



## Board Policy

# **Long Term Financial**

**Purpose:** The Board of Directors is committed to exercising its fiduciary duties of Care and Loyalty in providing oversight and direction to the management of all District assets. The Strategic Financial Policy, along with the Investment Policy, Internal Controls Policy and Annual Budget are critical in defining how that responsibility will be carried out to ensure that the best interests of the District are served.

The Strategic Long Term Financial Policy is designed to balance two ongoing, competing priorities identified through the Strategic Planning Process:

1. Building a strategic fund to assure that the District can meet its responsibilities to preserve Peninsula Hospital and certain core services both during the term of the 50-year Sutter Health/Mills-Peninsula Health Services lease and at the lease end, and
2. Making a meaningful current impact on improving the health status of District residents and meeting critical healthcare needs of the communities served by the District.

This policy will be carried out through all strategic property and program development activities and on-going District operations. Compliance with this policy will be monitored on a regular basis.

The policy and procedural guidelines are designed to:

- Protect the assets of PHCD;
- Provide a framework of operating standards;
- Ensure the maintenance of accurate records of financial activities; and
- Ensure compliance with the District Investment Policy, as well as, any applicable federal, state, and local legal and reporting requirements.

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Roles:

Treasurer and Finance Work Group:

Adopted: 06-27-13

The Board Treasurer chairs the Finance Work Group, which is composed of the Treasurer, CEO District Accountant, and any members designated by the Board of Directors. The Finance Work Group has whatever authority as may be designated by the Board of Directors, including:

- Choosing the auditor
- Performing regular, in-depth reviews of the organization's financial activity
- Monitoring the performance of investment managers
- Overseeing the development of the annual budget
- Determining the allocation of investment deposits

**Procedure and Targets:**

1. The District will remain credit-worthy by achieving and maintaining the following target financial ratios:
  - a. EBIDA margin of 12 percent or higher
  - b. Excess margin of 7 percent or higher
  - c. Days of Cash on Hand of 265 days or above
  - d. Debt service coverage ratio of 2.0 times or above
  
2. The District will monitor financial ratio expectations of rating agencies on an annual basis and adjust the targeted values for the recommended financial ratios as needed.
  
3. Under certain circumstances, the District will explicitly build reserves by reducing discretionary expenses. These circumstances include:
  - a. Increased risk of Paramount Default (For example, if Sutter Health's financial performance deteriorates)
  - b. Evidence that the District's end-of-lease obligations (to purchase the hospital assets at book value) are increasing or becoming more imminent
  - c. Increased probability that the District would not want or be able to partner with another organization to finance Paramount Default or end-of-lease obligations
  - d. Programs operated by the District at the Health Focused Campus require greater subsidies (or incur greater losses) than anticipated
  - e. External threats to the District's financing capacity emerge, such as greatly tightened credit conditions.
  
4. If, in the last 25 years of the lease, the Board approves a capital expenditure that will have remaining book value at the end of the lease, the Board will place funds in escrow specifically to finance that future obligation.

5. As part of good practice and in order to allow early planning for major capital expenditures near the end of the lease, the District will periodically discuss with Sutter Health its vision for the hospital.
  
6. The District will continually monitor risks associated with Paramount Default:
  - a. Sutter Health becomes less credit-worthy
  - b. Mills-Peninsula Health Services is not complying with (any) lease terms or indicates any interest in no longer leasing District land
  - c. Mills-Peninsula Health Services requests (or requires) District support to maintain a core service.
  
7. The District will conduct an annual review of this policy (or periodically as deemed prudent) and adjust the financial strategy in place accordingly.