Memo Report on MCDH's Finances Post-Affiliation

1. Purpose

   The purpose of this memo is to document the analysis of the District's finances once Adventist Health (AH) assumes operational control of our assets.

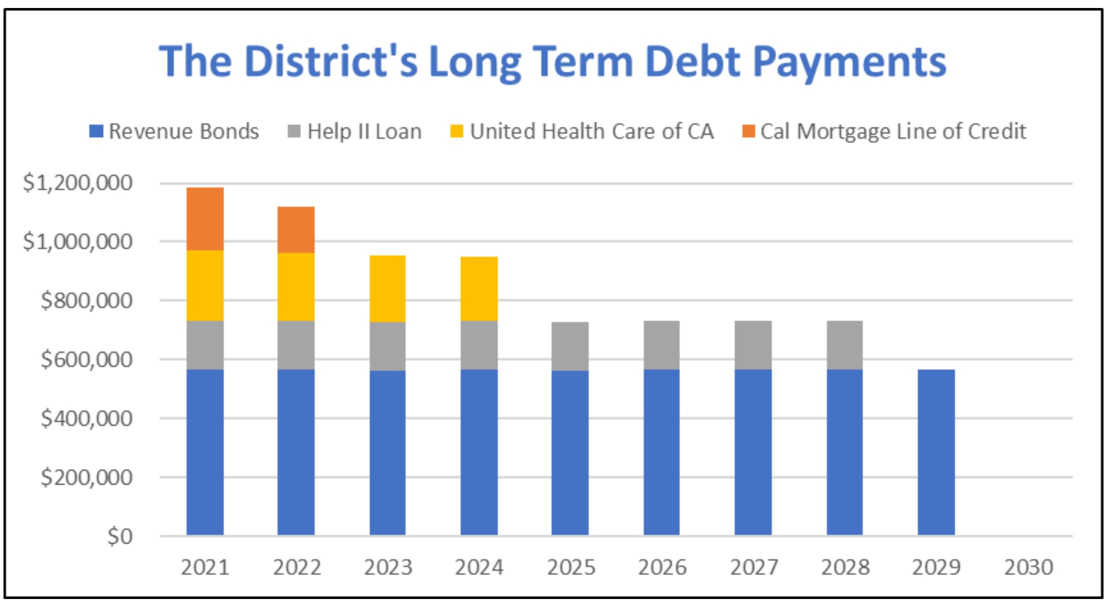
2. Description of the Analysis

   This analysis uses projections of MCDH's revenues and costs after AH assumes control of operations and is responsible for operational profit and loss. The sources of information will be cited in the discussion below. Please note that according to Mr. Jason Wells of AH, a new hospital won't be considered until there have been few years of successful operation[1] so the focus of this analysis is if the District can afford to pay for the cost of the seismic upgrades which it is obligated to do by the Term Sheet.

3. Costs to the District Post-Affiliation.

   The District will incur these costs:

   - **Principal and Interest payments** on long term debt are shown below.[2] Revenues must be sufficient so that, after these repayment obligations are met, there remains enough cash to set aside to pay for the cost of the retrofits (or a down payment on a new hospital). Note that all long-term debt is repaid ten years from now.



[1] Mr. Wells cited the case of Howard Memorial in Willits where it took 15 years to put that hospital in a financial position to justify building the new hospital. The Term Sheet stipulates that MCDH and AH will make a decision no later than 2027 regarding retrofitting the current hospital or building a new one.

