

Hillsboro, Kansas
June 18, 2008

1. The city council met in special session on Wednesday, June 18, 2008 at 4:00 p.m. in the east meeting room at City Hall for the purpose of entertaining a request and discussing, considering and acting upon (if appropriate) the possible purchase and sale of certain real property owned by the city and located within the corporate limits of the city. Mayor Dalke and Council members Shelby Dirks, Bob Watson & Byron McCarty were present. Absent: Council member Shane Marler.

2. Others Present: Larry Arthur & Trent Skaggs, HMC/CAH Consolidated, Inc.; Michael Ryan, HCMC; Dan Baldwin, City Attorney; Don Ratzlaff, Hillsboro Free Press; Susan Berg, Hillsboro Star Journal; J.T. Klaus, Triplett, Woolf & Garretson; Clint Seibel, HDC; Mike Padgett; Martin Rhodes; Jared Jost; Doug Huxman; Wendell Dirks; Carl Long; Brent Barkman; Lyman Adams, Jr.; Lou Thurston; Brad Bartel; Marion Regier; Rebecca Green; Darrel Driggers; Jules Glanzer; Jim Elliott; Melissa Batterton; Mike Kleiber; Judy Jantz; Dr. Michael Reeh; Jon Wiebe; Nicole Suderman; Dr. A.R. Claassen; David Baker; Phil Wyssenbach; Lawrence J. Brennan; Eric Driggers; Chad Funk; Ben Stekete; Larry Paine, City Administrator; and, Glenda Stoppel, Deputy City Clerk.

3. CALL TO ORDER – Mayor Dalke called the special meeting to order at 4:00 p.m. and stated the purpose of the meeting. She indicated that all of the city council members that were present have signed the Request for the Special Council Meeting.

4. J.T. Klaus, Bond Counsel for the city, explained that there is an offer from CAH Acquisition Co. #5, LLC to purchase all of the existing hospital assets of the Hillsboro Community Medical Center and to construct a new 15-bed critical access hospital in Hillsboro.

CAH Acquisition Company #5, LLC is a wholly-owned subsidiary of HMC/CAH Consolidated, Inc. HMC is a private equity and financing operating company based in Kansas City, Missouri, whose stated purpose is the acquiring of older hospitals and replacing them with brand new state-of-the-art facilities. HMC has purchased and built (or assisted in the process of constructing new hospitals) in Washington County, NC, Iron County, MO, Sweet Springs, MO, and Drumright, OK, to name a few.

Conditions of the proposed sale include:

- HMC will purchase all the Hillsboro Community Medical Center Hospital assets located at 701 S. Main, except for the real estate, which is equitably owned and will continue to be owned by the City of Hillsboro.
- The city will also sell HMC approximately 14 acres of land located at the northeast corner of U.S. Hwy 56 & Industrial Road, upon which HMC has promised to construct a new state-of-the-art acute-care critical access hospital. The new hospital will comprise of 25,000 square feet, will initially have 15-beds, and is expected to include emergency services, surgery, physical therapy,

- radiology, respiratory therapy, outpatient clinic, dietary, nursing, cardiac rehabilitation, as well as laboratory facilities to serve the citizens of Hillsboro and Marion County.
- During the construction period (over the next 3 to 5 years), the city will lease HMC the existing hospital so it will continue operations at 701 S. Main, until the new hospital is complete.
 - The city will continue to lease the nursing care wing of the existing hospital to Salem Hospital, Inc. where they will continue to operate the elderly care component of the existing hospital. Salem Hospital will lease the existing medical clinic at 704 S. Main to HMC, as well.
 - HMC has generally agreed to retain all existing hospital employees within their existing status.

IN EXCHANGE:

- HMC will pay the City of Hillsboro the full amount necessary to retire all city indebtedness associated with the hospital, which consists of approximately \$1,175,000.00 of Hillsboro Public Building Commission Revenue Bonds, plus interest, plus a nominal payment of \$100.00 for the lease of the existing hospital.

According to Mr. Klaus, the proposed transaction will require approval of the Kansas Attorney General, the defeasance of the Public Building Commission Indebtedness, and an exercise of the city's right to purchase the existing hospital from the PBC. It is anticipated that the purchase price would be escrowed with the Kansas State Treasurer to pay the retirement of the bonds.

The city will retain the 5 mil Property, Plant & Equipment Reserve Fund, which it has historically levied for the benefit of the Medical Center.

Larry Arthur, President & CEO of HMC Consolidated and President of the Hillsboro acquisition entity & Mike Ryan, CEO & Administrator of HCMC, gave a further explanation of their proposal and answered questions from the audience.

Highlights from the discussion include:

- The company was formed within the past year, but Mr. Arthur has been working on the development for 2 ½ years.
- Once the hospital has been constructed, it will be placed on the tax rolls.
- Hospitals currently under ownership in Kansas are located in Horton & Oswego.
- An additional 17 hospitals are in various stages of acquisition.
- They plan to build a system of 40 hospitals.
- It is not their intent to compete with current medical providers. They plan to have the consent of current providers and build on what is already available.
- The current Salem Board will continue to act as an Advisory Board.

- The hospital will have 15 private rooms/showers with the possibility of expanding to 25 (maximum amount a critical access unit is allowed). The current facility has 16 beds.
- The ownership of the current facility will revert back to the city. The nursing home will continue to operate and is not part of the acquisition.
- Possibility of building a medical building on the campus.
- Would like to begin construction in August.
- Infrastructure is mostly in place. There will not be as much money needed as usually is the case of new construction.
- The critical access market is primarily located in the Midwest & East Coast.
- The hospital name will remain the same.
- No obstetrics – Liability issues are expensive for the amount of patients in this area.
- Mr. Klaus has performed background checks on the company.

After all questions were answered, Council member McCarty announced that since his wife is employed by the hospital, he has a conflict of interest and will be abstaining from voting.

Council member Dirks announced that he has resigned his position as an x-ray technician at the hospital; therefore, he currently does not have a conflict of interest.

Motion was made by Council member Dirks and seconded by Council member Watson to approve the sale and lease agreement between the city, Salem Hospital, Inc. and CAH Acquisition Company #5, LLC, relating to the sale and lease of the Hillsboro Community Medical Center in substantially the form presented today with such minor corrections and additions as may be necessary in bond counsel's opinion and authorize the mayor and deputy city clerk to sign the same. Dirks & Watson, yes; McCarty, abstained. Mayor Dalke indicated that she is in favor of the motion. Motion carried unanimously.

There was no further discussion or comments from the public or council.

Mayor Dalke thanked everyone for their interest and presence at the meeting.

5. Motion was made by Council member Watson and seconded by Council member Dirks to adjourn the special meeting at 4:43 p.m. Motion carried unanimously.

DELORES DALKE, MAYOR

ATTEST:

GLENDAL STOPPEL, DEPUTY CITY CLERK