



DATE: July 19, 2022
TO: PHCD Board of Directors
FROM: Vickie Yee, CFO

SUBJECT: Approval to accept updates to the Strategic Financial Policy

The Finance Committee reviewed the Strategic Financial Policy on July 12, 2022, and recommends the following changes:

- Remove two of the seven financial ratios in the Strategic Financial Policy; the EBIDA Margin and Debt Burden ratios.
 - The EBIDA Margin is similar to the Excess Margin. The Excess Margin is more typically used by rating agencies, credit enhancers, and debt purchasers.
 - The Debt Burden ratio is not often used by credit analysts in their evaluation of healthcare credits. The other ratios are more reflective of the entity’s financial performance and financial structure.
- Use the financial ratios in the Fitch Ratings Not-for-Profit Life Plan Communities Median Ratios, Special Report. This industry grouping incorporates other standalone long-term care and senior living facilities, including assisted living and memory care facilities. It excludes much larger healthcare systems that do not represent the District.

Below are the proposed changes -

Financial Policy Ratios	CURRENT	PROPOSED	
	Combination of U.S. NFP Health Care System & NFP Senior Living	NFP Senior Living/Life Plan Communities - (Standalone Medians) 2020	Peninsula Health Care District Ratios as of FYE June 30, 2021
EBIDA Margin	10.00%	Remove	-
Excess Margin	5.00%	1.60%	15.64%
Days Cash on Hand	500	536	729
Debt Service Coverage	1.6	1.7	2.57
Debt Burden	8.00%	Remove	-
Unrestricted Reserves/Long-Term Debt Cash to Debt (Renamed)	150.00%	64.00%	81.00%
Debt to Capitalization	40.00%	62.00%	35.00%

ACTION REQUESTED: Approval to accept the recommended changes to the financial ratios and the updated Strategic Financial Policy as redlined.



STRATEGIC FINANCIAL POLICY **(Approved by Board of Directors on 7/28/2022)**

POLICY: 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. Accordingly,

1. The District will meet or exceed benchmark financial ratios achieved by highly investment grade rated Not-For-Profit health care organizations that are similar in size and type as the District.
2. The District will maintain at least \$10 million in its Board Designated Fund.
3. The District will monitor the financial and operational performance of MPHS and of Sutter Health.
4. As part of the oversight role specified for the District in the Sutter Health/MPHS lease, the District will conduct a periodic review of Sutter Health's vision and capital expenditure plans for MPHS.
5. The District will conduct a review of the Strategic Financial Policy every five years (or more frequently as deemed prudent) and will adjust the policy accordingly.

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.

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

- 1) Assuring 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.

The policy and its supporting procedures are designed to assure that PHCD remains financially healthy and credit-worthy, inform PHCD's strategic and programmatic planning, and enable PHCD to meet its responsibilities pursuant to the Sutter Health/Mills-Peninsula Health Services lease agreement.



ROLES

Treasurer and Finance Committee:

The Board Treasurer chairs the PHCD Finance Committee. The Finance Committee has whatever authority as may be designated by the Board of Directors, including:

- Assuring implementation of procedures that support the Strategic Financial Policy
- Monitoring PHCD's compliance with the Strategic Financial Policy
- Recommending adjustments to the Strategic Financial Policy as appropriate

Revised and approved by Finance Committee on 9/19/19

Approved by Board of Directors on 9/26/19

Revised and approved by Finance Committee on 1/23/20

Approved by Board of Directors on 2/27/20

Revised and approved by Finance Committee on 7/12/22

Approved by Board of Directors on 7/28/22