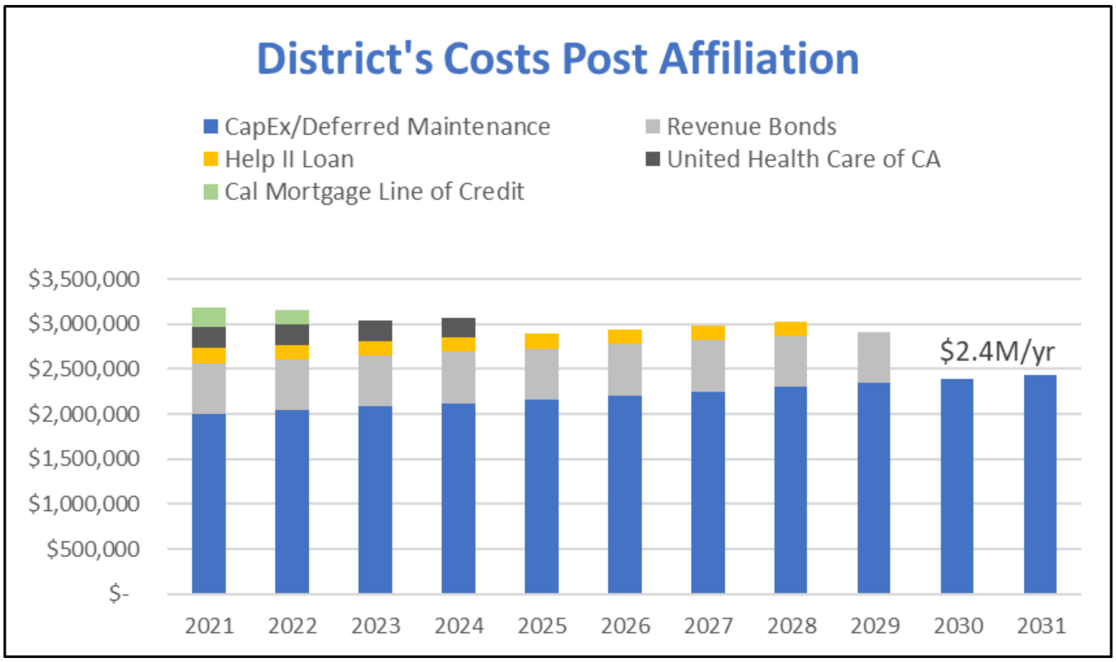
[2] Source: MCDH's CFO

- **On-going capital expenses** in the form of maintaining the hospital, as required by the Term Sheet. The Term Sheet requires the District to pay up to $2.0M a year (with escalation) which is consistent with and past experience and this year's capital budget of $2.0M.

- **Accounts Payable.** The District will have an obligation to pay all providers what is owed as of the date on which affiliation begins. This will be paid using a combination of cash available from Accounts Receivable as of the date of affiliation and Board Designated Funds (our reserves.)

- **Accrued Personal Time Off (PTO**) is $1.10M according to our CFO. This amount will be paid using Board Designated funds once we have closed our Accounts Payable and Accounts Receivable.[3] We project that after the PTO is paid off there will be $3.5M left in Board Designated Funds (down from $4.4M currently.) This will be our starting cash balance, post affiliation.[4]

- **Cost of doing business as a District.** There will be expenses for legal counsel, minimal staffing, and other miscellaneous costs. These are not well known and probably small (relatively speaking) and are therefore ignored here.



4. Revenues for the District Post-Affiliation

   Unlike the cost projections which have some degree of uncertainty (e.g., on-going maintenance), revenues come from several sources all of which are highly predictable.

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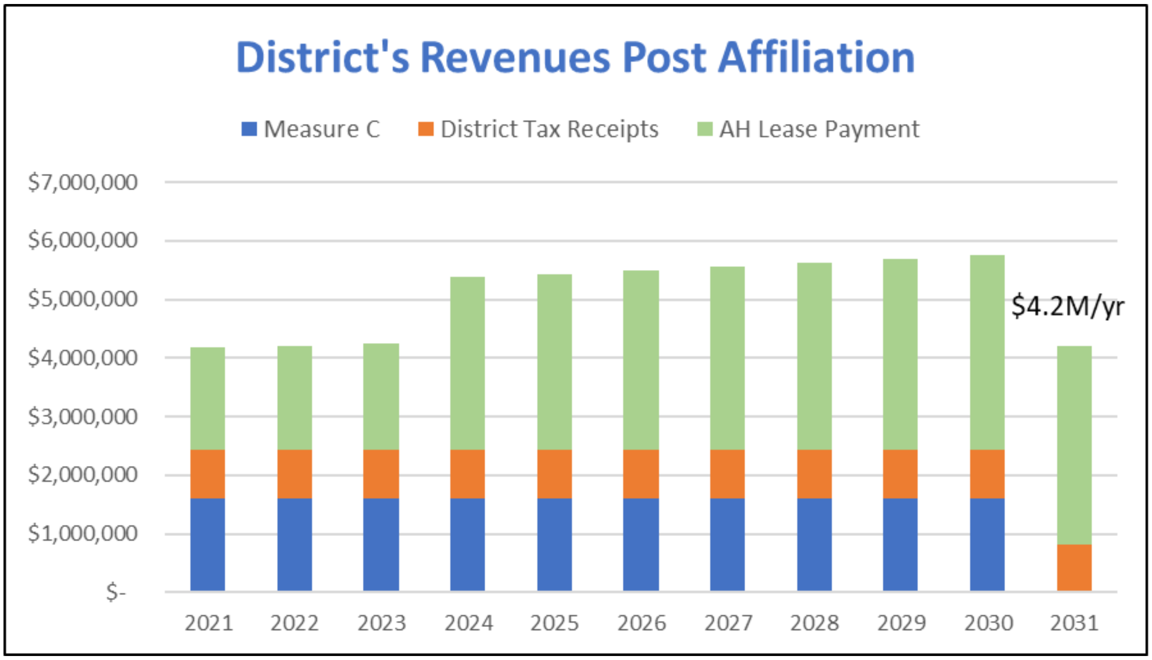
[3] PTO is one of the liability items that will be liquidated. How specifically this liquidation happens has yet to be determined

[4] Explanation: The liquidation of the current assets will generate an estimated $8,067,462 of cash. The cash necessary to pay off the current liabilities including the PTO accrual is $9,993,342. It would be necessary to draw the resulting $1,915,880 shortfall from Board Designated Funds.

