

Memorandum

To: Jurg Heuberger, Executive Officer, Imperial LAFCo

From: Matt Kowta, MCP, Managing Principal

Date: November 7, 2023

Re: Hospital Fiscal Projections

The attached printouts detail the fiscal projections prepared by BAE for two hospital district expansion scenarios considered by Imperial LAFCo. These include Option 1, a countywide expansion of the Pioneers Memorial Hospital District (PMHD) that would absorb both El Centro Regional Medical Center (ECRMC) and the Heffernan Memorial Hospital District (HMHD), and Option 2, an expansion of the PMHD to the entire county except the City of El Centro. Under Option 2, PMHD would not absorb ECRMC but would absorb HMHD. The analysis assumes that projected annual funding gaps would need to be filled by a newly established, voter-approved parcel tax within each respective Option's service area (i.e., countywide for Option 1, countywide minus the City of El Centro for Option 2).

Table 1 outlines the key features and assumptions for Option 1 and Option 2.

Table 2 summarizes the projected ongoing annual funding gap for Option 1.

Table 3 summarizes the projected ongoing annual funding gap for Option 2.

Table 4 summarizes the estimated average annual tax levy that would need to be applied to each taxable parcel in order to close the projected annual funding gaps identified at the bottom of Tables 2 and 3. Table estimates higher annual parcel tax levies for an initial six-year period during which debt to the State's Distressed Hospital Loan Program (DHL) would be repaid, and then lower ongoing annual parcel tax levies for subsequent years, once the DHL program debts are paid off.

Appendix A summarizes historical budget information for PMHD and ECRMC which was used to estimate the Existing Structural Budget Gaps for the two hospital systems.

Appendix B provides detail on Estimated Administrative Costs for PMHD and ECRMC, for the purposes of estimating potential administrative cost savings under Option 1.

Appendix C provides detail on PMHD Earthquake Retrofit and IT Capital Upgrade Debt Service Assumptions.

The assumptions and calculations included in the attached tables and appendices were reviewed in draft form on several occasions with Imperial County hospital system stakeholders, including representatives of PMHD, ECRMC, Imperial LAFCo, City of El Centro and County of Imperial.

At a meeting of stakeholders convened by LAFCo on November 2, 2023, BAE presented a draft set of Hospital Fiscal Projections to the stakeholder group for review and discussion. The group agreed that the projections provided a reasonable representation of the funding needs under the two hospital district expansion options considered. BAE subsequently made some minor labeling adjustments to the tables for clarity and is now providing the attached set of calculations for LAFCo's use.

Table 1: Summary of Hospital District Options and Assumptions

Description	Option 1:	Option 2:
	<u>Countywide Expansion</u>	<u>Countywide Expansion Minus El Centro</u>
Description	Pioneers expands to cover entire county and absorbs El Centro Regional Medical Center and Heffernan Memorial Healthcare District	Pioneers expands to entire county, less City of El Centro, and also absorbs Heffernan Memorial Healthcare District
Comment	Potential economies of scale and creation of countywide taxing district	No economies of scale; ECRMC remains independent; expanded taxing district for Pioneers is countywide less City of El Centro
Existing Structural Budget Gaps		
Pioneers	~\$1 million/year	~\$1 million/year
ECRMC	~\$10 million/year	N.A.
Cost Savings		
Administrative Costs	Save 25% of estimated current admin. costs for PMHD and ECRMC	N.A.
UCSD Synergies (KH)	~\$7.5 million/per year	N.A.
Performance Improvement (KH)	~\$5 million/year	N.A.
Outmigration Mitigation (KH)	~\$0.8 million/year	N.A.
Increased Debt Service	Annual Debt Service for ~\$130 million capital cost for Pioneers seismic upgrades	Annual Debt Service for ~\$130 million capital cost for Pioneers seismic upgrades
	\$20 million for IT upgrades to enable UCSD Synergies	N.A.
	\$9.3 million/yr Loan Repayment (\$56 million total, averaged over 6-year repayment period) for Distressed Hospital Loan Program Loans for PMHD and ECRMC	\$4.7 million/yr Loan Repayment (\$28 million total, averaged over 6-year repayment period) for Distressed Hospital Loan Program for PMHD only
Potential Revenue Losses		
Reduction in Supplemental Payments (SCA)	~\$2.2 million/yr	N.A.
Potential Revenue Increases		
Increased Medicare Reimbursement, Sole Community Hospital Status (PMHD)	~\$5 million/yr	N.A.
Transfer of Heffernan Property Tax to Expanded District	\$853,000 in 2022-2023 \$	\$853,000 in 2022-2023 \$
Taxing District	Countywide	Countywide minus City of El Centro

Sources: Kaufman-Hall, 2023; Steve Clark & Associates, ECRMC, PMHD, HHMD, County of Imperial, BAE, 2023.

