



MHD Finance & Audit Committee
August 29, 2017



Marin Healthcare District

100B Drakes Landing Road, Suite 250, Greenbrae, CA 94904

Telephone: 415-464-2090 Fax: 415-464-2094

Website: www.marinhealthcare.org / Email: info@marinhealthcare.org

FINANCE AND AUDIT COMMITTEE

Closed Session & Regular Meeting

August 29, 2017, 5:30pm

Members:

Chair:

Members:

Staff:

Larry Bedard, MD

Jennifer Hershon, RN, MSN

James McManus, CFO

Jean Noonan, Controller

Michael Lighthawk, Executive Assistant

Marin County Location:

MHD Conference Room at Drakes Landing

100B Drakes Landing Road, Suite 250

Greenbrae, CA 94904

Remote Location for Dr. Larry Bedard:

Hilton Double Tree Hotel

1000 Multnomah Street, Room 829

Portland, OR 97232

AGENDA

I. Call to Order

Bedard

A. Roll Call

B. Approval of Agenda (Action)

C. Approval of Minutes of Regular Meeting: July 25, 2017 (Action)

D. General Public Comment - *Any member of the public audience may make statements regarding any items NOT on the agenda. Statements are limited to a maximum of three (3) minutes. Please state your name if you wish to be recorded in the minutes.*

II. Finance

McManus/Noonan

A. Financial Report – July 31, 2017

B. Debt Policy (Action)

C. GO Bond Issuance Update

D. Rating Agencies' Report

E. Investments Update

F. Citizens' Bond Oversight Committee Update

III. Agenda Items for Next Meeting

Bedard

IV. Adjournment

Bedard



**Previous Minutes
July 25, 2017**



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Website: www.marinhealthcare.org / Email: info@marinhealthcare.org

FINANCE AND AUDIT COMMITTEE

Regular Meeting

July 25, 2017, 5:45pm

Members:

Chair:

Larry Bedard, MD

Members:

Jennifer Hershon, RN, MSN

Staff:

James McManus, CFO

Jean Noonan, Controller

Mary Friedman, Director

Michael Lighthawk, Executive Assistant

Location:

MHD Conference Room at Drakes Landing

100B Drakes Landing Road, Suite 250

Greenbrae, CA 94904

REGULAR MEETING MINUTES

- I. **Call to Order** - Chair Bedard called the regular meeting of the Finance & Audit Committee to order at 5:45pm.
- A. Roll Call – Chair Bedard and Member Hershon present.
 - B. Approval of Agenda – **Agenda approved.**
 - C. Approval of Minutes of Regular Meeting: May 30, 2017. **Minutes approved.**
 - D. Approval of Closed Session Minutes of May 30, 2017. **Minutes approved.**
 - E. General Public Comment - No public.

II. **Review / Recommend Approval of Items Discussed in Closed Session (Action)**

Motion: To recommend the MHD Board of Directors approve the recruitment incentives and income guarantee for Dr. Ramon Partida for Cardiology Services in the District's 1206(b) Cardiology Clinics and compensation for Medical Director Services for the Structural Heart Program.

Member Hershon so moved. Seconded by Chair Bedard. Vote: All ayes. **Motion passed.**

III. **Finance**

- A. Financial Report – June 30, 2017

Ms. Noonan referred to page 9, Balance Sheet. Hospital construction costs continue to increase as expected. The "Assets Limited to Use" category are the bond funds used to pay down construction costs. In Liabilities, "Accrued Expenses" went up \$2.2M which is the accrual of the invoices related to construction.

Income Statement - Rental Revenue from the lease of hospital facilities (\$42,542.) and Investment Earnings (\$3697.) were the sole sources of income for the District in June. Ms. Noonan noted that Investment Earnings are not budgeted because of fluctuations throughout the year.



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1206(b) Clinics – Marin Medical Group is in a transition period due to one physician taking more time off while a new physician is ramping up and an older physician is scaling back to retire. The Clinic Committee is looking at the situation closely in order to ascertain what opportunities are available to get the practice back to budget.

Cardiovascular Associates of Marin (CAM) – CAM’s Revenue and productivity is lower this year as expenses and staff salaries continue to run high. Further discussions ensued on new TAVR programs. Mr. McManus commented on the TAVR program and the stringent qualifications for that program. The new physician at CAM will be responsible for developing the TAVR program there.

Further discussions ensued regarding Clinic variances in Urology, Rheumatology, and Vascular Surgery.

B. G.O. Bond Financing Plan

Mr. McManus stated that Jenna Magan of Orrick will do close to the exact same presentation to the MHD Board of Directors on August 8th and she did on October 13, 2015. Staff has completed the due diligence in gathering the required bond documents and uploaded to Orrick’s Drop Box. Next week, Lee Domanico and Jim McManus will be presenting to Moody’s and Fitch rating agencies. The District is on track for the issuance of the remainder of the GO Bonds (\$224M).

