

Oak Valley Hospital District
General Obligation Bond Oversight Committee
Final Report

April 27, 2011

Background

In August 2004 voters in the Oak Valley Hospital District overwhelmingly approved ballot Measure H to generate \$37 million in general obligation funds to help finance the replacement of Oak Valley Hospital, originally built in 1973. Measure H stipulated appointment of a volunteer committee to represent the taxpayers of the District in overseeing bond expenditures and insure that monies were expended for hospital construction only.

In November 2005 the General Obligation Bond Oversight Committee was appointed by the Oak Valley Hospital Board of Directors with the charge of meeting quarterly to review expenditure of the bond proceeds, review the annual independent financial audit, and make physical inspections of the replacement project. The Committee was required to report to the Oak Valley Hospital Board of Directors at least annually and to make periodic reports to the public. Committee composition was set at a minimum of five members who would serve two year terms, without compensation. Members could serve no more than three consecutive terms. All members were required to be residents of or own a business in the District, which includes Oakdale, Knights Ferry, Valley Home, Waterford and portions of Riverbank.

The Committee

The original Committee was composed of **Mickey Peabody**, healthcare advocate; **Richard Hagerty**, real estate developer; **Jayne Hartley**, certified public accountant; **Thomas Warren**, minister, and **Paul Puskar**, business executive. **Jim Teter, business owner**, was appointed as the Board representative to the Committee. In 2007 **Rob Campbell**, business owner, was appointed to succeed Paul Puskar who was transferred to Virginia. In 2009 **Henry Raven**, pastor, was appointed to fill the vacancy created when Thomas Warren resigned due to relocation. **Mickey Peabody** has served as **Chair** of the Committee since its inception. **Richard Hagerty** served as **Vice Chair**. Oak Valley Hospital **CEO John Friel** and **CFO Wayne Mills** served as management resources to the Committee.

Early in the process, the Committee accepted its task as an unusual challenge given the complexity of the construction financing for the facility. The Committee was charged with representing the interests of homeowners and taxpayers whose general obligation bond proceeds co-finance the project. With a total

price tag of \$90 million, general revenue bonds, hospital reserves and donations were also critical in completing a project of this magnitude. The Committee recognized from the beginning that the size and scope of the project would require cooperation, collaboration and transparency. The Committee also acknowledged it would be responsible for insuring the wise investment of general obligation funds as well as expenditures.

The Committee conducted 24 meetings from November 2005 until March 2011, regularly receiving and reviewing financial expenditures and project progress from management. The Committee toured the project twice a year from the initial construction of the Central Utility Plant to its current 70% completion phase. The Chair reported to the Oak Valley Hospital Board of Directors after each quarterly Committee meeting and issued frequent press releases regarding committee activities and observations.

Annual and Final Financial Report

The construction architectural plans were submitted to the state of California for approval in 2005, but not approved until late 2006. During that timeframe, the Committee's primary responsibility was to review the investment and security of proceeds from the general obligations bonds.

"When the delays for approval by OSHPD occurred, it meant we could garner significant interest on the original Measure H bonds. Making sure our community was benefited from wise investments that would generate significant interest was our responsibility. All of the data we reviewed supported wise investments by senior management and the Board, another indicator of financial savvy and accountability that benefited our investors, the taxpayers."

Mickey Peabody

Wise and prudent investments and carefully planned timing of the actual expenditure of Measure H funds meant that the hospital was able to actually generate \$43,453,554 dollars from the \$37 million bond measure over the past six years.

Thoughtful but aggressive strategy resulted in obtaining a premium of \$1,074,268 from the original \$37,000,000 initial funding bringing the amount available in July 2005 to \$38,074,268. A year later, \$3,905,012 had been spent on construction of the Central Utility Plant that services both the new and current hospital. Interest earned was \$1,320,150 so fiscal year end 2006 reflected \$35,489,405.

