



January 8, 2021

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 9:00AM on Wednesday January 13, 2021 in the Kaweah Delta Medical Center – Multi Service Center Conference Room 402 W. Acequia Avenue Visalia, CA or via GoTo Meeting from your computer, tablet or smartphone <https://www.gotomeet.me/CindyMoccio/kdfinancepsacommittee> **Via phone - 872-240-3212**
Access Code: 693-821-941

All Kaweah Delta Health Care District regular board meeting and committee meeting notices and agendas are posted 72 hours prior to meetings (special meetings are posted 24 hours prior to meetings) in the Kaweah Delta Medical Center, Mineral King Wing entry corridor between the Mineral King lobby and the Emergency Department waiting room.

The disclosable public records related to agendas can be obtained by contacting the Board Clerk at Kaweah Delta Medical Center – Acequia Wing, Executive Offices (Administration Department) {1st floor}, 400 West Mineral King Avenue, Visalia, CA via phone 559-624-2330 and on the Kaweah Delta Health Care District web page <http://www.kaweahdelta.org>.

KAWEAH DELTA HEALTH CARE DISTRICT
Garth Gipson, Secretary/Treasurer

A handwritten signature in black ink that reads 'Cindy Moccio'.

Cindy Moccio
Board Clerk, Executive Assistant to CEO

DISTRIBUTION:
Governing Board
Legal Counsel
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<http://www.kaweahdelta.org>

**KAWEAH DELTA HEALTH CARE DISTRICT BOARD OF DIRECTORS
FINANCE, PROPERTY, SERVICES & ACQUISITION COMMITTEE**

Wednesday, January 13, 2021

Kaweah Delta Medical Center / Multi Service Center Conference Room
402 W. Acequia Avenue Visalia, CA 93291

Please join my meeting from your computer, tablet or smartphone.

<https://www.gotomeet.me/CindyMoccio/kdfinancepsacommittee>

Via phone - 872-240-3212 / Access Code: 693-821-941

ATTENDING: Directors: David Francis (chair) & Mike Olmos; Gary Herbst, CEO; Malinda Tupper, VP & CFO; Dianne Cox, VP Chief Human Resources Officer; Marc Mertz, VP Chief Strategy Officer; Jennifer Stockton, Director of Finance, Julieta Moncada, Facilities Planning Director; Deborah Volosin, Director of Community Engagement; Cindy Moccio, Recording

OPEN MEETING – 9:00AM

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. **SEQUOIA SURGERY CENTER** – Annual report on the Sequoia Surgery Center.

Gary Herbst, Chief Executive Officer

2. **TULARE CLINIC** – Status report relative to the development of the Tulare Clinic.

Marc Mertz, VP & Chief Strategy Officer and Julieta Moncada, Facilities Planning Director

3. **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.

*Mike Olmos – Zone I
Board Member*

*Lynn Havard Mirviss – Zone II
Vice President*

*Garth Gipson – Zone III
Secretary/Treasurer*

*David Francis – Zone IV
President*

*Ambar Rodriguez – Zone V
Board Member*

MISSION: Health is our Passion. Excellence is our Focus. Compassion is our Promise.

**Kaweah Delta Health Care District
Report to the Board of Directors**

**Sequoia Surgery Center
January 2021**

**Gary Herbst, CEO
624-2330**

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 where they performed approximately 5,600 outpatient surgeries and endoscopic procedures during 2019 but finished 2020 down more than 9% due to the coronavirus pandemic. 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% and 22% of SSC's annual case volume in 2019 and 2020, respectively.

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 Garth Gibson 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, serves as the Center's Administrator.

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):

Year	Case Volume	Net Revenue	Operating Costs	Net Income
2020	4,777	\$11,143,860	\$10,167,830	\$976,030
2019	5,583	11,995,271	10,178,721	1,816,550
2018	5,004	10,684,620	9,352,295	1,332,325

Note: 2020 results have been annualized based on actual year-to-date results through the ten-months ended October 31, 2020. Case volume and net income was significantly impacted by the arrival of the coronavirus pandemic which caused many outpatient surgeries and procedures to be cancelled by physicians and/or patients. The biggest drop in cases occurred in the months of April, May and June but began to return to historical levels later in the summer and fall. Not included in the 2020 results above is approximately \$711,000 in Payroll Protection Program (PPP) funds received by SSC from the federal government in the summer of 2020. Given that SSC has fully satisfied all of the use and reporting requirements of the PPP program, SSC is entitled to retain all of these funds and record it as income to help offset payroll costs that continued to be incurred throughout the pandemic, despite the significant decline in patient volumes. With the PPP funds, adjusted net income for 2020 is projected to come in close to \$1.7 million.

