

**MINUTES OF THE SPECIAL MEETING OF THE BOARD OF THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF SHOW LOW HELD ON THURSDAY, AUGUST 6, 2020 AT 9:00 A.M. IN SHOW LOW CITY HALL, DEUCE OF CLUBS CONFERENCE ROOM, 180 NORTH 9TH STREET, SHOW LOW, NAVAJO COUNTY, ARIZONA**

1. Call to Order.

President Fernau called the meeting to order at 9:05 a.m.

2. Roll Call.

**INDUSTRIAL DEVELOPMENT AUTHORITY BOARD MEMBERS PRESENT:** President Rick Fernau, Secretary William Wafer (telephonically) and Board Member Kahau Kai.

**INDUSTRIAL DEVELOPMENT AUTHORITY BOARD MEMBERS ABSENT:** None.

**STAFF:** Ed Muder, City Manager; F. Morgan Brown, City Attorney; and Nicole Hudson, Legal Assistant.

**GUESTS:** Ron McArthur and Doug Rothenberger, Summit Healthcare Representatives, Mike Cafiso (telephonically), City's bond counsel.

3. Consideration of Approval of Minutes of the Industrial Development Authority Meeting Held on September 30, 2019.

**BOARD MEMBER KAI MOVED TO APPROVE THE MINUTES OF SEPTEMBER 30, 2019 AND AUTHORIZE PRESIDENT RICK FERNAU TO SIGN THE MINUTES; SECONDED BY PRESIDENT FERNAU; PASSED UNANIMOUSLY.**

4. Consideration of Approval of Annual Report.

The draft annual report was presented to the board members for approval. Mr. Brown asked the board to check the report for accuracy. If there were no changes, staff would submit it as presented.

**BOARD MEMBER KAI MOVED TO APPROVE THE ANNUAL REPORT; SECONDED BY PRESIDENT FERNAU; PASSED UNANIMOUSLY.**

5. Consideration and Possible Adoption of a Resolution Approving and Authorizing the Execution and Delivery of Certain Supplements to Documents Necessary to Satisfy Requirements of Forbearances by Holders of Bonds, the Proceeds of the Sale of Which Were Loaned to Summit Healthcare Regional Medical Center;

Authorizing the Issuance of Replacement Bonds that Reflect the Effects of Such Supplements and Authorizing the Taking of All Other Actions Necessary for the Consummation of the Transactions Contemplated by the Resolution.

Mr. Rothenberger introduced himself as Chief Financial Officer at Summit Healthcare. He explained that in the last quarter of 2019 Summit Healthcare went through a computer conversion system which replaced the entire electronic record system throughout the hospital. It caused issues with delays in billing and operational volume drops. As a result Summit Healthcare showed a substantial loss as a company in the last quarter of 2019 which totaled around \$8.8 million. That number made Summit Healthcare miss one of the debt covenants on their bonds which is called the debt service coverage ratio. Summit must earn enough money to cover debt payments by 1.25 times. Summit had to wait for audited financial statements for an official default on the note. In the process they had to request forbearance letters from the banks acknowledging the operational issues and the need to get back on track. The banks provided letters to provide forgiveness for default along with items that relate to that. The letters indicate an increase in the interest rate. BBVA is the largest bond holder for Summit Healthcare. They have the 2017 bonds along with half of the 2015 bonds for a total of about \$55 million of the bond debt. BBVA increased the interest rates on all the bonds and put in additional fees for the forbearance. BMO Harris owns the other half of the 2015 bond and they also increased their rates. The increased rates generated a reissuance of the bonds. The bond covenant language needs to be adjusted to meet the requirements. The banks have given Summit Healthcare one year to ramp the covenants back up to 1.25 times to cover the debt payments. Based on projections, Summit will be back to 1.5 by June 2021 and will be able to meet the bond covenants.

Mr. McArthur asked Mr. Rothenberger to explain the rolling 12 months that the banks use for the debt service coverage ratio.

