

APPROVED ECONOMIC DEVELOPMENT BOARD MINUTES

5:30 P.M.

August 31st, 2009

CITY OF DERBY

611 MULBERRY, DERBY, KANSAS

ROLL CALL

**PAULA LANGWORTHY
KEVIN CHASE
ROBERT ASH
BRENDA KNIPFER
KRISTIN WARD
JASON WILEY**

MEMBERS ABSENT

ROBERT ASH

CITY STAFF PRESENT:

Allison Moeding
Kathy Sexton

Meeting was called to order at 5:30 p.m.

Agenda Item #1

RE: Continued discussion, Request for Incentives – Physicians Development Group

Allison gave the board the results of the cost benefit analysis. She also explained to the board that Physicians Development Group had still not submitted the required financial documentation as required with the incentive application.

Allison asked how often the investors got updates on the financials, is that something done every 6 months, once a year?

Mr. Hermes advised it was done every six months. They have a board made up of investors that looks at it every quarter.

Allison asked Mr. Hermes to explain the deficiencies and ratings for the Maize facility that are listed on the medicare.gov website.

Mr. Hermes explained the ratings and why they received the ratings they did.

Allison asked about the adjacent lots to the Maize facility that have delinquent property taxes.

Mr. Hermes explained that those lots are owned by an entity called Physician's Development, not to be confused with Physician's Development Group. Family Health

and Rehabilitation Center bought that land from Physician's Development. He advised they are in the process of reappraising everything and the property value has dropped, in the meantime the taxes have not been paid.

Allison asked what was included in the project development costs.

Mr. Hermes stated that architectural fees typically run about 6% of the project. There was some site development and some construction oversight. Engineering fees are typically covered in the architectural fees, however civil is handled a little differently.

Allison asked about cash equity in the project, how much of the \$1.8 million is actually cash in the bank and how much is personal guarantees.

Mr. Hermes advised that the full \$1.8 million cash is in the bank and the \$7.3 is personal guarantees.

Allison pointed out the amount last year was \$1.9, where did that drop come from?

Mr. Hermes explained it included getting a little more aggressive with the contractors and trying to get the cost down.

Paula asked what specific changes have occurred in skilled nursing market that prompted this request again.

Mr. Hermes advised the economy is a big chunk of it but the biggest thing is, previously we weren't doing a lot of Medicaid. Simply from talking to Derby and what they needed, particularly some of the issues the current facility has had and Lake Point not moving forward, we have had a lot of calls and there seems to be a big need for Medicaid. We want to be able to say three months from now that we can take Medicaid folks because the city worked with us instead of saying they can't because things didn't go well with the city.

Paula asked if Mr. Hermes was saying that if the city did not offer these incentives that they won't offer the beds to Medicaid patients.

Mr. Hermes advised they will have to push heavier on the private pay. It's expensive to build a nice new facility.

Paula commented that they knew this was something that we were requesting the first time around and you didn't offer the Medicaid beds and now all of a sudden you are.

Mr. Hermes advised they came in with what they thought was needed at that time. They thought that the current facility in town would be able to continue to maintain but a lot of things have changed over the last year.

Paula asked what the response would be to critics who said you had your chance the first time, we chose another facility and now you're in to development and coming back again in a hard ball kind of way saying "sorry we can't take you because the city wouldn't work with us".

Mr. Hermes advised that has always the been the case. The difference is, what we'd like you to do is level the playing field a little bit. We are offering a very high end facility and have been telling you right on the money from the very beginning what we are going to do, how we are going to do it and we haven't budgeted on that other than coming and saying we are willing to step up and take care of more Medicaid patients.

Kevin pointed out that based on the information provided by Allison showing the per capita/per bed, even if Lake Point completes their 120 beds, we are still the 2nd highest which shows there will still be a need for more beds.

Allison went over the staff report with the board.

Paula asked if we have received everything else as far as financials.

Allison advised we had not but are trying to figure out what exactly there is we can get, we have talked about tax return information to try and get a good sense of the company's financial position because that is a big factor in a decision like this.

Paula asked about the status of Lake Point.

Allison advised they are working with their architect on the final floor plan and we have scheduled the bonds to be approved by city council at the 2nd meeting in October. They are moving ahead, with the opening of the Derby Health and Rehab Center; they told us they didn't want to open two facilities at the same time.

Kevin reminded the board the first time we talked about issuing incentives to either Lake Point or PDG he mentioned he felt like he had a conflict of interest. He was told he technically didn't but he refrained from voting and he will do the same again.

Jason advised he would be abstaining as well.

Brenda asked how the fact we don't have the financials affects what they do tonight.