- | | |
|--|--------|
| IV. Agenda Items for Next Meeting | Bedard |
| V. Adjournment | Bedard |



**MHD & Clinic
Financials
July 31, 2017**



To: MHD Finance Committee
From: Jim McManus, CFO
Re: July 2017 Financial Report
Date: August 16, 2017

I. General Comments

These financial statements contain, in summary format, the balance sheet and net support to the District Clinics. The Clinics, as of July 31, 2017 are comprised of 15 locations and 58 practitioners, and are reported as one combined unit.

II. FY 2017 Income Statement and Budget

The Net District Operating Loss for the month was \$81,961 which was favorable to budget by \$46,963. Income included rental revenue from the hospital lease of \$42,542, interest income and net unrealized investment gains of \$8,026. The District incurred total expenses of \$132,528, including depreciation expense of \$111,370 associated with the MGH 2.0 parking garage which was completed under budget in August, 2016. Expenses also included \$16,667 for the Behavioral Health program support.

Contributions to the District Clinics was \$882,756 (\$144,580 unfavorable to budget) and was reimbursed by MGH.

III. Balance Sheet

Assets

Cash at July 31, 2017 of \$3,224,216 decreased by \$909,403 due to the timing of District Clinic expenses and reimbursements. Accounts Receivable increased by \$146,624 from June relating to billing and collection activity for the clinics.

Intercompany Receivables of \$1,625,314 represent amounts due from MGH for Clinic reimbursements.

In August 2016, the hospital parking facility was completed and placed into service. The cost of the garage was transferred from Hospital Construction Costs to Parking Garage. The asset is being depreciated over a period of 25 years.

Deposits and Retainers include a \$1,000,000 retainer paid to Marin Medical Practice Concepts (MMPC) of which \$500,000 was transferred in April 2012 and the remainder in October 2016 for operating expenses of the Clinics.

Intangible Assets represent the Cardiovascular Associates of Marin (CAM) asset purchase price that was deemed to be for medical records and other intangibles (\$185,844 and \$675,660 respectively). These balances are reduced each month by amortization over a period of 15 years.



Creating a healthier Marin together.

The balance of the proceeds from the bonds issued in November 2015 (\$62,502,811) is reflected in the account "Assets Limited to Use – Bond Funds". It is estimated that the Bond Funds will be depleted in December, 2017 and the District is in the process of issuing the remainder of the general obligation bonds in September, 2017. Hospital Construction Costs incurred to date are \$135,939,570.

Liabilities and Net Assets

Accounts Payable of \$3,732,091 and Accrued Expenses of \$17,737,582 are comprised of invoices payable and accruals for District, construction, and clinic expenses.

Bonds payable are separated into current (principal due within one year) and non-current (due in greater than one year). Bond Premium represents payments by bond purchasers greater than the face amount of the bond because the stated interest rate of the bonds was higher than the market rate at the date of issuance. The premium is amortized over the life of the bonds as a reduction to interest expense.

The net assets of the District are \$25,125,654.

**Marin Healthcare District
Balance Sheet
July 31, 2017**

	7/31/2017	6/30/2017	Change	12/31/2016
Assets				
Current Assets				
Cash and Cash Equivalents	3,224,216	4,133,619	(909,403)	2,803,128
Net Patient Accounts Receivable	3,144,512	2,997,888	146,624	2,298,670
Other Receivables	59,108	69,789	(10,680)	141,958
Intercompany Receivables	1,625,314	853,494	771,820	1,142,733
Inventories	18,610	19,193	(584)	15,692
Tax Revenues Receivable	-	-	-	1,776,393
Prepaid Expenses	115,683	107,405	8,278	51,252
Total Current Assets	8,187,444	8,181,389	6,054	8,229,826
Property, plant, and equipment, net	5,271,476	5,309,068	(37,592)	5,417,320
Parking Garage, net	23,752,034	23,834,506	(82,472)	24,329,340
Hospital Construction Costs	112,187,536	105,037,662	7,149,875	68,351,311
Intangible Assets, net	538,917	543,687	(4,770)	572,307
Assets Limited To Use - Bond Funds	62,502,811	66,743,978	(4,241,167)	96,885,786
Notes Receivable	231,450	238,021	(6,571)	210,037
Deposits & Retainers	1,072,633	1,072,633	-	1,072,633
Total Non-Current Assets	205,556,857	202,779,554	2,777,302	196,838,734
Total Assets	213,744,300	210,960,944	2,783,357	205,068,560
Liabilities and Net assets				
Current Liabilities				
Accounts Payable	3,732,091	3,824,881	(92,790)	2,475,914
Accrued Expenses	17,737,582	14,735,255	3,002,326	9,808,707
Intercompany Payables	1,083,333	1,100,000	(16,667)	1,200,000
Current Bond Maturities	2,645,000	2,645,000	-	2,645,000
Current Maturities of Long-Term Obligations	-	-	-	-
Total Current Liabilities	25,198,006	22,305,136	2,892,869	16,129,621
Bonds Payable	154,740,000	154,740,000	-	154,740,000
Bond Premium	8,180,474	8,205,188	(24,714)	8,353,475
Long-Term Obligations, Less Current Maturities	500,167	503,005	(2,838)	78,044
Total Liabilities	188,618,647	185,753,330	2,865,316	179,301,140
Net Assets				
Net Assets - Beginning Balance	25,767,421	25,767,421	-	25,781,263
Net (Loss)/Income	(641,767)	(559,808)	(81,960)	(13,843)
Total Net Assets	25,125,654	25,207,613	(81,960)	25,767,420
Total Liabilities and Net Assets	213,744,300	210,960,944	2,783,357	205,068,560

