

BAY AREA HOSPITAL DISTRICT BOARD WORK SESSION**JUNE 11, 2025 MINUTES***SpruceFir Conference Room @ 11:30 am***CALL TO ORDER**

Chairperson Troy Cribbins called the Bay Area Hospital (BAH) District Board Work Session to order at 11:31 am.

BOARD ATTENDANCE

Troy Cribbins; Patrice Parrott; Arlene Roblan; Renee Nelson; Tom McAndrew, MD

ABSENT

Darin O'Bryan, DDS

STAFF ATTENDANCE

Brian Moore, CEO; Jenn Collins, CNO; Kelli Dion, CQO; Gretchen Nichols, COO; Mitch Watson, interim CFO; Karen Miller, Controller; Kim Winker, Marketing and Communications Director; Denise Bowers, EA

LEGAL COUNSEL

Ken Marlow, MWE Associates

PUBLIC ATTENDANCE AND INPUT

Four members of the public were in attendance in person.

GUESTS

Rex Burgdorfer, Juniper Advisory
Chris Benson, Juniper Advisory
Ansley Geary, Juniper Advisory
John Budd, ECG Management Consultants
Brian Barnthouse, ECG Management Consultants
David Kim, ECG Management Consultants
Simon Alonzo, Incoming Board Member
Dr. Juno, Incoming Board Member
Brandon Saada, Incoming Board Member
Kyle Stevens, Incoming Board Member

Chairperson Troy Cribbins welcomed everyone to the board work session, introduced the consultants and principals present, and initiated a round of introductions from the board members and executive team who spoke to their roles and their motivations for serving on the board.

Before the introductions began, Chairperson Cribbins shared an informational update for the board regarding the upcoming June 24, 2025, City Council Collaboration and Housing Feasibility Study being held at the Coos Bay City Council meeting. He was particularly welcoming and encouraging participation from new board members on an important opportunity for collaboration with the City Council of Coos Bay regarding a housing development initiative.

Over the past two years, efforts have been underway to secure a consultant and funding to conduct a feasibility analysis on developing approximately 16 acres of hospital-owned land. The goal of this initiative is to explore how the property could be used to address the critical housing needs in the local community and across the state.

Grant funding has been secured to support this study, and the results will be presented at the upcoming City Council meeting. Chairperson Cribbins emphasized the importance of board member presence at this meeting, especially for new members, to hear firsthand about the potential opportunities and to prepare for a future board decision regarding the study's recommendations. He noted that he would be attending in his capacity as a Councilman and mentioned that Vice Chairperson Dr. Tom McAndrew is also expected to be present.

Executive Summary: ECG Consultant Presentation

Representatives from ECG—John Budd, David Kim, and Brian Barnthouse—delivered a comprehensive presentation on national healthcare trends, the unique challenges facing independent hospitals, and the specific financial and operational issues confronting Bay Area Hospital. The session also outlined turnaround initiatives and financial performance trends.

John Budd introduced ECG as a national healthcare consulting firm focused on provider-side strategy and operations. He reviewed ECG's four-year engagement with Bay Area Hospital, emphasizing their advisory role in navigating financial and operational challenges.

National and Independent Hospital Trends

David Kim highlighted key national trends:

- **Rising Costs:** Labor and non-labor expenses are increasing faster than inflation.
- **Lower Reimbursements:** Medicare and Medicaid payments are not keeping pace with costs.
- **Regulatory Pressures:** Hospitals face growing compliance burdens and potential funding cuts.
- **Independent Hospital Vulnerability:** Smaller hospitals lack scale and resources, making them more susceptible to financial instability.

Oregon-Specific Challenges

Focusing on the state context, David Kim noted:

- **High Operating Costs:** Oregon hospitals face elevated labor and supply costs.
- **Low Reimbursements:** State-level Medicare and Medicaid payments are insufficient.
- **Regulatory Complexity:** New staffing ratio mandates and complex regulations increase pressure.
- **Negative Margins:** Nearly half of Oregon hospitals reported negative operating margins in 2024.

Bay Area Hospital's Financial and Operational Challenges

John Budd and Brian Barnthouse detailed the hospital's issues:

- **Declining Volumes:** Patient volumes have decreased over the past 5–10 years.
- **Revenue Erosion:** Shifts in payer behavior, such as increased use of observation status, have reduced revenue per service.
- **Workforce Challenges:** Recruitment and retention are difficult, especially under new staffing requirements.
- **One-Time Events:** Several non-recurring events have negatively impacted the income statement.