In fiscal year 2007 \$2,705,595 was expended on the Central Utility Plant and interest earned was \$1,574,471 leaving a balance of \$34,358,281. In 2008 an additional \$2,744,071 was expended as the Central Utility plant was completed. Interest proceeds were \$1,420,567 leaving \$33,034,777.

Construction of the new hospital facility began in 2009 and the Committee anticipated greater expenditures and less interest income as the project began moving at full speed. At fiscal year end 2009 another \$3, 613,000 were expended.

In 2010 the figure jumped to \$8,190,000 as the project entered one of its most active phases and required. At this stage the Committee had to become more involved asking more questions and seeking clarification. Detailed tours were a key part of the process.

“We were there at the beginning, long before ground was first broken. At every meeting we were provided clear, concise and quality financial updates and building updates. John Friel and Wayne Mills carefully and clearly informed us as to all aspects of the process and answered every question by the Committee. The community is blessed to have this quality leadership at the hospital.”

Richard Hagerty

As with a project of this nature, progress began moving rapidly with both exterior and interior work underway simultaneously. Quarterly reports were issued to the media and the hospital website linked with ACME Construction’s website so that anyone could watch the photographic gallery of progress. The Committee anticipated completing its task in early 2011.

Between June 2010 and March 2011, the final \$22,295,875 was expended as work was being completed throughout the project. The annual earnings and expenditures are illustrated in the following chart, reflecting the transition of \$37 million to \$43 million plus.

Period	Initial Funding	Interest Income	Project Funding	Balance
7/2005	\$37,000,000			
7/2005	1,074,268	(Result of Premium)		\$38,074,268
6/2006		\$1,320,150	\$(3,905,012)	35,489,405
6/2007		1,574,471	(2,705,595)	34,359,281
6/2008		1,420,567	(2,744,071)	33,034,777
6/2009		839,820	(3,613,000)	30,261,598
6/2010		175,456	(8,190,000)	22,247,053
3/2011		48,822	(22,295,875)	-0-
Total	\$38,074,268	\$5,379,286	\$43,453,554	

"I'm not sure everyone appreciates the magnitude of a project like this. It is not the same as building a home or office or school gymnasium. The legal requirements imposed by the state of California to construct or even modify a hospital are mind-boggling. The fact that this project is still on time and on budget is great testimony to all the contractors and to the management team for their knowledge and sensitivity to complying with regulations while containing costs. I've been impressed."

Rob Campbell

The Project Moving Forward

The Oversight Committee's responsibility for ensuring that the proceeds of the Measure H general obligation bonds were expended as intended for steel and concrete construction concluded March 22, 2011 as the last of the funds were expended. The new hospital is not yet completed, but the project remains on schedule for a phased in opening beginning late 2011. With general obligation bonds expended, construction continues as planned utilizing general revenue bonds issued by the hospital, operating reserves, and proceeds from a capital campaign conducted by the Oak Valley Hospital Foundation. The Hospital Building Committee will continue to make reports at monthly Board meetings regarding expenditure of those funds.

"It was a great help to the Committee as it fulfilled its responsibility to update the community to be able to direct people to the hospital website to see weekly pictures of construction progress. Even when the building was 'wrapped', anyone could check the website where ACME Construction has a gallery of photos from the beginning of the project up to the current week. All owners/taxpayers can continue to see progress first hand by just going to www.oakvalleyhospital.com"

Jim Teter

An Economic Stimulus for the Local Economy

The health care sector of any community includes hospitals, physician practices, nursing homes, pharmacies, dentists and other providers of medical services and products. A key economic role the health sector plays in local economic development is "keeping local health care dollars at home". There are many sources of those dollars including commercial and private insurance, Medicare, Medicaid and consumer out-of-pocket payments. If residents leave the community for health care, those expenditures leave the community and represent a loss of potential jobs and income to local district residents.

A strong vibrant health care sector with modern facilities and quality professionals enhances the ability of a community to retain its health care dollars.