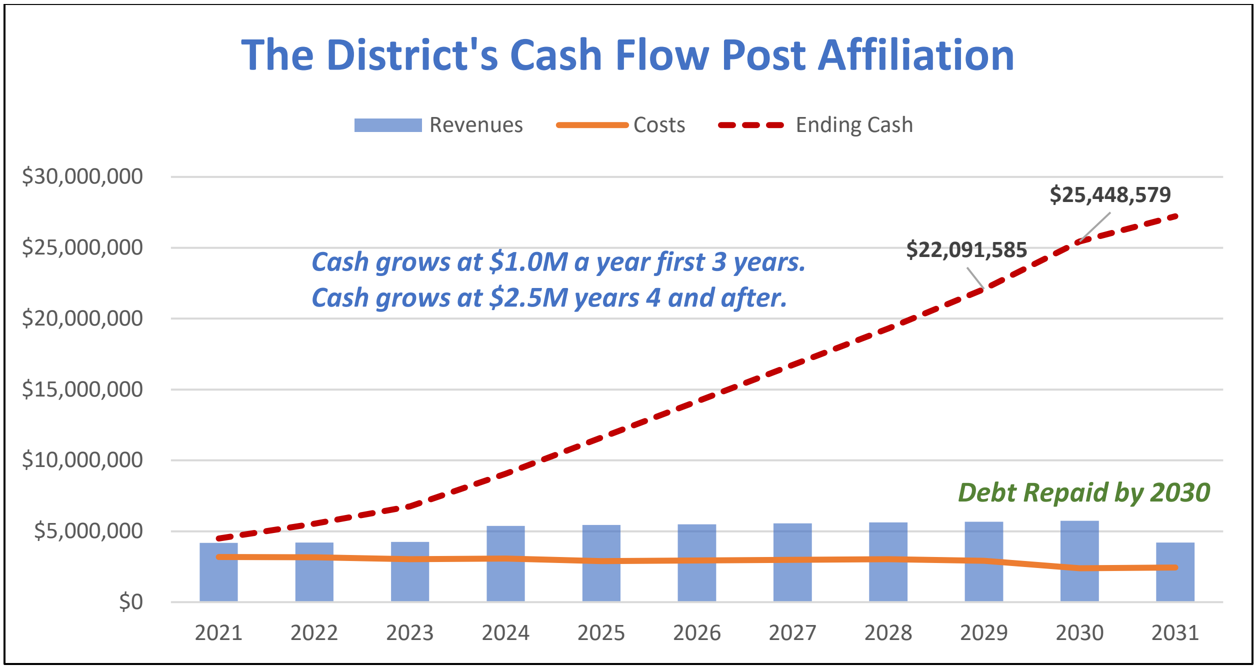
- **Measure C** will be $1.60M per year until 2030 when it expires. It is conservatively assumed here that funds from Measure C or a similar tax measure will not be available thereafter.
- **Unrestricted Tax Revenues** will be about $0.825M per year according the 2018 audit report (page 10).
- **Lease Payment** by AH which the Term Sheet stipulates will be $1.75M per year for the first three years and $2.95M thereafter. These payments will be adjusted yearly to account for inflation (using the Consumer Price Index).



5. Cash Flow

The cash flow, as depicted on the next page, is sufficient for the District to repay all of its long-term debt <u>and</u> to fund by itself the cost of the seismic upgrades. If it is decided to build a new hospital beginning in 2030, the District will have $25M of the estimated $100M to do so. Obviously, an additional source(s) of money will be needed. These likely would be a combination of an investment in the new hospital by AH, making it a co-owner, and a renewal of Measure C or equivalent.

John Redding
Treasurer, MCHD
November 20, 2019


The District's Cash Flow Post Affiliation
Revenues
Costs
Ending Cash
$30,000,000
$25,000,000
$20,000,000
$15,000,000
$10,000,000
$5,000,000
$0
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
2031
Cash grows at $1.0M a year first 3 years.
Cash grows at $2.5M years 4 and after.
$22,091,585
$25,448,579
Debt Repaid by 2030