8% for the life of loan and District must pay the difference between 6% paid and 16.8%. If MPAP 3 was not approved, the loan will terminate as soon as District receives funds from the State of Texas and repays the loan (i.e., can be paid off early). Additionally, if MPAP was approved but the District has not received sufficient funds to repay the Salt Creek Capital Loan within the six (6) months, the loan will continue on a month to month basis by paying interest of 16.8% on the balance of outstanding funds owed.

4. Furthermore, Attorney Oxford explained that Salt Creek Capital also agreed to reduce their initial reserve requirements for MPAP 3 and QIPP 2 loans from requiring the District to set aside the entire interest amounts owed for MPAP 3 and QIPP 2 to maintaining a balance of \$500,000.00 in its Interbank account. If the note for MPAP 3 was for nine (9) months, the amount the District would have had to set aside for reserves was \$882,000.00 and then \$511,700.00 for QIPP 2 in November 2017. The result of this would have caused severe issues with the District's cash flow for the emergency room construction and regular operations.
5. As for the remaining \$2,691,582.00, Attorney Oxford that the District received its legal opinion from Charles Luband with the Denton firm stating that the District could utilize some of its proceeds from its prior participation in the Upper Payment Limit Program and MPAP program and deposit \$2,700,000.00 in a CD to be used as collateral for a line of credit. The terms of the line of credit call for 3.25% interest but the District would also be receiving 1.25% from its CD.
6. In regard to cash flow concerns, Attorney Oxford stated that if the District makes its first payment to LTC for QIPP 1 in January 2018, the District would be left with a fund balance of \$500,690.64 at the end of December 2017. Thereafter, in January 2018 through March 2018 when the Emergency Room expenses are expected to be at their highest, the fund balances were estimated to be \$833,543.85 in January 2018, \$958,793.52 in February 2018, and \$3,647,418.77 in March 2018.
7. After taking into consideration the District's cash flow needs through December 2018, Attorney Oxford and Mr. David Sticker reported that it was their recommendation based on analysis of the cash flow and concerns that the District maintain its policy of a \$500,000.00 minimum reserve, that the District move forward with MPAP 3. If it does and assuming a five (5) month payout between the months of January 2018 through May 2017 or months six (6) to ten (10), or three months after the end of the Salt Creek Capital

note was due, the District's net after paying interest, professional fees, and managers would be \$2,276,559.27.

After an extensive discussion on the District's participation in MPAP 3, President Murrell called for a motion to approve the District's participation in MPAP 3 and to approve making an IGT for MPAP 3 in the amount of \$9,691,582.00. A motion was then made by Director Rollo to participate in MPAP 3 and to make the IGT for \$9,691,582.00 on July 14th, 2017. This motion was seconded by Director Burgess with the unanimous consent of all Board members.

Next, Attorney Oxford was asked to discuss Agenda Item No. 4, to discuss and take action, if necessary on approving loan documents for nursing home operations, including, the funding for the MPAP 3 intergovernmental transfer. Attorney Oxford explained that the loan from Salt Creek Capital was for \$7,000,000.00 to be used for nursing home operations, including making an IGT for MPAP 3 as previously discussed. In so doing, Attorney Oxford presented the Board with a summary of the loan and the loan documents (*See Exhibit "B"*). Again the highlights of this loan are as follows:

- \$7,000,000.00 six (6) month note as opposed to nine (9) month note.
- Interest was 6% or \$35,000.00 per month until such time as MPAP 3 approved.
- If MPAP 3 was approved, interest increases to 16.8% or \$98,000.00 for the life of loan and District must pay the difference between 6% paid and 16.8%.
- If MPAP was not approved, Loan terminates as soon as District receives funds from the State of Texas to repay loan (i.e., can be paid off early).
- If approved and payments occur more after six (6) months, term of note was extended month to month and interest paid on outstanding balance owed.
- Instead of pre-paying interest, District must keep a minimum balance of \$500,000.00 in Interbank Account.
- Interest payments due on the 25th of each month to match QIPP 1 Loan.

Following a review of the loan documents and questions, a motion was made by Director Rollo to approve the Salt Creek Capital loan documents found in **Exhibit “B”**. This motion was seconded by Director Burgess and approved by all the Board members.