Marin Healthcare District
Income Statement - Actual vs. Budget
For the Seven Months Ended July 31, 2017

	July Month-to-Date			July Year-to-Date		
	Actual	Budget	Variance	Actual	Budget	Variance
Rental Revenue	\$42,542	\$42,500	\$42	\$297,792	\$297,500	\$292
Other Revenue	0	0	0	0	0	0
Investment Earnings	8,026	250	7,776	48,090	1,750	46,340
Total Income	50,567	42,750	7,817	345,882	299,250	46,632
Legal Fees	2,125	3,333	1,208	19,947	23,333	3,386
Accounting Fees	1,667	1,667	0	12,500	11,667	(833)
Board Compensation	700	1,017	317	6,300	7,117	817
Board Expenses	0	2,083	2,083	3,725	14,583	10,858
Depreciation Expense	111,370	142,907	31,537	779,587	1,000,349	220,762
Consulting Fees	0	0	0	0	0	0
Charitable Contributions	0	500	500	0	3,500	3,500
Community Education	0	2,500	2,500	31,359	17,500	(13,859)
Dues	0	1,000	1,000	6,000	7,000	1,000
MGH Program Support	16,667	16,667	0	116,667	116,667	0
Advertising	0	0	0	11,565	0	(11,565)
Total Expense	132,528	171,674	39,146	987,649	1,201,716	214,066
Net District Operating Income	(81,961)	(128,924)	46,963	(641,768)	(902,466)	260,698
Non-Operating Income/Expense						
Clinic Activity						
Net Loss From Clinics	(882,756)	(738,176)	(144,580)	(5,957,566)	(5,186,892)	(770,674)
MGH Clinic Reimbursement	882,854	738,176	144,678	5,957,566	5,186,892	770,674
Net Clinic Activity	98	0	98	0	0	0
Bond-Related Revenue/Expense						
Tax Revenue	0	0	0	0	0	0
Bond Fund Earnings (transferred to construction in progress)	0	0	0	0	0	0
Bond Issuance Costs	0	0	0	0	0	0
Net Income/(Loss)	(\$81,862)	(\$128,924)	\$47,061	(\$641,767)	(\$902,466)	\$260,699

Marin Healthcare District
1206b Clinics
Summary of Profit & Loss - Accrual Basis
For the Seven Months Ended July 31, 2017

Managed Clinics	# MD/NP	# Of Months	MTD			Monthly Invest/MD	YTD			Avg. Annual Invest/MD
			Actual	Budget	Variance		Actual	Budget	Variance	
San Rafael Medical Center	0.80	7.00	(2,927)	(2,642)	(285)	(3,659)	(9,260)	(18,494)	9,234	(19,844)
North Marin Internal (Novato)										
Marin Medical Group (MMG)	3.50	7.00	(64,368)	(41,876)	(22,492)	(18,391)	(369,275)	(293,132)	(76,143)	(180,870)
El-Ghoneimy	1.00	7.00	3,807	(2,972)	6,779	3,807	(46,534)	(20,804)	(25,730)	(79,772)
Tamalpais Internal Medicine (TIM)	2.82	7.00	(4,614)	(6,085)	1,471	(1,636)	(69,143)	(42,595)	(26,548)	(42,032)
Cardiology Associates (CAM)	15.65	7.00	(490,861)	(424,025)	(66,836)	(31,365)	(3,233,359)	(2,967,783)	(265,576)	(354,179)
Urology	4.00	7.00	(77,001)	(54,940)	(22,061)	(19,250)	(566,754)	(367,836)	(198,918)	(242,894)
Vascular Surgery	4.00	7.00	(100,899)	(90,365)	(10,534)	(25,225)	(624,491)	(632,913)	8,422	(267,639)
Marin Endocrine	3.85	7.00	(42,233)	(30,526)	(11,707)	(10,970)	(285,814)	(207,718)	(78,096)	(127,264)
2 Bon Air - Rheumatology/Chase	2.62	7.00	(8,046)	7,039	(15,085)	(3,071)	3,341	70,265	(66,924)	2,186
Murphy	3.60	7.00	(9,643)	(7,324)	(2,319)	(2,679)	(136,155)	(51,268)	(84,887)	(64,836)
Novato Medical Office	5.00	7.00	(27,652)	(20,970)	(6,682)	(5,530)	(351,017)	(213,574)	(137,443)	(120,349)

Totals **46.84** **(824,438)** **(674,686)** **(149,752)** **(5,688,460)** **(4,745,852)** **(942,608)**

Palliative Care **1.00** **7.00** **(4,944)** **(8,183)** **\$3,239** **(4,944)** **(57,750)** **(57,281)** **(\$469)** **(\$99,000)**

Clinic Administration **0.00** **7.00** **(21,723)** **(23,852)** **\$2,129** **(85,693)** **(163,574)** **\$77,881**

