

PUBLIC HOSPITAL DISTRICT NO. 2 OF SNOHOMISH COUNTY, WASHINGTON
VERDANT HEALTH COMMISSION

BOARD OF COMMISSIONERS

Special Meeting

Hybrid: In-Person at Verdant Community Wellness Center and via Zoom

August 21, 2024

5:00 p.m.-7:00 p.m.

Commissioners Present

Carolyn Brennan, Secretary
Deana Knutsen, Commissioner
Jim Distelhorst, MD, Commissioner
Bob Knowles, Commissioner
Karianna Wilson, President

Staff

Dr. Lisa Edwards, Superintendent
Riene Simpson, Director of Finance
Kyla Morgan, Executive Assistant and Office Manager

Guests

Margot Helphand, Board Facilitator

Call to Order

The special meeting of the Board of Commissioners of Public Hospital District No. 2, Snohomish County, was called to order at 5:05 p.m. by President Wilson.

Land and Enslaved People's Acknowledgement

President Wilson read the land acknowledgement aloud.

Property Investments Review

Ms. Simpson presented an overview of all the properties to the Commissioners, explaining that the property values were assigned by the Snohomish County assessor and listed them in order of market value. She walked through the financial summaries of the properties, the total district properties are valued at \$140,016,000.00 by the Snohomish County Assessor (E:55:24).

Overview of Properties and Investments

Ms. Simpson discussed the capital investments made in various properties owned by the District. She also provided a detailed summary of each property, including the acquisition cost, size, rental history, and current operating costs.

1. Verdant Community Wellness Center (VCWC)

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Purchased for \$1.8 million in 2013, the total district cost after remodel and upgrades is \$4,504,385.00. The current assessed value is \$3,212,000.00. The recommended annual investment amount is \$48,180.00.

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2. Value Village

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Purchased for \$1.4 million in 1995, since it was fully managed by the tenant, there are no further district costs. The current assessed value is \$3,246,800.00. The recommended annual investment amount is \$48,702.

3. Pavilion Ground

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Purchased in 1975 for \$275,000, the current assessed value is \$4,124,600.00. There have not been any investments since it is fully managed by the tenant.

4. Kruger/Langer Building

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Bought for \$14,909,174.00 in 2015, the total investment costs after the remodel is complete is estimated to be \$22 million. The current assessed value is \$15,353,400.00, but it will be reappraised commercially in early 2025 after the remodel is complete. The initial plan was to have the sale of the Value Village property to equate to the cost of the remodel on the Kruger clinic. Commissioner Knowles requested the total life net revenue for the clinic rent rolls, Ms. Simpson answered she would work on collecting that information.

5. Hospital Campus

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Ms. Simpson presented a detailed financial overview of the hospital campus leased to Swedish, including the cost basis, depreciated value, revenue, and investment breakdown between structural/facility costs and equipment/software costs. Dr. Edwards raised questions about the lease requirements, specifically the \$150 million investment minimum and inclusion of certain items like Epic medical records. Ms. Simpson confirmed Swedish met the initial \$90 million requirement by 2020 and clarified that equipment like Epic was allowable per the lease terms. To date, Swedish has reported \$163 million in investments, but the District would like an evaluation of what that equates to for depreciated value as well as what are hard building investments versus software and network costs. From 2010-2022, \$84 million of the \$163 million were facility/structural/mechanical costs. Ms. Simpson noted the total revenue from the hospital life to date \$115,972,563.00.

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Dr. Edwards and Ms. Simpson discussed the discrepancy between the assessed market value and the estimated market value of the properties. Dr. Edwards clarified that the district receives one free appraisal a year through their insurance. The District will start appraising each property, beginning with the Kruger/Langer Building after the remodel is imported. Commissioners also discussed the revenue and operating costs for each property, with a focus on the Kruger/Langer building, which generates the majority of the District's revenue.

