



Peninsula Health Care District

G.L. Hicks Financial



Project Capital Costs

- ❑ SB 1953 mandates all inpatient acute care facilities be upgraded to more current earthquake standards by 2008/2030
- ❑ 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 Cost Breakdown

□ Hospital Facility	\$177,000,000
□ Administration Building	41,000,000
□ Parking Structure (2 phases)	15,000,000
□ Site Work, Entitlements & Permits	31,000,000
□ FF&E (inc. medical equipment)	73,000,000
□ A&E Costs	25,000,000
□ Other Costs (inc. contingencies)	<u>38,000,000</u>
□ Total Costs	\$400,000,000



Authority for Issuance of Debt

- ❑ Healthcare districts vs. nonprofit hospitals
- ❑ 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"
 - ✓ Certificates of Participation (no known limits)
 - ✓ General obligation bonds limited by H&S code and government code
 - Sec. 32300 et al. of H&S code



Sutter Health Proposal

- ❑ Mills-Peninsula Health Services (Sutter affiliate) would construct, own & operate the new medical facilities
- ❑ District leases 26 acres of land to MPHS 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
 - ✓ Leasehold estate in land & building structures may be used as security for the Sutter Health bonds



Sutter Health Proposal

- ❑ Ownership of health facilities will transfer to PHCD after 50-yr. lease, unless extended
- ❑ If Sutter Health defaults on its bonds, PHCD would need to purchase facilities at FMV
- ❑ Upon expiration of the land lease PHCD will compensate MPHS for the following:
 - ✓ The book value of all repairs & capital improvements made to the health facilities over last 25 yrs. of the lease
 - ✓ An amount for all FF&E of the health facilities



Sutter Health Credit Strength

- Current bond ratings
 - ✓ Standard & Poor's: A+ and Moody's: A1
- Strengths
 - ✓ Solid interim financial results
 - ✓ Improving operations & debt service coverage
 - ✓ Strong market position with 30 hospitals in system
 - ✓ Improvements seen in poorer performing hospitals
- Challenges
 - ✓ Balance sheet weakness in light of rating level
 - ✓ Potential difficulty in funding \$3.5 B over next 10 yrs.



Revenue Bonds

- Revenue bonds

- ✓ H&S code sec. 32315 et al. "Revenue Bonds"
- ✓ Limited to 50% of the average of PHCD's preceding 3 yrs. revenues (approx. \$1.8 mil.)
- ✓ H&S code sec. 32130.2 "Promissory Notes"
- ✓ Limited to 85% of all estimated income and revenue of PHCD for the current fiscal year (approx. \$3.0 mil.)
- ✓ Four-fifths approval of PHCD's board of directors



Certificates of Participation

- Certificates of participation (COP's)
 - ✓ Security is revenue fund pledge of PHCD
 - ✓ May be allowable alternative for PHCD
 - ✓ Would Require full cooperation of Sutter Health
 - ✓ 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 or lease assets
 - ✓ Premise of the "Marin Healthcare District" model



Marin Healthcare Dist. Model

- ❑ Inherent weakness is that Sutter Health's cooperation is essential or structure fails
- ❑ Sutter was not supportive of COP proposal
- ❑ My expectation is that Sutter is not likely to be supportive of COP structure with PHCD
 - ✓ Cost of capital is more expensive than the alternative of using their Obligated Group
 - ✓ Requires a cash contribution by Sutter
 - ✓ Requires Sutter to set-aside annual amt. for DSRF



General Obligation (GO) Bonds

- ❑ Property tax collected (ad valorem tax) on all taxable property within PHCD
- ❑ 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
- ❑ Potentially lowest net cost of capital available
- ❑ Two-thirds voter approval required



GO Bonds w/ Sutter Lease

- ❑ GO bonds supported by taxes & revenues
- ❑ Property taxes not collected so long as sufficient PHCD revenues are available
- ❑ If Sutter Health never defaults on lease, then property owners are never taxed
- ❑ If Sutter Health defaults on lease
 - ✓ Lease facilities to another eligible provider (NT)
 - ✓ Operate hospital through management co. (T)
 - ✓ Operate hospital independently (T)



Funding Options Comparison

	Sutter Health Obligated Group	PHCD COP's w/ Sutter Lease	PHCD GO Bonds w/ Sutter Lease
Total Interest Rate	mid	highest	lowest
Debt Service Reserve	springing	yes	no
Revenue Fund Pledge	yes	yes	no
Facilities as Collateral	maybe	likely	no
Debt on Sutter B/S	yes	no	no
Level of Voter Approval	51%	51%	67%
Impact on Contributions	no	no	maybe



Sutter Health Proposal A&D

□ Advantages

- ✓ No taxpayer support required over first 25 years
- ✓ Strong credit to fund future facility improvements

□ Disadvantages

- ✓ PHCD would be required to use its reserves to make improvements from year 26 onward
- ✓ PHCD receives no compensation for land transferred to Sutter Health



Sutter Health Proposal A&D

- ❑ Disadvantages (continued)
 - ✓ If Sutter Health defaulted on its debt obligation, PHCD would need to purchase the facility at FMV
 - ✓ PHCD likely would never accumulate enough resources to acquire the hospital in the event circumstances dictated



COP w/ Lease A&D

- Advantages

- ✓ Health Facilities ownership remain with PHCD

- Disadvantages

- ✓ Overall cost of capital is greatest among alternatives available
- ✓ Authorization to issue may be in question
- ✓ Sutter cooperation is essential



GO Bond w/Lease A&D

□ Advantages

- ✓ PHCD retains ownership of hospital facility
- ✓ So long as lease payments are made, PHCD property owners are not assessed property taxes
- ✓ If something happens to Sutter Health, PHCD is able to step in to release or operate the hospital
- ✓ Lowest cost of capital possible to fund new facility



GO Bond w/ Lease A&D

❑ Disadvantages

- ✓ PHCD property owners are at risk if Sutter Health defaults on its lease with PHCD
- ✓ PHCD registered voters must provide 2/3rds voter approval to secure necessary funding for hospital
- ✓ Requires Sutter cooperation to enter into a lease of the health facilities

Questions & Comments