Mr. Rothenberger explained that Summit is meeting the bond covenant for year-to-date for 2020 but the banks do a rolling 12 month average which takes 12 months to roll out the losses to get back to where you were. The banks will change the measurement periods for a year to allow Summit to meet the covenants and after that year is up it will go back to rolling 12 average. Summit does not have issues meeting the covenants as it is currently operating above that ratio but they had a lot to overcome over the last half of 2019.

President Fernau asked what the interest rate was prior to the default.

Mr. Rothenberger explained that there are multiple interest rates. The Series 2017A bonds were at 2.75% and it will ramp up 25 basis points per quarter up to 4.5%. That is non-taxable. The Series 2017B bonds were at 3.5% and it will move to 5%. The 2015 bonds were 3% and were moved to 4%. The additional cost to the hospital over the term of the loan for all of the bonds will be about 8

million. To make amendments to new covenant language, the bond documents must be redone and reissued. Authority must be given by the Industrial Development Authority to do that.

President Fernau asked if the government is making payments to Summit Healthcare for COVID patients.

Mr. Rothenberger said that Summit received CARES Act distributions which have helped tremendously. The total Summit Healthcare received from the federal government is about \$14 million for the losses caused by COVID.

Mr. Cafiso said that the reason for coming back to the Industrial Development Authority board is to give the background of the issues with the bonds and also to get approval for the steps to be taken to make changes to the bonds. That requires supplements of the documents that were approved in 2015 and 2017, more specifically the bond trust agreements. Also, replacement bonds must be authorized because the bonds are not the same anymore since the terms are no longer the same. This is a reissuance for federal income tax purposes. The bonds are issued tax exempt but certain things must be done with the internal revenue service for the bonds to continue to be tax exempt. The purpose of the resolution is to acknowledge the forbearances, approve the amendments to the bond trust agreements, the replacement of the old bonds with the new ones that reflect the new terms and authorizing any other items that are necessary.

President Fernau asked if the bond holders were willing to renew at the existing rate with the drop in prime.

Mr. Rothenberger said that they were not. Just to give the letters of forbearance, BBVA cost \$75,000 and BMO Harris cost \$35,000. To get a lower rate a whole new reissuance of bonds would need to take place, a new RFP would have to be completed and there is no time for that at this point. It is anticipated that will happen in the future, maybe as soon as next year.

Board Member Kai asked if this solution is just a bridge.

Mr. Rothenberger confirmed that this solution is a bridge. The default requires the forbearance and approval of the reissuance of the bonds which will allow for an RFP at a later time.

President Fernau asked Mr. Cafiso if there are any other options.

Mr. Cafiso said that they could try to refinance but since there is a default it will be difficult to get lenders to do that.

Mr. Rothenberger said that its best to cure the default and then put out an RFP.

President Fernau asked Mr. Cafiso if any changes need to be made to the resolution as it is written.

Mr. Cafiso said that the resolution reflects everything that needs to be done. The closing of the new bond documents is scheduled for August 15.

**BOARD MEMBER KAI MOVED TO ADOPT THE RESOLUTION APPROVING AND AUTHORIZING THE EXECUTION AND DELIVERY OF CERTAIN SUPPLEMENTS TO DOCUMENTS NECESSARY TO SATISFY REQUIREMENTS OF FORBEARANCES BY HOLDERS OF BONDS, THE PROCEEDS OF THE SALE OF WHICH WERE LOANED TO SUMMIT HEALTHCARE REGIONAL MEDICAL CENTER; AUTHORIZING THE ISSUANCE OF REPLACEMENT BONDS THAT REFLECT THE EFFECTS OF SUCH SUPPLEMENTS AND AUTHORIZING THE TAKING OF ALL OTHER ACTIONS NECESSARY FOR THE CONSUMMATION OF THE TRANSACTIONS CONTEMPLATED BY THE RESOLUTION, SECONDED BY PRESIDENT FERNAU; PASSED UNANIMOUSLY.**

6. Adjournment.

**BY UNANIMOUS CONSENT AND WITHOUT OBJECTION, PRESIDENT FERNAU ADJOURNED THE MEETING OF THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE CITY OF SHOW LOW AT 9:24 A.M.**

Approved:

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William Wafer, Secretary