February 17, 2020

NOTICE

The Board of Directors of the Kaweah Delta Health Care District will meet in an open Finance, Property, Services, and Acquisition Committee meeting at 2:30PM on Thursday, February 20, 2020 in the Kaweah Delta Medical Center – Acequia Wing - Executive Office Conference Room {400 W. Mineral King, Visalia}.

The disclosable public records related to agendas are available for public inspection at Kaweah Delta Medical Center – Acequia Wing, Executive Offices (Administration Department) {1st floor}, 400 West Mineral King Avenue, Visalia, CA and on the Kaweah Delta Health Care District web page http://www.kaweahdelta.org.

KAWEAH DELTA HEALTH CARE DISTRICT
David Francis, Secretary/Treasurer

Cindy Moccio
Board Clerk, Executive Assistant to CEO

DISTRIBUTION:
Governing Board
Legal Counsel
Executive Team
Chief of Staff
http://www.kaweahdelta.org
OPEN MEETING – 2:30PM

CALL TO ORDER – David Francis

PUBLIC / MEDICAL STAFF PARTICIPATION – Members of the public wishing to address the Committee concerning items not on the agenda and within the subject matter jurisdiction of the Committee may step forward and are requested to identify themselves at this time. Members of the public or the medical staff may comment on agenda items after the item has been discussed by the Committee but before a Committee recommendation is decided. In either case, each speaker will be allowed five minutes.

1. FINANCIALS – Review of the most current fiscal year financial results.
   Malinda Tupper, VP & Chief Financial Officer

2. SEQUOIA SURGERY CENTER – Annual report on the Sequoia Surgery Center.
   Gary Herbst, Chief Executive Officer

3. TULARE CLINIC – Status report relative to the development of the Tulare Clinic.
   Marc Mertz, Vice President of Strategic Planning and Business Development and Julieta Moncada, Facilities Planning Director

4. 2015B REVENUE BOND STATUS REPORT – Status report and next steps for projects.
   Julieta Moncada, Facilities Planning Director

ADJOURN – David Francis

In compliance with the Americans with Disabilities Act, if you need special assistance to participate at this meeting, please contact the Board Clerk (559) 624-2330. Notification 48 hours prior to the meeting will enable the District to make reasonable arrangements to ensure accessibility to the Kaweah Delta Health Care District Board of Directors meeting.
Summary Issue/Service Considered
Sequoia Surgery Center (SSC), a California limited liability company (LLC), was formed on August 1, 2010 upon the merger of Cypress Surgery Center (CSC) and the Center for Ambulatory Medicine & Surgery (CAMS). SSC operates a four-suite ambulatory surgery center, performing approximately 5,600 outpatient surgeries and endoscopic procedures each year. Surgery services include orthopedics, general, gynecological, urological, plastic, podiatric, pain management and ENT. SSC gastroenterologists also perform a significant number of endoscopic procedures at the Center, primarily colonoscopies, which accounted for approximately 28% of SSC’s annual case volume in 2019.

SSC is owned by seventeen (17) surgeons and Kaweah Delta Health Care District. SSC is owned 69.4% by physicians and 30.6% by the District. SSC is governed and managed by a formal Board of LLC members, including the District, elected to the Board by the LLC members, and is jointly chaired by Drs. Alex Lechtman and Burton Redd. Director Herb Hawkins serves as the District representative on the SSC Board of Members. Anesthesiology services are provided by independent anesthesiologists. Dr. Burton Redd, orthopedic surgeon, serves as SSC’s Medical Director, and Tricia Vetter, a former charge nurse with Kaweah Delta Health Care District, was recently appointed as the Center’s new Administrator during 2019 (replacing Gina Mayo who retired during the year).