Turnaround Initiatives

The team outlined several strategic efforts:

- Workforce Revitalization: Recruitment and retention strategies to stabilize staffing.
- Revenue Cycle Improvements: Enhancements in billing, collections, and reimbursement accuracy.
- Clinical Value and Efficiency: Reducing length of stay and optimizing resource use.
- Growth and Access: Expanding services and improving patient access.
- Non-Labor Expense Reduction: Leveraging 340B savings and renegotiating vendor contracts.
- Program Elimination: Discontinuing underperforming or non-essential programs.

Financial Performance Trends

Brian Barnthouse presented financial data showing:

- Initial Gains: Early turnaround efforts led to improved margins.
- Renewed Challenges: Recent payer pressures, rising costs, and a weaker commercial payer mix have reversed some gains.
- EHR Costs: A significant increase in electronic health record system expenses has added to financial strain.

Liquidity and Balance Sheet Health

The hospital's liquidity has declined, with reduced total liquidity and days cash on hand, signaling increased financial vulnerability.

Following the ECG presentation, Troy Cribbins invited new board members to ask questions or share observations. The discussion that followed focused on the hospital's financial pressures, payer mix trends, and the broader economic context affecting Bay Area Hospital.

Declining Commercial Payer Mix:

The hospital's commercial payer mix has dropped from 16.4% in 2022 to 13.91% year-to-date, while a 23% mix is needed to break even. This decline is a significant financial challenge and largely outside the hospital's control.

Escalating Labor Costs:

Labor costs have increased at an accelerating rate:

- 11% from 2012–2018 (6 years)
- 13% from 2018–2022 (4 years)
- 18% from 2022–2025 (3 years)

These increases are outpacing reimbursement rates, which continue to decline.

Legislative Advocacy:

Troy Cribbins and the leadership team have engaged in legislative efforts to address systemic reimbursement issues, though such changes are slow and uncertain.

Need for Capital Investment:

Despite significant internal efforts to stabilize the budget, the hospital requires capital to grow services, improve financial performance, and strengthen its balance sheet.

Community and Economic Shifts:

Board members discussed the loss of major employers (e.g., lumber and paper mills) and the aging population (85% over age 65), both of which contribute to the shrinking commercial payer base. Small businesses often cannot afford to offer commercial insurance, pushing more residents toward Medicaid.

Access to Care and Patient Behavior:

There was discussion about whether commercially insured patients were seeking care outside the community due to limited access. While this was a concern, available data did not show a significant outflow of commercial patients.

Historical Context:

The region's economic decline began approximately 30 years ago, and the hospital's financial challenges are part of a long-term trend rather than a recent development.

Executive Summary: Juniper Advisory Presentation

Representatives from Juniper Advisory—Rex Burgdorfer, Ansley Geary, and Ken Marlow—delivered a comprehensive presentation on strategic partnership evaluation, financial trends, and legal fiduciary responsibilities. The session emphasized the challenges faced by Bay Area Hospital and the rationale behind seeking a strategic partnership.

Rex Burgdorfer introduced Juniper Advisory as a specialized investment banking firm with 30 years of experience in mergers and acquisitions for nonprofit health systems across the United States. Juniper Advisory has worked with large standalone hospitals, small and mid-size systems, and public entities.

Strategic Partnership Evaluation

Juniper Advisory assessed Bay Area Hospital's strategic partnership options to improve profitability, access, and quality. The evaluation process included:

- **Scope of Work:** Juniper Advisory has advised hospitals nationwide, including The Dalles Hospital in Oregon.
- **Ownership Types:** Hospitals seeking partners include academic medical centers, faith-based organizations, secular nonprofits, for-profit companies, and local governments.
- **Industry Trends:** The hospital industry is capital-intensive, regulated, and complex, making independent operations increasingly challenging.

Financial Trends

Ansley Geary presented financial trends highlighting the rationale behind the partnership evaluation:

- **Operating Expenses:** Expenses have risen significantly, outpacing revenue.
- **Liquidity Decline:** Unrestricted liquidity and days cash on hand have declined below covenant thresholds.
- **Debt Covenants:** Two out of three covenants have been breached, with the third nearing breach.
- **Survive, Sustain, Thrive Framework:** Bay Area Hospital's operating EBITDA is below the minimum cash flow needed to cover debt payments and routine CAPEX.