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 just recently surveyed by AAAHC in December 2020, and is anxiously awaiting their accreditation survey results; SSC management expects to receive full accreditation based on the preliminary observations and comments made by the surveyors during the exit conference.

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 2019, 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 2019, 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 subsequently agreed to modify their original plans for a new endoscopy center and alternatively construct a new 4-suite ambulatory surgical center to be located approximately 30 feet from the current SSC facility. After more than two years of planning, financial analysis and consideration of multiple iterative design options, this facility is now projected to cost approximately \$15.5 million and will add 18,856 square feet to the SSC/CyCo campus. Citizen's Business Bank had previously agreed to provide both the construction and permanent financing but that was before the final above-referenced iteration and cost estimates were developed.

When last presented to the SSC and CyCo partners, it appeared likely that the physician owners would invest a minimum of \$800,000 in the project and would 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%. However, with the revised project design, cost and associated equity expectation of the Bank, Kaweah Delta would be required to invest as much as \$2.3 million (and own 64.0% of the equity) if the physicians hold tight with their \$800,000 commitment.

After all said, another joint meeting of the SSC and CyCo owners was held on Wednesday, December 9th, at which in-depth discussion occurred relative to a "go, no-go" decision on moving forward with the proposed expansion project. After extensive discussion and debate, a super-majority of the members present voted to defer the project for an indefinite period of time. It was felt that given the current pandemic environment, the great uncertainty associated with it, and the existence of excess surgical capacity within the current SSC facility, this was not the time to take on a major construction project and the debt that comes with it.

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.

2015B Revenue Bond Projects
STATUS REPORT 1/4/2021

		Approved Budget			Budget Status		Schedule			
CIP	PROJECT	Revenue Bond 2015B Funding	Additional Funding*	TOTAL Combined Funding	Spent as of Jan 4, 2021	REMAINING BUDGET	Current Status	Construction Start	Anticipated Construction Completion	Anticipated Occupancy *CDPH approval*
185	ED Expansion: Zone 5 24-Bed Addition	\$ 32,800,000	\$ 40,000	\$ 32,840,000	\$ 29,315,496	\$ 3,524,504	Construction Phase	July 2018	March 2021	May 2021
	ED Expansion: Zone 4						COMPLETED / OCCUPIED	April 2018	April 10, 2020	May 2020
	ED Expansion: Fast Track & Lab Draw						COMPLETED / OCCUPIED	Sep 5, 2017	July 2019	August 2019
126	AW 5th Flr Med-Surg	\$ 22,000,000	\$ 1,100,000	\$ 23,100,000	\$ 16,996,104	\$ 6,103,896	COMPLETED / OCCUPIED	Dec 2017	April 24, 2020	May 2020
	AW 6th Flr NICU						COMPLETED / OCCUPIED	Dec 2017	April 24, 2020	May 2020
137	Exeter Campus Modular Clinic and Admin Bldgs.	\$ 6,100,000	\$ 400,000	\$ 6,500,000	\$ 6,497,421	\$ 2,579	COMPLETED / OCCUPIED	Feb 20, 2017	Completed May 2018	Occupied August 2018
167	Creek Parking Addition	\$ 450,000		\$ 450,000	\$ 450,000	\$ -	COMPLETED / OCCUPIED	Feb 2016		May 2016
192	Acequia 2nd Floor OB C-Section	\$ 6,500,000		\$ 6,500,000	\$ 4,066,784	\$ 2,433,216	COMPLETED / OCCUPIED	April 10, 2017	Completed October 4 2018	December 2018
193	Northside Urgent Care Center	\$ 4,000,000		\$ 4,000,000	\$ 4,000,000	\$ -	COMPLETED / OCCUPIED	June 5, 2017	Completed May 2018	Occupied August 2018
226	Cerner Implementation	\$ 28,150,000		\$ 28,150,000	\$ 28,150,000	\$ -	COMPLETED	N/A	Completed May 2018	May 2018
TOTALS		\$ 100,000,000	\$ 1,540,000	\$ 101,540,000	\$ 89,475,805	\$ 12,064,195				

Spent to date= 88%

NOTES on the ED Expansion 24-Bed Addition: Attached budget status review and change orders summary.