Oak Valley Hospital's annual payroll is \$21 million. Considering the number of employees who reside in the District, a significant portion of that financial outlay is expended annually in the local area for housing and consumer purchasing power that benefits local businesses of all types. That \$21 million annual expenditure is an ongoing boost to the local economy.

With the completion of the new state-of-the-art hospital, there will be additional incentives for local residents to "keep health care dollars at home", positively impacting the local economy even more. Addition of a new hospital will also increase the community's ability to attract retirees. Recent studies have shown that the availability of local quality health care services along with good climate and proximity to outdoor recreational opportunities are key factors in attracting and retaining retirees to rural communities. Studies also indicate that the purchasing power of retirees, especially those moving to rural areas, brings a significant boost to the local economy.

The additional \$43 million from Measure H proceeds has already provided a huge economic stimulus to this community. During this recession, the hospital's insistence in "keeping local health care dollars at home" has been a boon to the local economy.

"One of the positive outcomes of this large project is the impact on the local economy. The last few years have been very tough on businesses and workers in this area. The fact that Oak Valley Hospital placed such an emphasis on hiring locally has been a real boost. Hospital construction is extremely specialized yet both ACME Construction and Jacobs Engineering went above and beyond to award sub contracts to local area companies. That really helped stimulate this region's economy."

Jayne Hartley, CPA

ACME Construction of Modesto serves as General Contractor for the project with Kip Johnson as on-site Superintendent. Jacobs Engineering represents the hospital in project management with David Martin, Oakdale resident, as Project Manager on site. More than 95% of primary contractors are based in California with the majority in northern California, including several in Stanislaus and Tuolumne County.

To date, there have been 46 sub-contractors working on the project with most located in the Central Valley including Oakdale businesses, Don's Mobile Glass, Pacific Builders Hardware and Ross F. Carroll Inc. Also from the area are RK Parsons in Escalon, Great West Kings Roofing in Hughson, Acosta & Sons in Hickman, and Premier Engineering in Turlock. Modesto based companies include Bambacigno Steel, Barton Overhead Door, Cemex, Champion Industrial Contractors, DC Vient Inc, Floor Tec, Morris Supply, Negel Landscaping, and Solecon Industrial.

More than 150 men and women have and are working on site and spending money in Oakdale and other District communities. Those contributions to the economy have been added benefits of this project.

Committee Comments and Observations

Rob Campbell

“This was a great experience. I had never served on a committee with this kind of responsibility before. I was impressed with my colleagues and the kind of questions they asked. I was impressed with the professionalism that John and Wayne exhibited in presenting complex financial data.

The diverse backgrounds and experiences of the Committee members was a real benefit as we undertook this challenge. Everyone brought a different kind of talent to the table so that we were able to look at the information and data in a much broader light.”

Jayne Hartley

“As an accountant, I was naturally concerned about the integrity of the numbers in a project of this magnitude. I wanted to make sure these taxpayer funds for construction were not co-mingled with any of the hospital operating funds. We were provided regular reports and annual audits to assure us that Measure H funds were used appropriately. I was very comfortable with both the data and the explanations.”

Pastor Henry Raven

“It was a privilege and a rich experience to serve the community in this capacity and I came away with a much greater respect for how complicated a project like this is. The number of obstacles, challenges, details and approvals required were enormous, but the leadership of OVHD never faltered. They found a way to work through every challenge. I thought the contractors were forthright and accommodating with the Committee in all aspects of the process.

I am so pleased to be able to say that the funding was directed to the specific places it should have gone and that was for bricks and mortar, or I should say, steel and concrete, that we expected it to fund.”

Richard Hagerty

“After serving six years on this Committee, I have come to greatly appreciate the leadership our hospital enjoys. I am also looking forward to the completion of our new state-of-the-art facility. It is truly amazing that a city the size of Oakdale will

have such a modern and well-equipped hospital available to us here instead of having to travel miles away to a larger metropolitan area.