Self - Managed Clinics	# MD/NP	# Of Months	MTD			Monthly Invest/MD	YTD			Avg. Annual Invest/MD
			Actual	Budget	Variance		Actual	Budget	Variance	
West Marin Medical Center (Pt. Reyes)	3.50	7.00	(9,980)	(8,928)	(1,052)	(2,851)	(67,779)	(62,496)	(5,283)	(33,198)
Soluna Health	0.00	0.00	(83)	0	(83)		(335)	0	(335)	
Totals	3.50		(10,064)	(8,928)	(1,136)		(68,114)	(62,496)	(\$5,618)	

Totals Before Behavioral Health **51.34** **(861,168)** **(715,649)** **(145,519)** **(5,900,018)** **(5,029,203)** **(870,815)**

Behavioral Health (Note 1) **6.40** **7.00** **(21,587)** **(22,527)** **\$940** **(3,373)** **(57,548)** **(157,689)** **\$100,141** **(\$15,415)**

Total All Clinics **57.74** **(882,756)** **(738,176)** **(144,580)** **(5,957,566)** **(5,186,892)** **(770,674)**

Note 1 - Up to \$200K of Behavioral Health Clinic losses is included in the Program Support payments by the District to MGH



MHD

Debt Management Policy



MARIN HEALTHCARE DISTRICT DEBT MANAGEMENT POLICY

This document sets forth the Debt Management Policy (the “Debt Policy”) of the Marin Healthcare District (the “District”) as approved by the District Board of Directors. This Debt Policy fulfills the requirement of Government Code Section 8855(i) which becomes effective on January 1, 2017. This Policy shall govern all debt obligations issued by the District. The District recognizes that a fiscally prudent debt policy is required in order to:

- Maintain the District’s sound financial position;
- Ensure the District has the flexibility to respond to changes in future service priorities, revenue inflows, and/or cost structures;
- Protect the District’s short-term and long-term credit rating; and
- Protect both current and future taxpayers from being made responsible for the repayment of poorly structured and/or overly costly capital financings.

Furthermore, the District recognizes that a binding commitment to the full and timely repayment of all debt is an intrinsic requirement for entry and participation in the capital markets. As such, the parameters for issuing and managing debt set forth herein seek to provide guidance to decision makers concerning the timing and purposes for which debt may be issued, the types of debt that may be issued, the amount and structure of such debt, and the preferred method of sale.

1. Purposes for which debt proceeds may be used

a. The District may issue debt for either of the two purposes:

- i. Debt that finances the construction, acquisition, and rehabilitation of District facilities, equipment and sites; and
- ii. Debt that provides financing for the District’s operational cash flows in order to maintain a steady and even cash balance.

2. Types of debt that may be used

a. It shall be the policy of the District that the following types of debt shall be allowable under this Debt Policy:

- i. General Obligation Bonds
- ii. Bond Anticipation Notes
- iii. Certificates of Participation
- iv. Lease Revenue Bonds
- v. Tax and Revenue Anticipation Notes
- vi. Bank or other Lender Financings

- b. The District may from time to time find that other forms of debt shall be beneficial to support strategic initiatives or to strengthen its long-term financial condition. There shall be no prohibition to amending this Debt Policy to allow for other forms of debt so long as such forms of debt adhere to the provisions of this Debt Policy.

3. Characteristics of debt

To maintain a predictable debt service burden, the District will give preference to debt that carries a fixed interest rate. An alternative to the use of fixed rate debt is variable rate debt. The District may choose to issue securities that pay a rate of interest that varies per a pre-determined formula or results from a periodic remarketing of securities. When making the determination to issue debt in a variable rate mode, consideration will be given in regards to the useful life of the project or facility being financed or the useful life of the project requiring the funding, market conditions, credit risk and third party risk analysis, and the overall debt portfolio structure when issuing variable rate debt for any purpose.

The District will prudently use derivatives, such as interest rate swaps, in its debt program. A derivative product is a financial instrument which derives its own value from the value of another instrument, usually an underlying asset such as a stock, bond, or an underlying reference such as an interest rate. Derivatives are commonly used as hedging devices in managing interest rate risk, in converting variable rated debt to fixed rate debt.

- a. Long-Term Debt. Long-term debt may be issued to finance or refinance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and/ or operated by the District.
 - i. Long-term debt financings are appropriate when the following conditions exist:
 1. When the project to be financed is necessary to provide basic services.
 2. When the project to be financed will provide benefit to constituents over multiple years.
 3. When total debt does not constitute an unreasonable burden to the District and its taxpayers.
 4. When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.



- ii. Long-term debt financings will not generally be considered appropriate for current operating expenses and routine maintenance expenses.

- b. Short-term debt. Short-term debt may be issued to provide financing for the District's operational cash flows in order to maintain a steady and even cash balance.

Short-term borrowings, such as commercial paper and lines of credit, will be considered as an interim source of funding in anticipation of long-term borrowings or another source of repayment. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing-related costs. Prior to the issuance of the short-term debt, a reliable revenue source shall be identified to secure repayment of the debt. The final maturity of the debt issued to finance the project shall be consistent with the economic or useful life of the project and, unless the Board determines that extraordinary circumstances exist, should not exceed ten years.