After the approval of the Salt Creek Capital loan in Agenda Item No. 4, President Murrell called on Steve Lucas, Post Oak Bank, to discuss Agenda Item No. 5, to discuss and take action, if necessary, to purchase a CD from Post Oak Bank and secure line of credit at Post Oak Bank. Mr. Lucas reaffirmed the previous discussion regarding the line of credit and CD during the MPAP 3 discussion, and presented the Board with the loan documents for the line of credit and documents for the CD (*See Exhibit “C”*). Specifically, he stated that the line of credit was for \$2,700,000.00 and was to be secured by a CD for \$2,700,000.00. The interest for the line of credit was 3.25% but the District will receive 1.25% for the CD which will result in a net cost of 2%. Mr. Lucas also explained that when the District repays its line of credit, if the District choice to request the return of its money in the CD, that would not be a problem. The Board thanked Mr. Lucas for its efforts and then Director Stramecki made a motion to approve the line of credit loan documents; documents to establish a CD for \$2,700,000.00 at Post Oak Bank; and the transfer of \$2,700,000.00 from Prosperity Bank to Post Oak Bank. This motion was seconded by Director Burgess and unanimously approved by all the Board members.

Lastly, President Murrell called on the District’s Indigent Care Director, Yani Jiminez, to discuss Agenda Item No. 6 regarding the inter-local agreement between the District and the University of Texas Medical Branch, Galveston, to provide medically necessary outpatient care to the District’s indigent clients. Per Mrs. Jiminez, she received the attached Interlocal Agreement from the University of Texas Medical Branch (“UTMB”) to provide “medically necessary” outpatient healthcare services to the District’s residents and recommends that the

Board enter into this agreement. (See **Exhibit “D”**). Mrs. Jiminez reminded the Board that the agreement was necessary in order to lock in the Medicare rates for the District’s clients that were sent to UTMB for medical treatment. In regard to the agreement itself, Mrs. Jiminez explained that after receiving this agreement, she submitted to Attorney Oxford and the two then participated in a conference call with Sandra Davis, Senior Administrative Manager for the UTMB Office of County Affairs Health Policy & Legislative Affairs to answer their questions.

Some highlights of the call were as follows:

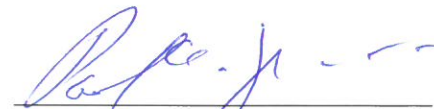
- Most Hospital Districts and counties in this area have also entered into this agreement including Hardin County, Orange County, Chambers County, and Liberty County;
- The Agreement was through August 31, 2017 but renews year to year through August 31, 2019 but can also be terminated for any reason by giving thirty (30) days’ notice;
- By entering into this agreement, the District, like all other entities utilizing UTMB, agree to pay for a maximum of \$60,000.00 in services for a patient; and
- Except for extreme cardiac and certain cancer patients, after \$60,000.00 has been spent, UTMB no longer charges for any additional services;

At the conclusion of the presentation summarizing the agreement, the Board asked a number of questions surrounding the \$60,000.00 cap on fees for services mostly concerning resolving any conflicts with the District’s policy of providing \$30,000.00 in services and the potential exposure of multiple clients reaching the \$60,000.00 threshold. In response, Attorney Oxford first reported that UTMB would not agree to reduce this cap and that all the other entities are subject to the same amount. Therefore, he recommended that the Board amend its policy to account for this agreement. Lastly, the two also explained that according to Mrs. Davis, patients very seldom accumulate up to \$60,000.00 in medical expenses even in extreme emergency situations. Once all the Board members were satisfied that their questions had been answered, Director Burgess made a motion to approve the inter-local agreement between the District and

the University of Texas Medical Branch, Galveston, to provide medically necessary outpatient care to the District's indigent clients. This motion was seconded by Director Rollo and was approved with the unanimous consent of all Board members.

There being no other business, President Murrell advised the Board that the next Regularly Scheduled Board meeting would be on July 26, 2017 at 6:00 p.m. At 11:17 a.m., a motion was then made by Director Stramecki to adjourn the meeting. This motion was seconded by Director Burgess, with the unanimous consent of all Board members.


Edward Murrell, President


~~Jeff Rollo, Vice-President~~
Raul Espinosa, Secretary