Allison stated her position would be that without a firm understanding of the past financial history she would not, as a staff person be comfortable with moving ahead. Also in this case, the but/for principle that the incentive is intended to bring a business here that would not otherwise come here. Those things at this point have caused her recommend against the incentive at this time. She reminded the board that their recommendation goes to city council that can be any form that you want. You can choose to table today and wait for some analysis on financials, you can send a

recommendation to deny based on lack of the financials and we will follow up before we go to city council.

Brenda asked, if the motion is made to deny based on lack of financial information and they then provide that, how does that process work?

Allison explained that if you are going to make a motion to table and wait for the financials it would come back to you. If you elect to make a recommendation without the financials it will go on to the council.

Kristin asked if the financials will make a difference in the decision of Paula or Brenda.

They advised they did not know.

Kristin advised if it could make a difference it would be only fair to wait until they receive them.

Brenda clarified that receiving the financials won't change the cost/benefit analysis.

Allison advised that was correct.

Paula asked about abstaining in the vote since she abstained last time.

Allison assured her she had spoken with the city attorney and there is no reason she would need to abstain.

Allison explained the cost benefit analysis to the board.

Kristin pointed out that the number of jobs will not change whether they get incentives or not, they will still be there. She explained that Medicaid beds weren't the only reasons she picked Lake Point over PDG. The cost/benefit analysis was much better on the Lake Point side, knowing who the owners were, hands on Wichita residents with a track record. The track record with PDG isn't there yet.

Kevin asked if the city council was waiting on this board's recommendation before they act.

Allison advised they were.

Kevin stated that regardless of what happens here, the financials still have to be put together for city council.

Allison agreed. We will have to satisfy the requests of the city council. If the financials will possibly change your decision you should wait. She asked about investors, are there others that are expected to come on.

Mr. Hermes advised they have fluid investors and he thinks that a plus. If someone decides to leave there will be someone to come in and take their place.

Brenda asked if there were a percentage limit on investors.

Mr. Hermes advised it has always been designed that way.

Kristin asked why the Maize facility decided to take Medicaid.

Mr. Hermes explained they had a few people they had to discharge and that gets a little old having to do that and it's hard on the staff. It's really for people that have been there for a while.

Kristin asked if there were other projects in the works in other areas.

Mr. Hermes advised that was correct.

Allison asked if there were separate investor pools for each project.

Mr. Hermes advised there are separate groups, although they tend to be some of the same people. He asked for clarification on what kind of financials the city is looking for.

Allison explained that whatever information has been given to the banks would be appropriate.

Kathy Sexton commented that PDG came to the city back in March, today we are still asking for financials, what's taking so long?

Mr. Hermes advised they are trying to determine what exactly the city wants as far as financial information. He advised one of the concerns is they don't want to give away too many of their secrets, he doesn't want information leaked out to the competition.

Allison explained the board signs confidentiality agreements, so that is not an issue.

Kevin clarified that the city is not taking a credit risk, there's another creditor that is taking the credit risk. The purpose of the financials is to ensure they can get the project built and the potential for success. The project has been built, now we are just looking at it from a standpoint of what's the potential for it to survive and flourish. The city doesn't want to get a black eye or make it to the paper that we issue incentives to businesses that don't make it.

Ms. Sexton commented that a certain amount of credibility is at stake when we state "here's the things we need" and we don't get those so we deny it and part of the reason for denial was the but/for principle. When we did this before it was clear that PDG was going to go forward whether we get this or not. There always has to be a public purpose involved in tax breaks. If it's going to be built regardless it's hard to figure out what the

purpose is, especially when the rules state that the cost benefit analysis must say this, if it doesn't meet that then the board and certainly city council has to come up with a very clear reason why they are making an exception to an established policy.

Paula stated that prior to this discussion she had determined that she doesn't think the financials will affect her decision.

Brenda added that we don't meet the established principal of the cost benefit analysis ratio and we don't meet the but/for principal because it's already built.

Kristin advised it's a very complicated structure and she has insured many businesses that because of partnerships didn't make it. She is not sure this is the right decision to make, especially in this economy. As a city we are giving up something because of this. We are all business owners on this board of some sort and nobody gave her money when she started. Those jobs will still be there and the private pay patients are there, that was the intention of the facility to begin with and that's why we said no before. That was the direction they were going to go and that's the reason we chose Lake Point because it provided the Medicaid capability.

Paula advised the board and the council was given the opportunity to make a decision a year ago and they made that decision. PDG stated they were coming regardless of the city's decision and she doesn't believe the city is in the business of helping people out because the economy has gone bad.

Motion: Paula moved to recommend the incentives not be approved.
Kristin seconded.

Vote: Paula yea, Kristin yea, Brenda yea, Kevin and Jason abstained,
Robert absent. Motion carried.

Meeting adjourned at 7:07 p.m.