**Reflection on
Overview of the
Properties**

Ms. Helphand facilitated a discussion on the purpose and role of the District's properties in relation to their overall mission. Commissioner Knutsen explained that properties were acquired with the intention of expanding hospital services and providing specific services for the community. Dr. Edwards added that their strategy also included preserving the front door to the hospital and preventing competitors from entering. The District agreed on the importance of understanding and leveraging their property history for future strategic decisions. Commissioner Brennan shared she is glad commissioners are creating an understanding of how the properties relate to each other as they continue to steward the assets. Ms. Simpson shared the gross revenue to date for the Kruger Clinic is \$14,270,000.00 and the life to date revenue for the Value Village property is \$3,035,000.00.

**What is the
purpose and role
of our properties?**

Commissioners discussed the role and perception of Verdant's properties, with a focus on the Wellness Center and its potential alternative uses. Dr. Edwards shared that long term the Wellness Center will be a good investment since it is now a few blocks from the Lynnwood light rail station that will bring a lot of interest to the area for commercial properties. Commissioners agreed to continue exploring these issues, with more information to be presented at future board meetings. Commissioners also deliberated on the properties' relation to the hospital's mission and values, emphasizing the importance of financial sustainability and the need for the properties to follow the District's mission. Commissioner Knowles does not see Verdant purchasing any further properties. He reflected on the original purchase of the Kruger Clinic, the intent was to preserve the front door of the hospital and stop competitors from coming in. President Wilson would like to revisit this point at the next Strategic Collaboration meeting with the current Swedish leadership team. She also shared that the historical data and

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intention is important, but she does not know that it is the direction Verdant should move in the future. Public awareness is becoming known for the Wellness Center and cooking demonstrations rather than the investments made in the community. Commissioners agreed that it could be on the table to sell the Wellness Center when the property value appreciates in the next three to five years since the staff could work out of other properties. Ms. Simpson posed the question, are the priorities for programmatic delivery or income generation? Commissioners discussed the alignment of each property with the mission of the District. Commissioner Knutsen stated that properties should be a combination of income and hosting program work. Commissioners agreed that the mission should drive the properties, not the other way around.

How do we allocate funds to maintain our properties?

Ms. Helphand guided a discussion about property maintenance and funding allocation. Dr. Edwards and Ms. Simpson proposed a shift from a reactive to a proactive approach to facility planning and management, including the creation of a capital plan for properties and a cost-benefit analysis for a part-time property manager. They also discussed the need for a more strategic approach to property ownership, considering the potential of selling or repurposing properties. Commissioner Knowles proposed that they plan for the standard of 2% to be reinvested towards property maintenance. In the future they will be narrowing in on the impact they want the District to have. Commissioners agreed to set aside a set number for each property during the budget meeting on October 16, 2024. President Wilson shared that an informed long term investment plan for each building may push her towards believing that it is not worth paying to maintain the buildings and pay for management when she would rather have that money invested in the community.

What are the next steps for the Value Village property?

Dr. Edwards provided an update on the Value Village property and proposed a demo for the property once the building materials were removed at the end of December. There are currently nine wells installed on the property. If the building was demolished down to the slab, that would be okay if the wells are protected, and they do not dig into the ground. All Commissioners agree to demolish the building as soon as the clinic remodel is completed. A motion to approve the demolition will be presented at the board meeting on 8/28/24.

Commissioner Comments

Due to the drawdowns for the Kruger Clinic remodel, Verdant needs to transfer cash from the reserve. Dr. Edwards asked

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Commissioners to consider if they would prefer a monthly smaller reserve transfer or one large one in the amount of \$4.6million to get through the end of the year. Commissioners agree they would like to take one lump sum amount rather than do monthly draws. There will be a motion to approve the transfer at the board meeting on 8/28/24.

Commissioner Knutsen thanked everyone for their work on this meeting. She also shared that she is concerned that the District is losing a lot of historical data and would like to figure out a way to preserve the big milestones of the Hospital District.

Adjournment

The meeting was adjourned at 6:57 p.m. by President Wilson.

ATTEST BY:

Signed by:
Karianna Wilson
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President

Signed by:
Carolyn Brennan
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Secretary