



# Peninsula Health Care District

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G.L. Hicks Financial



# Project Capital Costs

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- ❑ SB 1953 mandates all inpatient acute care facilities be upgraded to more current earthquake standards by 2008/2013
- ❑ Decision has been made to replace the health facility instead of retrofit existing buildings
- ❑ Construction costs of approx. \$400 mil.
  - ✓ Competitive bid required for Districts
  - ✓ Prevailing wage required for Districts



# Project Funding

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- Total capital needs
  - ✓ Fundraising (capital campaign efforts)
  - ✓ Grants from private & public agencies
  - ✓ Owners available reserves
  - ✓ Debt covers the remainder



# Authority for Issuance of Debt

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- ❑ Healthcare districts vs. nonprofit hospitals
- ❑ Differences between districts & nonprofits
- ❑ Limitations on a district's issuance of debt
  - ✓ Revenue bonds limited by H&S code
    - Sec. 32315 et al. limits "Revenue Bonds"
    - Sec. 32130.2 limits "Promissory Notes"
  - ✓ General obligation bonds limited by H&S code and government code
    - Sec. 32300 et al. of H&S code



# Sutter Health Proposal

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- ❑ Mills-Peninsula Health Services (Sutter affiliate) would construct, own & operate the new medical facilities
- ❑ District leases 26 acres of land to M-PHS for 50 years for \$1 per year
  - ✓ Requires voter approval to enter into lease
- ❑ “Obligated Group” financing structure
  - ✓ Joint and several liability of all Sutter affiliates who are members of the Obligated Group



# District's Debt Options

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- Revenue based debt
  - ✓ Revenue bonds
  - ✓ Municipal leases
  - ✓ Certificates of participation (COP's)
- General obligation bonds (GO bonds)
  - ✓ Ad valorem property taxes
- Other tax based debt
  - ✓ Parcel assessments & sales taxes



# Revenue Based Debt

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- Revenue bonds
  - ✓ Security provided is “Gross Revenue Pledge”
  - ✓ Security in Facilities may be required by some
  - ✓ Security interest in a District’s facilities prohibited
- Credit related issues “market forces”
  - ✓ Impact on District’s financial ratios
    - District’s ability to service debt (debt service coverage)
    - Impact on District’s leverage (debt to capital)
    - Impact on District’s liquidity (days cash on hand)



# Revenue Based Debt (cont.)

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- H&S code sec. 32315 et al. "Revenue Bonds"
  - ✓ Revenue bonds must be repaid from the revenues of the enterprise of the District
  - ✓ District must pass an ordinance (referendum)
  - ✓ Publication of resolution & ordinance
  - ✓ Four-fifths approval of district's board
  - ✓ Limited to 50% of the average of a district's preceding 3 yrs. revenues (approx. \$1.8 mil.)



# Revenue Based Debt (cont.)

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- H&S code sec. 32130.2 “Promissory Notes”
  - ✓ Usually issued in conjunction with Revenue Bonds
  - ✓ Maturity cannot exceed 10 years
  - ✓ District must pass an ordinance that is subject to referendum
  - ✓ Limited to 85% of all estimated income and revenue of the District for the current fiscal year (approx. \$3.0 million for PHCD)



# Revenue Based Debt (cont.)

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- Certificates of participation (COP's)
  - ✓ May be allowable alternative for District's
  - ✓ COP's are not considered to be debt
    - Authority is not based upon the power to incur debt
    - Based upon an agency's ability to sell & lease assets
  - ✓ Premise of the "Marin Healthcare District" model
- Municipal leases
  - ✓ Generally only used for equipment
  - ✓ Generally issued for 5 - 7 years (some exceptions)



# District Tax Initiatives

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- ❑ 2/3rds voter approval required
- ❑ California success stories (it takes all kinds)
  - ✓ Atwater                      Fort Bragg                      Cedarville
  - ✓ Coalinga                      Mammoth Lakes                      Tehachapi
  - ✓ Soledad                      Reedley                      Sonoma
  - ✓ Brawley                      Banning                      Big Bear
  - ✓ Loyalton                      Healdsburg                      Mariposa
  - ✓ Sebastopol                      Lake Arrowhead                      Alameda



# Revenue Bonds vs. GO Bonds

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- ❑ Varying the mix
- ❑ Take a long-term perspective
- ❑ Increase likelihood of success
  - ✓ Be conservative in your assumptions
- ❑ GO Bonds increase debt capacity
  - ✓ Reduces reliance on revenue based debt
  - ✓ Lower cost of capital, lower costs of issuance and minimal financial covenants
  - ✓ Demonstrates community support to investors



# Basics of GO Bond Debt

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- ❑ Property tax supported (ad valorem tax)
- ❑ Tax is in addition to operating tax revenues
- ❑ Tax lasts only as long as debt is outstanding
- ❑ Unable to fund equipment with GO bonds
- ❑ Strong support from community is required
- ❑ Community involvement in the project's development is important
- ❑ Two-thirds voter approval required



# Two-thirds Voter Approval

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- District can only provide information and cannot be an advocate for any tax measure
- Committee in favor of bond measure
  - ✓ Funding of committee
  - ✓ Committee leadership (great importance)
- Election campaign



# Basic Do's and Don'ts

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- ❑ Keep message consistent & KISS
- ❑ Make sure capital funding levels are realistic
- ❑ Have a well defined plan to access capital
- ❑ Have a well defined message of the need for the project & its services for residents
- ❑ Don't complicate the funding & project issues
- ❑ Don't loose control of the project
- ❑ Don't loose control of the message

# Questions & Comments