In conjunction with the merger of CSC and CAMS, CSC created a separate limited liability company, Cypress Company, LLC (CyCo), to which it transferred all real estate assets (land and building), along with the associated mortgage debt, as well as cash, accounts receivable and certain debt incurred with the buy-out of partner interests. CyCo leases the surgery facility to SCC under a long-term operating lease. CyCo is owned by ten (10) surgeons (all former members of CSC) and Kaweah Delta Health Care District. CyCo is owned 60.0% by physicians and 40.0% by the District.
Financial/Statistical Information  
January 1 to December 31 (Compiled Financial Statements):

<table>
<thead>
<tr>
<th>Year</th>
<th>Case Volume</th>
<th>Net Revenue</th>
<th>Operating Costs</th>
<th>Net Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>5,583</td>
<td>$11,995,271</td>
<td>$10,178,721</td>
<td>$1,816,550</td>
</tr>
<tr>
<td>2018</td>
<td>5,004</td>
<td>10,684,620</td>
<td>9,352,295</td>
<td>1,332,325</td>
</tr>
</tbody>
</table>

Quality/Performance Improvement Data  
1. SSC is fully accredited by the Accreditation Association for Ambulatory Health Care (AAAHC). AAAHC awards three-year accreditations similar to the JCAHO. SSC was last surveyed by AAAHC in October 2017, and is preparing for an expected re-accreditation survey, likely to occur during the latter part of this year. There are a number of Environment of Care matters identified during the last survey (generally all related to electrical infrastructure) that are currently being addressed by management and our expected to be fully resolved by survey time.

Policy, Strategic or Tactical Issues  
1. SSC’s primary competition for outpatient surgery includes the District, Sierra Pacific Orthopedic Center (Fresno), and private physician offices.

2. SSC’s primary strategy for growing and retaining its business is to selectively offer ownership interests to active, community surgeons with an interest in actively managing and using the Center. Additionally, SSC management and physician leaders actively reach out to new physicians that enter the marketplace, offering SSC as an alternative to Kaweah Delta and other surgical facilities. During this past year, SSC sold ownership interests to the following physicians: Seth Criner, orthopedic surgeon; Jason Mihalcin, orthopedic surgeon; Kyle Potts, general surgeon; and Kazi Rahman podiatrist. Dr. Jim Guadagni and Dr. Don Schengel, orthopedic surgeons, sold their ownership interests back to SSC in connection with their retirements.

3. During this past year, SSC discovered the presence of significant water damage to its facility’s roof, walls and internal infrastructure, apparently caused by flaws in the original design and construction of the facility, and engaged Seals Construction to complete the necessary repairs and renovations. At a total cost of approximately $1.0 million, the work has been fully completed. Citizens’ Business Bank financed the project with a line of credit secured by the real estate and personal guarantees of the physician owners of CyCo. CyCo was solely responsible for the cost of these repairs.

4. In conjunction with item #3, SSC and CyCo have also been evaluating the physical expansion of its facility to create a dedicated comprehensive outpatient GI center. This interest and opportunity was solidified by Kaweah Delta’s decision to not build a free-standing GI Center on the west side of its downtown hospital campus but rather to pursue a joint-venture expansion with SSC and CyCo. After considerable study and
analysis, the SSC and CyCo owners have recently agreed to modify their original plans for a new endoscopy center and are now supporting the construction of a new 4-suite ambulatory surgical center to be located approximately 30 feet from the current SSC facility. This facility is projected to cost approximately $13.0 million and will add 16,000 square feet to the SSC/CyCo campus. Citizen’s Business Bank has agreed to provide both the construction and permanent financing. Plans are currently being developed with the Darden architectural firm. It is likely that the physician owners will invest a minimum of $800,000 in the project and will look to Kaweah Delta to fund the remaining $1.8 million of equity investment required by the Bank, thereby increasing Kaweah Delta’s ownership stake above its current 40%.

**Recommendations/Next Steps/Approvals/Conclusions**

SSC will continue to emphasize high-quality, customer-oriented, and personal outpatient surgery services to physicians and patients of Visalia with the objective of differentiating itself from the more institutional feel of a large hospital system. It will actively evaluate opportunities to recruit new physicians to its Center and offer membership ownership opportunities when appropriate. It will continue to evaluate low margin services and replace them with high margin services. It will continue to evaluate opportunities to reduce supply costs through consolidation or change of vendors and more efficient utilization and it will focus on improving overall economies of scale made possible by the merger of CSC and CAMS. Lastly, SSC and CyCo will move forward with the development of a new ASC addition to their campus which will also include the offering of new equity ownership opportunities to SSC physicians not currently invested in CyCo.
## 2015B Revenue Bond Projects