Short-term debt may also be used to finance short-lived capital projects; for example, the District may undertake lease-purchase financing for equipment and other personal property, and such equipment leases may be longer than ten years.

4. Policy goals

The District is committed to financial planning, maintaining appropriate reserve levels and employing prudent practices in governance, management and budget administration. The District intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the District's annual operating budget.

It is a policy goal of the District to protect taxpayers and constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.

The District will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, assessments, rates and charges.



Except as described in Section 1, when refinancing debt, it shall be the policy or business of the District to realize, whenever possible, positive net present value debt service savings, however, subject to any overriding nonfinancial policy considerations.

5. Internal control procedures

When issuing debt, in addition to complying with the terms of this Debt Policy, the District shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds, where applicable.

The District will periodically review the requirements of and will remain in compliance with the following:

- Any existing covenants imposed in connection with the District's presently outstanding debt;
- Any continuing disclosure undertakings under SEC Rule 15c2-12;
- Any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior debt issues; and
- The District's investment policies as they relate to the investment of debt proceeds.

Whenever prudent, proceeds of debt will be held by a third-party trustee and the District will submit written requisitions for such proceeds. The District will submit requisitions only after obtaining the signature of the Chief Executive Officer or Chief Financial Officer.

6. Debt limits. 6. Debt limits.

The District will comply with applicable law as it pertains to the maximum indebtedness incurred by the District, including, without limitation, the debt limits set forth in The Local Healthcare District Law, California Health and Safety Code, Sections 32000 – 32499.4, California Government Code Section 53852 and California Government Code Section 53859 et seq.



GO Bond Issuance Update

GO Bond Status – Bold Type = Completed

- a. Publish TEFRA Notice (Complete – Friday, July 21st)
- b. District finishes uploading all items to data room (Complete – week of July 24th)
- c. FY 2018: July 1, 2017 – June 30, 2018, tax invoices to be sent late August/early September
- d. Moody's rating agency call (Complete – Tuesday, August 1st at 11:00am PT)
- e. Fitch rating agency meeting (Complete – Wednesday, August 2nd at 1:00pm PT)
- f. 2017-2018 Marin County AV released (Complete – End of July / Early August)
- g. Send preliminary debt service schedule to the County (Complete – Monday, July 31st)
- h. District Board Meeting and TEFRA Hearing (Complete – Tuesday, August 8th)**
 - i. Ratings released (Tuesday, August 22nd)
 - j. Post POS (Tuesday, August 29th)
 - k. Pricing (Tuesday, September 12th)
 - l. Closing (Tuesday, September 26th)



Fitch Rating Agency Report

Fitch Rates Marin Healthcare District, CA's Series 2017 GO Bonds 'AAA'

Fitch Ratings-New York-23 August 2017: Fitch Ratings has assigned a 'AAA' security rating to approximately \$224 million of Marin Healthcare District (district) general obligation (GO) bonds, election of 2013 series 2017.

The Rating Outlook is Stable.

In addition, Fitch has assigned an Issuer Default Rating (IDR) of 'A-/Stable Outlook, to the district, which owns Marin General Hospital (MGH) and 12 clinics located in the county of Marin (county; IDR 'AAA'). The district leases the operation of the hospital to MGH with a lease termination date of Dec. 1, 2045. The district and MGH maintain separate audits. The IDR is based on analysis of MGH's operations, as that is where the relevant operating risk for the district lies.

The series 2017 fixed rate GO bonds will be the final tranche of the total \$394 million voter approved general obligation bond measure to fund the majority of the cost of MGH's replacement facility project due to state mandated seismic requirements. The bonds are expected to price the week of Sept. 11.

The distinction between the 'AAA' rating on the bonds and the 'A-' IDR reflects Fitch's assessment that the pledged revenues on the 2017 bonds meet the definition of 'special revenues' under the U.S. bankruptcy code and therefore bondholders are legally insulated from any operating risk of the hospital.

Market Position

MGH is located in a favorable service area with above average wealth levels and low unemployment. The payor mix is adequate and somewhat reflects 40% of the population being Kaiser insured. MGH maintains a leading market position of approximately 40% in the county compared to the next closest competitor, Kaiser - San Rafael, with approximately 15%. Other competition includes Novato Community Hospital (only other facility in the county) as well as outmigration to San Francisco facilities.

MGH 2.0

The construction of a new hospital building is underway and is currently on time and within budget. The four story 260,000 square foot building will include 161 private rooms. The new facility will also include an expanded emergency room (from 10 to 29 bays), nine additional ICUs (from 10) and six additional ORs (from 7). As of June 30, 2017, the project is approximately 20% complete.

The hospital benefits from philanthropy and there is a capital campaign underway with a goal to raise \$50 million for the project. Currently, \$47 million has been raised, of which \$15.2 million has been received in cash. All the pledges are expected to be received by mid-2020.

Financial Performance

The district and MGH have separate audited financial statements. Under the lease, MGH makes base rent payments to the district and subsidizes operating losses of the clinics. This 'support to related organizations' is reclassified as an operating expense for MGH. Fitch's analysis for the IDR is based on MGH's financials.