Legal Fiduciary Responsibilities

Ken Marlow discussed the enhanced fiduciary duties of board members when a hospital reaches the zone of insolvency:

- **Duty of Care, Loyalty, and Obedience:** Board members must consider the interests of creditors, employees, unions, and pensioners.
- **Zone of Insolvency:** Additional fiduciary duties are required when the hospital's business value declines in line with the face value of debt.

Partnership Objectives and Evaluation Process

Juniper Advisory outlined the partnership objectives and evaluation process:

- **Objectives:** Improve clinical strength, commercial strength, volume, and transaction capability.

- Process: Approached 22 organizations, received 9 expressions of interest, and ultimately advanced Quorum as the finalist.
- Timeline: The process began in 2016, with the letter of intent signed on December 10th.

Quorum Proposal

Quorum's proposal included several alternatives:

- Lease Structure: 30-year initial lease term with renewal options, financial guarantees, and local governance.
- Capital Investment: Proposed investment in service lines, technology, infrastructure, and employees.
- Non-Economic Features: Retention of core services, local governance, employee commitments, and charity care policy.

Juniper Advisory's presentation highlighted the challenges faced by Bay Area Hospital and the strategic rationale for seeking a partnership with Quorum. The proposed partnership aims to improve financial stability, access, and quality of care.

Summary: Q&A Session Following Juniper Advisory Presentation

Clarification on the Partnership Process

Troy Cribbins clarified that the board had explored multiple partnership options. After reverse due diligence, one finalist—PeaceHealth—backed out, leaving Quorum as the sole remaining option. He noted that PeaceHealth had reported losses over two years and had recently laid off 1% of its workforce, highlighting the financial instability across the sector.

Concerns About Nonprofit Status and Community Impact

Board members raised questions about the implications of partnering with a for-profit entity, particularly regarding property tax obligations and the hospital's eligibility for federal programs. It was emphasized that maintaining nonprofit status is essential for Bay Area Hospital to continue benefiting from programs like 340B and to ensure long-term sustainability.

Access to Presentation Materials

There was a request for Juniper's presentation to be shared with incoming board members. Brian Moore confirmed that the materials would be distributed, noting it was finalized the morning of the meeting. He encouraged board members to review the materials and reach out with questions.

Transparency and Board Engagement

Several board members affirmed that the process was transparent and inclusive. They emphasized that there was never a predetermined outcome and that the board had multiple opportunities to reassess the direction. Site visits and evaluations were conducted with an open mind, and the board consistently revisited whether to continue down the partnership path. One board member noted that even during site visits, there was no pressure to choose a specific partner, and the process remained open-ended until the final stages.

Backup Plans and Alternative Strategies

The board discussed contingency planning in the event that no partnership materialized. Alternatives considered included:

- Downsizing to a Type B hospital to qualify for state Medicaid programs
- Real estate monetization strategies

- A local tax levy to raise capital
- Exploring local partnerships (though no local group ultimately stepped forward)

These options were weighed against the need for significant capital investment to maintain and grow services. It was noted that while cost-cutting measures had helped stabilize the budget, they were not sufficient to support long-term growth or infrastructure improvements.

Local Collaboration and Physician Recruitment

The board has engaged with local clinic leaders to explore joint efforts in physician recruitment and service expansion. There was interest in building trust and exploring collaborative projects. The board also considered whether a joint approach to sponsorship or partnership might be viable.

Reflections on Process and Board Culture

Board members reflected on their experiences throughout the process. Several emphasized that they never felt pressured to support a merger, and that management was open to questions and alternative viewpoints. One member noted that Juniper's own data shows that about half of their clients ultimately choose to remain independent, reinforcing that the process was not biased toward consolidation.

Closing Remarks

The session concluded with appreciation for the information shared and the opportunity to engage in the process. Troy Cribbins thanked the presenters, executive team, and new board members for their participation. He reminded everyone that incoming board members would officially begin their terms on July 1, with their first board meeting scheduled for July 8. At that time, they would elect officers and appoint committee members. Board members were encouraged to continue asking questions and to reach out for further discussion as they prepare to take on their new roles.

ADJOURNMENT

There being no further business, the board work session was adjourned at 1:00 pm.


Board Chairperson

Date: 7/8/2025


Secretary

Date: 07/08/2025