“Accompanying all the successes have been some keen disappointments.

First the loss of the additional bond election, which would have literally added insignificant additional cost to the taxpayer, means our facility’s second floor will not be completed in the foreseeable future. Second, the decision of voters to turn out the sitting board members at the last election is just inexplicable. Here we have emerging a first class facility, thanks to the foresight and leadership of the board, yet voters opted to change leaders at a very critical time. And finally, the criticisms directed against hospital management. It’s hard to imagine leadership that could have done such a quality job of completing the task, given the bond election loss and shortage of available funds.

On top of all the damage, our CFO Wayne Mills has departed and that is so disappointing! First class guy, with lots of experience and talent, but he saw that this would be an untenable place to continue serving and we have lost this valuable team player.”

All said, however, I look forward to having quality medical care right here at home.”

Mickey Peabody

“As one of the strong advocates for passing Measure H, I felt a real responsibility to make sure that the Oversight Committee provided real oversight, asked tough questions and made sure that we were funding hard costs while necessary soft costs were funded from other sources. I believe we accomplished that objective.

“As with any project of this nature, there were bumps along the way. Complying with complicated state regulations presented challenges, but the hospital leadership, management and the construction project team always seemed to be prepared to cope and comply. A strength of the Committee was its constant optimism that we would prevail. The fact that we were able to leave every meeting after six long years and continue to say “on time and on budget” is remarkable and something the entire community should take pride in.”

Jim Teter

“When you consider the fact that this volunteer assignment took almost six years to complete, it is really a tribute to the participant’s sincere desire to do the job right that they diligently stayed on course. They remained interactive and consistent in always asking the right questions about expenditures. They wanted assurances at every step of the process.

One of the most effective things about this group was the ability of the individual members to communicate back to the community, back to the voters who approved Measure H. Every week I have a customer come into my business and ask about the construction and I can provide first-hand information. Committee members were able to do the same. The fact they came with different backgrounds with multiple business, civic and social connections meant that we expanded our reach of keeping people informed.”

John Friel

“As a public hospital our accountability to the public is an essential part of our every day business. When we asked the community for \$37 million to help construct our much needed new hospital, we were keenly aware of the importance of keeping voters informed about progress. We knew that the expectations of the Oversight Committee would be high and the task would take time and dedication. It has been our good fortune that such dedicated, knowledgeable citizens came forth to accept that challenge.

We deeply appreciate how this group worked closely with us throughout the process as we faced challenge after challenge in a difficult economic environment. They provided ideas, encouragement and positive re-enforcement.

I am grateful to have had such caring ambassadors to the community.”

Acknowledgements by the Chair

As we conclude our responsibilities for insuring that the \$37 million Measure H general obligation funds have been expended as intended, it is appropriate that I thank the members of the Committee for staying the course for this long process. The community and the hospital are indebted to them for their commitment to the endeavor. They did their homework, they offered encouragement, and they took their task seriously.

It is also appropriate to thank John Friel, CEO, and Wayne Mills, CFO, who attended every meeting and provided in-depth information and details of the finances and the project. We also appreciate the efforts of David Martin, Jacobs Engineering Project Manager, who met with us often, answered our phone calls and provided detail filled tours of the project.

In retrospect, it was both courageous and visionary of the Board of Directors, past and present, to pursue the necessity of a replacement hospital at the time they did. Securing revenue bonds and committing hospital reserves to co-fund this project were essential, timely and well managed. The commitment of our local physicians and the efforts of our employees in supporting Measure H were vital.

And last, but most important, we should acknowledge the voters in the Oak Valley Hospital District. This is their hospital. I sincerely hope they will feel the same sense of pride in its opening later this year as every member of our Committee will feel.

It has been my pleasure to serve as Chair for the entirety of the Committee's tenure. I hope I have served the community, the hospital and the voters well.

Mickey Peabody, Chair