MGH had to rebuild significant infrastructure and relationships (IT, revenue cycle, managed care contracting, physician network) since the separation from Sutter and financial performance has significantly improved since it restarted on its own in 2010 with only \$5 million of cash.

There has been strong revenue growth over the last few years due to good volume growth and solid managed care rate increases. Total revenue was \$440 million in 2016 (Dec. 31 year end) and from 2011 (first full year after separation from Sutter), the CAGR was 8.6%. Operating performance is solid with operating EBITDA margins of 8.5% through the six months ended June 30, 2017, 8.6% in 2016 and 8.8% in 2015 compared to the 'A' category median of 10.3%. Fitch expects MGH to sustain its operating performance and maintain operating EBITDA margins in line with the 'A' category median.

Liquidity is light and unrestricted cash and investments at June 30, 2017 totaled \$121.4 million, which equated to 104.8 days cash on hand and 158.2% cash to debt compared to the 'A' category median of 215.5 and 148.6%, respectively. Liquidity is expected to grow quickly as sustained operating cash flow (approximately \$38 million/year) will be used to build reserves. Given the strong community support, the only amount of funding needed from the hospital will be an expected revenue bond issue in 2018 (\$95 million new money) for the project, which has been incorporated in the 'A-' rating. Although unrestricted cash and investments are expected to grow quickly, pro forma cash to debt will drop below the 'A' category median due to the anticipated revenue bond issue.

Debt Profile

MGH currently only has bank debt outstanding, which is expected to be refinanced with the anticipated revenue bond issue. Total debt outstanding at June 30, 2017 was \$76.8 million. Total pro forma debt in 2018 is expected to be approximately \$153 million, including the refinancing. Fitch used pro forma MADS of \$9.7 million, which includes the expected \$95 million of new money. Debt service is level with a 30 year amortization. Pro forma MADS coverage is solid at 4.5x through the six months ended June 30, 2017 compared to 4x in 2016, 3.8x in 2015 and the 'A' category median of 4.5x.



Creating a healthier Marin together.

CITIZENS' BOND OVERSIGHT COMMITTEE

Status of General Obligation Bonds, Funding & Project Costs

August 17, 2017

Bond Requisitions

- As of July 31, 2017, the project fund balance maintained at Bank of New York Mellon was \$56,333,071.63.
- To date, MHD has requested 43 requisitions of bond funds as follows:

Requisition	Date Paid	Hospital Replacement	West Wing Make Ready	Sitework	West Wing Renovation	Hillside Parking Structure	Total
1	12/18/2015	15,468,599.16	3,545,033.43	86,680.70	301,472.04	9,916,287.93	29,318,073.26
2	12/18/2015	6,829.40	45,407.40	-	-	1,342,439.02	1,394,675.82
3	12/31/2015	1,733,061.80	1,113,195.70	-	-	7,500.00	2,853,757.50
4	2/10/2016	4,301,014.57	1,210,694.71	-	-	2,581,072.52	8,092,781.80
5	2/25/2016	1,694,775.67	104,546.60	-	-	1,045,944.02	2,845,266.29
6	3/4/2016	135,293.86	665,495.00	-	-	36,085.91	836,874.77
7	3/14/2016	770,969.12	53,760.83	-	-	1,381,324.26	2,206,054.21
8	3/22/2016	550.00	-	-	-	-	550.00
9	4/6/2016	193,781.25	891,257.50	-	-	19,988.91	1,105,027.66
10	4/12/2016	569,216.35	111,563.39	-	-	1,572,180.96	2,252,960.70
11	4/25/2016	826,269.32	-	-	-	41,333.00	867,602.32
12	5/10/2016	616,625.10	718,475.00	-	-	805.00	1,335,905.10
13	5/24/2016	981,151.49	1,090,745.83	-	-	1,641,958.26	3,713,855.58
14	6/17/2016	318,748.31	98,805.24	-	3,700.00	152,128.52	573,382.07
15	6/21/2016	765,435.16	49,942.00	-	-	1,134,320.82	1,949,697.98
16	7/8/2016	287,438.39	862,449.00	-	-	10,719.41	1,160,606.80
17	7/29/2016	730,142.97	448,345.00	-	-	1,042,196.16	2,220,684.13
18	8/3/2016	833,704.70	-	-	-	26,435.00	860,139.70
19	8/26/2016	196,531.25	4,255.00	-	-	3,799.50	204,585.75
20	8/30/2016	644,231.81	19,913.22	-	-	1,176,595.98	1,840,741.01
21	9/13/2016	191,625.50	256,074.61	-	-	1,128.41	448,828.52
22	9/26/2016	2,741,092.61	517,823.00	-	-	112,488.32	3,371,403.93