### STATUS REPORT   2/17/2020

### Combined Funding Spent as of February 17, 2020

<table>
<thead>
<tr>
<th>CIP PROJECT</th>
<th>Revenue Bond 2015B Funding</th>
<th>Additional Funding*</th>
<th>TOTAL Combined Funding</th>
<th>REMAINING BUDGET</th>
<th>Current Status</th>
<th>Construction Start</th>
<th>Anticipated Construction Completion</th>
<th>Anticipated Occupancy “CDPH approval”</th>
</tr>
</thead>
<tbody>
<tr>
<td>AW 5th Flr Med-Surg</td>
<td>$22,000,000</td>
<td>$1,100,000</td>
<td>$23,100,000</td>
<td>$16,061,461</td>
<td>Construction Phase</td>
<td>Dec 2017</td>
<td>end of February 2020</td>
<td>end of April 2020</td>
</tr>
<tr>
<td>AW 6th Flr NICU</td>
<td>$22,000,000</td>
<td>$1,100,000</td>
<td>$23,100,000</td>
<td>$16,061,461</td>
<td>Construction Phase</td>
<td>Dec 2017</td>
<td>end of February 2020</td>
<td>end of April 2020</td>
</tr>
<tr>
<td>ED Expansion: Zone 4</td>
<td>$32,800,000</td>
<td>$40,000</td>
<td>$32,840,000</td>
<td>$16,833,749</td>
<td>Construction Phase</td>
<td>April 2018</td>
<td>mid-March 2020</td>
<td>mid-May 2020</td>
</tr>
<tr>
<td>ED Expansion: Zone 5 24-Bed Addition</td>
<td>$32,800,000</td>
<td>$40,000</td>
<td>$32,840,000</td>
<td>$16,833,749</td>
<td>Construction Phase</td>
<td>July 2018</td>
<td>December 2020</td>
<td>February 2021</td>
</tr>
<tr>
<td>ED Expansion: Fast Track &amp; Lab Draw</td>
<td>$32,800,000</td>
<td>$40,000</td>
<td>$32,840,000</td>
<td>$16,833,749</td>
<td>COMPLETED / OCCUPIED</td>
<td>Sep 5, 2017</td>
<td>July 2019</td>
<td>August 2019</td>
</tr>
<tr>
<td>Exeter Campus Modular Clinic and Admin Bldgs.</td>
<td>$10,000,000</td>
<td>$400,000</td>
<td>$10,400,000</td>
<td>$6,497,421</td>
<td>COMPLETED / OCCUPIED</td>
<td>Feb 20, 2017</td>
<td>Completed May 2018</td>
<td>Occupied August 2018</td>
</tr>
<tr>
<td>Creek Parking Addition</td>
<td>$450,000</td>
<td>$450,000</td>
<td>$450,000</td>
<td>$450,000</td>
<td>COMPLETED / OCCUPIED</td>
<td>Feb 2016</td>
<td>May 2016</td>
<td></td>
</tr>
<tr>
<td>Acquia 2nd Floor OB C-Section</td>
<td>$6,500,000</td>
<td>$4,000,000</td>
<td>$10,500,000</td>
<td>$4,063,781</td>
<td>COMPLETED / OCCUPIED</td>
<td>April 10, 2017</td>
<td>Completed October 4 2018</td>
<td>December 2018</td>
</tr>
<tr>
<td>Northside Urgent Care Center</td>
<td>$4,000,000</td>
<td>$4,000,000</td>
<td>$8,000,000</td>
<td>$4,000,000</td>
<td>COMPLETED / OCCUPIED</td>
<td>June 5, 2017</td>
<td>Completed May 2018</td>
<td>Occupied August 2018</td>
</tr>
<tr>
<td>Cerner Implementation</td>
<td>$28,150,000</td>
<td>$28,150,000</td>
<td>$28,150,000</td>
<td>$28,150,000</td>
<td>COMPLETED</td>
<td>N/A</td>
<td>Completed May 2018</td>
<td>May 2018</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>$100,000,000</strong></td>
<td><strong>$1,540,000</strong></td>
<td><strong>$101,540,000</strong></td>
<td><strong>$76,056,412</strong></td>
<td><strong>$25,483,588</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Spent to date= 75%

### NOTES

NOTES on the ED Expansion 24-Bed Addition: Additional scope of re-building existing ED exterior wall due to erroneous construction is estimated to extend the construction completion by one more month -to December 2020.