Table 2: Option 1: Countywide Hospital District Expansion

Existing Net Change in Position (Annual)

Pioneers Memorial Health Care District (a)	(\$1,000,000) per year
El Centro Regional Medical Center (b)	(\$10,000,000) per year

Potential Cost Savings/Revenue Increases (Annual)

Combined Administrative Savings (c)	\$4,390,000 per year
Other Combined Operating Impacts (d)	\$13,300,000 per year

Increased Debt Service (Annual)

Pioneers New Debt Service (e)	(\$12,220,000) per year
Distressed Hospital Loan Repayment (f)	(\$9,333,333) per year, 6 fiscal years

Potential Revenue Losses/New Revenue Needs

Reduction in Supplemental Payments (g)	(\$2,200,000)
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Potential Revenue Increases (Annual)

Consolidated District Revenue Increase (h)	\$5,000,000 per year
Transfer of HHMD Property Tax Base	\$850,000 per year

TOTAL FUNDING GAP, ANNUAL (First 6 Fiscal Years) (\$11,213,000) per year

Total Funding Gap, Annual (Fiscal Years 7+) (\$1,879,667) per year

Notes:

(a) See Appendix A

(b) See Appendix A

(c) Assumes 25% savings from combined PMHD and ECRMC administrative costs estimated in Appendix B.

(d) From Kaufmann-Hall 2023 Executive Summary: UCSD Synergies, Performance Improvement, Outmigration Mitigation.

(e) See Appendix C.

(f) \$56 million combined PMHD and ECRMC loans, interest free, divided equally over 6 fiscal years.

(g) Potential decrease in supplemental payments (e.g., Medi-Cal QIP) estimated by Steve Clark & Associates.

(h) Estimated increase in Medicare reimbursements for single, countywide hospital district, estimated by PMHD.

Sources: Kaufman-Hall, Steve Clark & Associates, PMHD, BAE, 2023.

Table 3: Option 2: Countywide Hospital District Minus City of El Centro

Existing Net Change in Position (Annual)

Pioneers Memorial Health Care District (a)	(\$1,000,000) per year
El Centro Regional Medical Center	not applic.

Potential Cost Savings/Revenue Increases (Annual)

Combined Administrative Savings	not applic.
Combined Operating Efficiencies	not applic.

Increased Debt Service (Annual)

Pioneers New Debt Service (b)	(\$10,148,024) per year
Distressed Hospital Loan Repayment (c)	(\$4,666,667) per year, 6 fiscal years

Potential Revenue Losses

Reduction in Supplemental Payments	not applic.
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Potential Revenue Increases (Annual)

Consolidated District Revenue Increase	not applic.
Transfer of HHMD Property Tax Base	\$850,000 per year

TOTAL FUNDING GAP, ANNUAL (First 6 Fiscal Years)

(\$14,960,000) per year

Total Funding Gap, Annual (Fiscal Years 7+)(\$10,293,333) per year

Notes:

- (a) See Appendix A
- (b) See Appendix C
- (c) \$28 million PMHD loan, interest free, divided equally over 6 fiscal years.

Source: BAE, 2023.

Table 4: Estimated Parcel Levies, Options 1 and 2

Years 1-6 (Until Emergency Loan Repayments Are Complete) (2023\$)

	Option 1 (Countywide Hospital District)	Option 2 (Countywide Hospital District Less City of El Centro)
Estimated Annual Deficit	<u>(\$11,213,000)</u>	<u>(\$14,960,000)</u>
Total Taxable Parcels	79,841 (a)	69,600 (b)
Average Annual Tax Per Parcel (c)	\$140.44	\$214.94

Years 7+ (2023 \$)

	Option 1 (Countywide Hospital District)	Option 2 (Countywide Hospital District Less City of El Centro)
Estimated Annual Deficit (d)	<u>(\$1,879,667)</u>	<u>(\$10,293,333)</u>
Total Taxable Parcels	79,841 (a)	69,600 (b)
Average Annual Tax Per Parcel (c)	\$23.54	\$147.89

Notes:

- (a) Total parcels countywide with County taxability code of 000, 60, 70, 200, 800, 801, 860.
(b) Total parcels countywide, minus parcels in City of El Centro, with County taxability code of 000, 60, 70, 200, 800, 801, 860.
(c) Average levy per taxable parcel necessary to generate revenues sufficient to offset projected annual revenue shortfall.
(d) Estimated annual deficit from Years 1-6 minus Distress Hospital Loan repayment amount.