Bond Requisitions

Requisition	Date Paid	Hospital Replacement	West Wing Make Ready	Sitework	West Wing Renovation	Hillside Parking Structure	Total
23	10/12/2016	272,501.29	35,879.36	-	-	-	308,380.65
24	10/25/2016	3,285,210.45	264,975.50	-	-	56,948.56	3,607,134.51
25	11/16/2016	129,385.50	53,795.97	-	-	3,333.91	186,515.38
26	11/18/2016	2,678,596.05	61,103.00	-	-	103,138.47	2,842,837.52
27	12/8/2016	315,307.37	-	-	-	1,243.73	316,551.10
28	12/23/2016	2,879,611.73	288,647.39	-	-	60,612.99	3,228,872.11
29	1/10/2017	118,025.00	12,000.00	-	-	-	130,025.00
30	1/18/2017	4,721,867.85	943,517.17	-	-	689,315.45	6,354,700.47
31	2/6/2017	279,749.25	-	-	-	-	279,749.25
32	2/15/2017	1,476,733.16	12,000.00	-	-	1,128.41	1,489,861.57
33	2/28/2017	4,044,452.65	243,338.87	-	-	161,485.75	4,449,277.27
34	3/21/2017	431,110.81	12,000.00	-	-	61,331.80	504,442.61
35	3/27/2017	6,082,790.94	94,981.00	-	-	88,492.52	6,266,264.46
36	4/10/2017	351,325.80	33,535.84	-	-	-	384,861.64
37	5/2/2017	4,622,016.21	71,334.00	-	-	49,842.91	4,743,193.12
38	5/15/2017	65,273.70	12,000.00	-	-	-	77,273.70
39	6/6/2017	4,602,592.11	66,914.00	-	-	-	4,669,506.11
40	6/9/2017	84,026.70	12,000.00	-	-	-	96,026.70
41	6/15/2017	60,758.24	301,790.00	-	-	270.00	362,818.24
42	7/7/2017	3,872,069.31	12,000.00	-	-	-	3,884,069.31
43	7/31/2017	450,363.11	-	-	-	4,522.88	454,885.99
Total		74,830,855.02	14,339,594.56	86,680.70	305,172.04	24,528,399.29	114,090,701.61

MGH 2.0

- ✓ Total project cost is estimated at \$534,864,000.
- ✓ Additional funding from ongoing operations, philanthropic resources and revenue bonds (estimated in 2018) will be used to bridge the gap from \$394M to \$535M.
- ✓ As of July 31, 2017, \$137.0M in expenses have been incurred for MGH 2.0 as follows:

• Hospital Replacement	\$95.0M
• Hillside Parking Structure	\$25.4M
• West Wing Make Ready	\$15.7M
• West Wing Renovation	\$0.6M
• Site Work	\$0.3M
• Total	\$137.0M

Project Funds Expended

Spec Section	Specification Name		2010	2011	2012	2013	2014	2015	2016	07/31/17	Total
	Hillside Parking Structure										
1.00000	Property Acquisition	-	-	-	-	-	-	-	-	-	-
2.00000	Design	1,181,000	-	-	245,778	47,074	656,553	432,935	297,956	-	1,680,296
3.00000	Permits & Fees	817,000	-	-	-	-	20,802	438,599	145,657	(21,412)	583,646
4.00000	Construction	23,709,000	-	-	-	-	-	12,223,999	10,251,147	19,455	22,494,601
5.00000	Owner Purchased FF&E	30,000	-	-	-	-	-	-	163,853	382,648	546,501
6.00000	Major Medical Equipment	-	-	-	-	-	-	-	-	-	-
7.00000	Data / Communications	225,000	-	-	-	-	-	12,217	59,699	-	71,916
A	Total Hillside Parking Structure Costs	25,962,000	-	-	245,778	47,074	677,355	13,107,750	10,918,312	380,691	25,376,960
	B Sitework Project										
1.00000	Property Acquisition	-	-	-	-	-	-	-	-	-	-
2.00000	Design	1,314,000	-	79,624	-	183,393	-	-	-	-	263,017
3.00000	Permits & Fees	702,000	-	-	-	-	-	-	-	-	-
4.00000	Construction	9,245,000	-	-	-	-	-	-	-	-	-
5.00000	Owner Purchased FF&E	-	-	-	-	-	-	-	-	-	-
6.00000	Major Medical Equipment	-	-	-	-	-	-	-	-	-	-
7.00000	Data / Communications	100,000	-	-	-	-	-	-	-	-	-
B	Total Sitework Project Costs	11,361,000	-	79,624	-	183,393	-	-	-	-	263,017
	C Hospital Replacement Building Project										
1.00000	Property Acquisition	-	-	-	-	-	-	-	-	-	-
2.00000	Design	27,797,000	5,307,908	1,562,490	878,666	682,814	4,705,174	12,550,989	6,159,089	700,000	32,547,131
3.00000	Permits & Fees	16,072,000	-	-	-	-	-	2,863,363	1,391,745	2,757,090	7,012,198
4.00000	Construction	348,281,000	-	-	-	-	-	99,878	19,509,752	34,365,150	53,974,779
5.00000	Owner Purchased FF&E	8,612,000	-	-	-	-	-	-	8,177	218,750	226,927
6.00000	Major Medical Equipment	31,745,000	-	-	-	-	-	-	614,415	353,591	968,006
7.00000	Data / Communications	7,446,000	-	-	-	-	-	6,132	-	279,199	285,331
C	Total Hospital Replacement Building Project Costs	439,953,000	5,307,908	1,562,490	878,666	682,814	4,705,174	15,520,362	27,683,178	38,673,780	95,014,373
	D West Wing Make Ready Project										
1.00000	Property Acquisition	-	-	-	-	-	-	-	-	-	-
2.00000	Design	1,385,000	-	178,616	18	24,093	438,524	1,930,128	470,949	150,000	3,192,327
3.00000	Permits & Fees	538,000	-	-	-	-	-	100,718	356,214	-	456,931
4.00000	Construction	16,577,000	-	-	-	-	-	3,375,173	6,920,092	1,792,000	12,087,265
5.00000	Owner Purchased FF&E	100,000	-	-	-	-	-	-	-	-	-
6.00000	Major Medical Equipment	-	-	-	-	-	-	-	-	-	-
7.00000	Data / Communications	-	-	-	-	-	-	337	432	-	769
D	Total West Wing Make Ready Project Costs	18,600,000	-	178,616	18	24,093	438,524	5,406,355	7,747,686	1,942,000	15,737,291
	E West Wing Renovation										
	Design	3,968,000	-	296,623	-	-	-	301,472	3,700	-	601,795
	Permit	2,116,000	-	-	-	-	-	-	-	-	-
	Construction	32,904,000	-	-	-	-	-	-	-	-	-
E	Total West Wing Renovation Costs	38,988,000	-	296,623	-	-	-	301,472	3,700	-	601,795
F	Total Project Costs	534,864,000	5,307,908	2,117,353	1,124,462	937,373	5,821,053	34,335,939	46,352,875	40,996,471	136,993,436