**CIP 185 EMERGENCY DEPT ADDITION - CONSTRUCTION BUDGET REVIEW
AS OF JANUARY 4, 2021**

Original Scope of Work :

- 1) New construction - 24 beds, waiting room registration area, security vestibule
- decontamination shower and IT room in the ambulance bay area
- new parking lot lay-out
- underground 72-hour emergency water and sewage holding
- 2) Remodel - conversion of old ED lobby to new intake and triage rooms

Architect of Record: RBB Architects
 Contractor: Zumwalt Construction Inc
 Original completion: May 12, 2020 660 calendar days
Extended completion: [March 2021 \(building\)](#) additional 327 calendar days
[June 2021 \(remaining parking lot, sitework\)](#)

PROJECTED TOTAL CONSTRUCTION CONTRACT COST

Original contract:		\$ 15,837,000	
Change Orders to date:		\$ 5,387,083	
Approved scope change:	\$ 3,685,931		
Approved extended overhead:	\$ 1,267,664		
Pending approval:	\$ 433,487		
	Total Cost to date =	\$ 21,224,083	
Allowance for future contingencies		\$ 200,000	
TOTAL CONTRACT COST AT COMPLETION =		\$ 21,424,083	35.28% of contract

TOTAL PAID THRU NOVEMBER 30, 2020 = \$ 18,159,219

REMAINING PAYABLE THRU COMPLETION= \$ 3,264,863

CONSTRUCTION BUDGET STATUS

ORIGINAL CONSTRUCTION BUDGET	
1165 Construction contract	\$ 16,400,000
1440 Construction contingency	\$ 2,970,000
TOTAL BUDGET=	\$ 19,370,000

TOTAL PAID THRU NOVEMBER 30, 2020 = \$ 18,159,219

REMAINING CONSTRUCTION FUNDS THRU COMPLETION \$ 1,244,937

① ANTICIPATED CONSTRUCTION BUDGET SHORTFALL \$ 2,019,926

CONSULTANTS' ADDITIONAL FEES DUE TO EXTENDED CONSTRUCTION

Architect-Engineer construction administration (CA) services - RBB (Original CA fee = \$ 419,004)	\$ 535,216	<i>approved addition thru March 2021</i>
Construction management (CM) services (Provost & Pritchard) (Original CM fee = \$ 429,585)	\$ 112,500	<i>approved addition thru March 2021</i>
Allowance for additional extended fees past March 2021	\$ 150,000	

TOTAL ADDITIONAL FEES = \$ 797,716

TOTAL ADDITIONAL FEES PAID THRU NOVEMBER 30, 2020 =	\$ 440,642	<i>RBB</i>
	\$ 40,575	<i>Provost</i>
	<u><u>\$ 481,217</u></u>	

REMAINING PAYABLE THRU COMPLETION= \$ 316,499

REMAINING CONSULTANT FUNDS THRU COMPLETION \$ 70,877

② ANTICIPATED CONSULTANT BUDGET SHORTFALL \$ 245,622

① + ② TOTAL ANTICIPATED SHORTFALL \$ 2,265,548

LESS SUPPLEMENT FROM PROJECT'S SOFT COST SURPLUS \$ 1,200,000

REQUIRED SUPPLEMENT FROM OTHER SOURCES: \$ 1,065,548 *5.50%
construction budget
3.25%
\$32.8M project budget*

CIP 185 EMERGENCY DEPT ADDITION - CHANGE ORDERS STATUS

AS OF JANUARY 4, 2021

APPROVED CHANGE ORDERS TO DATE

Owner scope changes

	Miscellaneous (total as of 11/4/2020 report)	\$ 524,358
PCO 121	Add electrical stub-out for future valet kiosk	\$ 6,925
PCO 147.1	RFI 469 Added wall trims in exam rooms	\$ 20,822
		\$ 552,105