Sources: County of Imperial, 2023; BAE, 2023.

Appendix A: Hospital District Budget Summaries and Change in Net Position 2016/17 to 2023/24

	Actual 16/17	Actual 17/18	Actual 18/19	Actual 19/20	Actual 20/21	Actual 21/22	Unaudited 22/23	Budgeted 23/24	7-Year Average
Pioneers Memorial Healthcare District									
Operating Revenues	\$117,777,372	\$126,497,891	\$126,397,043	\$116,352,607	\$126,433,402	\$128,588,031	\$126,968,394	\$156,445,540	
Operating Expenses	\$121,140,409	\$124,503,091	\$131,933,752	\$130,427,530	\$136,604,641	\$144,177,596	\$139,160,947	\$154,419,170	
Net Operating Income (Loss)	(\$3,363,037)	\$1,994,800	(\$5,536,709)	(\$14,074,923)	(\$10,171,239)	(\$15,589,565)	(\$12,192,553)	\$2,026,370	
Non-Operating Revenues (Expenses)									
District Tax Revenues	\$3,039,653	\$3,019,504	\$3,116,580	\$3,186,692	\$3,221,789	\$3,238,942	\$3,228,671	\$1,645,830	
Investment Income	\$411,453	\$132,344							
Interest Expense	(\$390,751)	(\$681,051)	(\$918,015)	(\$855,998)	(\$846,324)	(\$722,961)	(\$692,534)	(\$666,672)	
Contributions, net	\$95,627	\$98,874							
Other non-operating income (expenses)	(\$252,993)	(\$286,803)	\$1,216,033	\$13,970,522	\$10,914,057	\$3,976,933	\$4,775,969	\$539,565	
Change in Net Position	(\$460,048)	\$4,277,668	(\$2,122,111)	\$2,226,293	\$3,118,283	(\$9,096,651)	(\$4,880,447)	\$3,545,093	(\$991,002)
Net Position									
Beginning of Year	\$45,728,344	\$45,268,296	\$49,545,964	\$47,423,853	\$49,650,146	\$52,768,429	\$43,671,778	\$38,791,331	
End of Year	\$45,268,296	\$49,545,964	\$47,423,853	\$49,650,146	\$52,768,429	\$43,671,778	\$38,791,331	\$42,336,424	
El Centro Regional Medical Center									
Operating Revenues	\$131,014,558	\$156,801,391	\$163,792,187	\$153,709,185	\$166,205,189	\$164,111,822	\$152,505,000	\$156,078,000	
Operating Expenses	\$142,573,997	\$154,502,982	\$166,354,132	\$168,610,738	\$187,091,952	\$184,124,064	\$173,986,000	\$161,490,000	
Net Operating Income (Loss)	(\$11,559,439)	\$2,298,409	(\$2,561,945)	(\$14,901,553)	(\$20,886,763)	(\$20,012,242)	(\$21,481,000)	(\$5,412,000)	
Non-Operating Revenues (Expenses)									
District Tax Revenues	-	-	-	-	-	-	-	-	
Investment Income	\$250,995	\$721,292	\$2,189,924	\$3,195,868	\$5,769,935	(\$2,527,065)	\$510,000	\$83,000	
Interest Expense	(\$921,893)	(\$1,970,575)	(\$4,291,609)	(\$5,015,847)	(\$4,657,158)	(\$7,390,971)	(\$7,456,000)	(\$7,268,000)	
Contributions, net	\$283,995	\$476,362	\$843,487	\$14,854,667	\$21,815,438	\$5,040,463	\$684,000	\$677,000	
Other non-operating income (expenses)	\$96,683	(\$2,821,349)	\$30,442	\$334,576	\$15,394	\$149,378	\$1,152,000	\$2,130,000	
Change in Net Position	(\$11,849,659)	(\$1,295,861)	(\$3,789,701)	(\$1,532,289)	\$2,056,846	(\$24,740,437)	(\$26,591,000)	(\$9,790,000)	(\$9,677,443)
Net Position									
Beginning of Year	\$64,600,281	\$52,750,622	\$51,454,761	\$47,665,060	\$42,762,362	\$44,819,208	\$20,078,771	(\$6,512,229)	
End of Year	\$52,750,622	\$51,454,761	\$47,665,060	\$46,132,771	\$44,819,208	\$20,078,771	(\$6,512,229)	(\$16,302,229)	

Sources: Respective Hospital District Budget Summaries; BAE, 2023.