Projected Costs

Spec Section	Specification Name	2017	2018	2019	2020	9/30/21	Total Budget Remaining	Total
	Hillside Parking Structure							
1.00000	Property Acquisition	-	-	-	-	-	-	-
2.00000	Design	-	-	-	-	-	-	1,680,296
3.00000	Permits & Fees	-	-	-	-	-	-	583,646
4.00000	Construction	25,000	-	-	-	-	25,000	22,519,601
5.00000	Owner Purchased FF&E	-	-	-	-	-	-	546,501
6.00000	Major Medical Equipment	-	-	-	-	-	-	-
7.00000	Data / Communications	-	-	-	-	-	-	71,916
A	Total Hillside Parking Structure Costs	25,000	-	-	-	-	25,000	25,401,960
	B Sitework Project							
1.00000	Property Acquisition	-	-	-	-	-	-	-
2.00000	Design	43,192	586,857	420,934	-	-	1,050,983	1,314,000
3.00000	Permits & Fees	-	401,143	300,857	-	-	702,000	702,000
4.00000	Construction	-	5,328,682	3,916,318	-	-	9,245,000	9,245,000
5.00000	Owner Purchased FF&E	-	-	-	-	-	-	-
6.00000	Major Medical Equipment	-	-	-	-	-	-	-
7.00000	Data / Communications	-	57,143	42,857	-	-	100,000	100,000
B	Total Sitework Project Costs	43,192	6,373,825	4,680,966	-	-	11,097,983	11,361,000
	C Hospital Replacement Building Project							
1.00000	Property Acquisition	-	-	-	-	-	-	-
2.00000	Design	450,000	900,000	900,000	225,000	-	2,475,000	35,022,131
3.00000	Permits & Fees	1,483,308	2,966,615	1,898,959	-	-	6,348,882	13,361,080
4.00000	Construction	48,909,560	160,605,224	77,734,476	3,128,572	-	290,377,832	344,352,611
5.00000	Owner Purchased FF&E	1,587,188	6,750,290	-	-	-	8,337,478	8,564,405
6.00000	Major Medical Equipment	3,095,138	15,951,863	12,698,000	-	-	31,745,001	32,713,007
7.00000	Data / Communications	492,367	4,524,376	2,054,735	-	-	7,071,478	7,356,809
C	Total Hospital Replacement Building Project Costs	56,017,561	191,698,368	95,286,170	3,353,572	-	346,355,671	441,370,043
	D West Wing Make Ready Project							
1.00000	Property Acquisition	-	-	-	-	-	-	-
2.00000	Design	-	-	-	-	-	-	3,192,327
3.00000	Permits & Fees	-	-	-	-	-	-	456,931
4.00000	Construction	1,225,000	-	-	-	-	1,225,000	13,312,265
5.00000	Owner Purchased FF&E	-	-	-	-	-	-	-
6.00000	Major Medical Equipment	-	-	-	-	-	-	-
7.00000	Data / Communications	-	-	-	-	-	-	769
D	Total West Wing Make Ready Project Costs	1,225,000	-	-	-	-	1,225,000	16,962,291
	E West Wing Renovation							
	Design	-	317,440	2,515,499	536,966	-	3,369,905	3,971,700
	Permit	-	-	1,198,253	793,012	124,736	2,116,001	2,116,001
	Construction	-	79,350	2,813,718	20,885,337	9,125,595	32,904,000	32,904,000
E	Total West Wing Renovation Costs	-	396,790	6,527,470	22,215,315	9,250,331	38,389,906	38,991,701
F	Total Project Costs	57,310,753	198,468,983	106,494,606	25,568,887	9,250,331	397,093,559	534,086,995