OSHPD-required scope changes

	Miscellaneous (total as of 11/4/2020 report)	\$ 1,601,057
PCO 136	ACD 0080 revised fire sprinkler seismic bracing	\$ 2,321
		\$ 1,603,379

Scope changes due to existing conditions

	Miscellaneous (total as of 11/4/2020 report)	\$ 1,129,866
PCO 134	IB 088 relocation of thermostat and panels	\$ 3,552
PCO 128.1	ACD 079 Condensate drains in decontamination shower	\$ 4,084
PCO 146	IB 105 light poles height adjustments	\$ 7,686
PCO 152	Additional floor preparation in Triage area	\$ 6,022
		\$ 1,151,210

Scope changes due to design coordination, constructibility, missed details

	Miscellaneous (total as of 11/4/2020 report)	\$ 353,513
PCO 119	ACD 075 electric door holds	\$ 8,370
PCO 120	ACD 041 decon waste pipes, waste pipes and emergency oxygen relocation	\$ 14,919
PCO 148	Relocate j-box for door	\$ 513
PCO 151	Missing curtain tracks	\$ 1,922
		\$ 379,238

APPROVED SCOPE CHANGES TOTAL = \$ 3,685,931

Contractor extended overhead and profit claims thru 3-27-2021 (approved)

PCO 61.2	TIA #1 General contractor extended field costs thru 3-27-2021	\$ 624,624
PCO 62 (.2 & .3)	TIA #1 General contractor extended overhead thru 3-27-2021	\$ 190,686
PCO 72.1	TIA #1 Subcontractors' extended costs thru 3-27-2021	\$ 452,354

APPROVED EXTENDED OVERHEAD TOTAL = \$ 1,267,664

APPROVED CHANGE ORDERS TOTAL = \$ 4,953,596

PENDING CHANGE ORDERS TO DATE (IN REVIEW)

Scope changes due to existing conditions, constructibility and design coordination

PCO 96	Ambulance bay steel for ladder	\$ 15,000
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Contractor extended overhead and profit claims thru May 7, 2021 (under review)

PCO 123.2	Zumwalt field costs thru 5-7-2021	\$ 202,470.60
PCO 124.2	Zumwalt profit and fees thru 5-7-2021	\$ 83,700.80
PCO 125.2	Subcontractor field costs thru 1-15-2021 (HPS, Patterson)	\$ 82,315.69
PCO 159	Subcontractor field costs thru 1-15-2021 (Mark III elect and mech)	\$ 50,000.00

PENDING CHANGE ORDERS TOTAL = \$ 433,487

CIP 185 EMERGENCY DEPT ADDITION - CHANGE ORDERS STATUS

AS OF JANUARY 4, 2021

CHANGE ORDERS GRAND TOTAL TO DATE = \$ 5,387,083

ALLOWANCE FOR FUTURE CONTINGENCIES

Allowance for unknown additional change orders thru completion	\$ 200,000
TOTAL ALLOWANCE FOR CONTINGENCIES =	\$ 200,000

CIP 185 EMERGENCY DEPT ADDITION - CHANGE ORDERS STATUS

AS OF JANUARY 4, 2021

STATUS OF SOFT COSTS BUDGET

As of January 4, 2021

Budget line		Budget	Remaining	Potential surplus
18501-1175	Project manager	\$ 545,000	\$ 51,384	
18501-1415	Architect / engineer	\$ 2,442,000	\$ 19,493	
18501-1405	Architect reimbursibles	\$ 150,000	\$ 75,739	
18501-1420	Interior design	\$ 70,000	\$ 1	
18503-1200	Agencies , OSHPD fees	\$ 549,000	\$ 203,697	\$ 100,000
18503-1285	OSHPD inspection fees	\$ 482,405	\$ 73,693	
18503-1295	Materials testing	\$ 294,961	\$ 43,563	
18503-1450	Owner's cost contingencies	\$ 790,032	\$ 161,826	
18504-1330	IT / Telecom	\$ 550,000	\$ 152,562	
18504-2300	Medical /movable equipment	\$ 3,123,000	\$ 1,495,772	\$ 1,100,000
18504-2400	Furnishings	\$ 232,000	\$ 766	
		Totals =	\$ 2,278,496	\$ 1,200,000