Appendix B: PMHD Administrative Costs and ECRMC Administrative Cost Estimate

PMHD Responsibility Comparison Income Statement Administrative Cost Breakdown												
Income Statement	8610-ADMINISTRATIVE (a) Jun 24 Bud YTD	8650-PERSONNEL Jun 24 Bud YTD	8510-GENERAL ACCTNG Jun 24 Bud YTD	8630-PUBLIC REL Jun 24 Bud YTD	QUALITY (b) Jun 24 Bud YTD	8796-COMPLIANCE Jun 24 Bud YTD	8620-GOVERNING BOARD Jun 24 Bud YTD	8480-INFO SYSTEMS Jun 24 Bud YTD	8530-PATIENT ACCTNG Jun 24 Bud YTD	8710- MEDICAL STAFF Jun 24 Bud YTD	5700- MEDICAL RECORDS Jun 24 Bud YTD	Total
NET INCOME	-2,391,616	-633,852	-878,000	-377,214	-727,062	-251,017	-652,515	-4,432,604	-2,263,012	-318,398	-1,935,365	-14,860,655
OPERATING MARGIN	-2,391,616	-633,852	-878,000	-377,214	-727,062	-251,017	-652,515	-4,432,604	-2,263,012	-318,398	-1,935,365	-14,860,655
Other Operating Revenue												2,608
TOTAL OPERATING EXPENSES	2,391,616	633,852	878,000	377,214	727,062	251,017	652,515	4,432,604	2,263,012	318,398	1,937,973	14,863,263
SALARIES	608,753	430,044	567,603	89,576	671,442	222,176	324,120	872,867	1,170,768	226,570	1,025,437	6,209,356
ALL NON-LABOR	1,782,863	203,808	310,397	287,638	55,620	28,841	328,395	3,559,737	1,092,244	91,828	912,536	8,653,907
CONTRACT LABOR												460,404
PRO FEES	0	0	113,000	0	21,000	0	280,000	0	0	38,068	0	452,068
SUPPLIES	52,732	4,681	7,962	13,924	1,075	1,177	1,276	22,947	14,626	23,829	20,424	164,653
PURCHASED SERVICES	1,232,729	147,821	9,921	268,937	12,000	6,164	8,215	193,850	898,369	18,500	223,000	3,019,506
REPAIRS and MAINTENANCE	48,776	24,717	0	0	0	0	0	2,315,572	93,000	0	203,851	2,685,916
OTHER EXPENSE	448,626	26,589	179,514	4,777	21,545	21,500	38,904	1,027,368	86,249	11,431	4,857	1,871,360
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Benefits, 30% of Salaries	182,625.90	129,013.20	170,280.90	26,872.80	201,432.60	66,652.80	97,236.00	261,860.10	351,230.40	67,971.00	307,631.10	1,862,807
Chief Nursing/Chief Clinics + benefits (c)	508,109											508,109
Pioneers 2023-24 Administrative Salaries and Benefits (d)												\$8,580,272
Pioneers 2023-2024 Operating Expenses												\$154,419,170
Administrative as % of Operating Expense												5.56%

Estimated ECRMC Administrative Costs	
ECRMC 2023-2024 Operating Expenses	\$161,490,000
ECRMC 2023-2024 Estimated Administrative Expenses (e)	\$8,973,161

Estimated Combined PMHD+ ECRMC Administrative Costs \$17,553,433

Notes:

- (a) Admin has CEO (6 months), CFO, Half time Assistant
- (a) Admin 6 months is part of Purchase Serv is Interim CEO contract
- (b) Quality is Quality, Risk and Infection Control
- (c) Includes salaries and benefits for two positions that provide administrative oversight over all PMHD nursing and clinics operations.
- (d) For study purposes, includes only gray highlighted Salaries plus Benefits. Additional potential Non-Labor administrative cost savings not included.
- (e) Assumes that ECRMC administrative cost is same % of operating budget as PMHD.

Sources: PMHD, BAE, 2023.

Appendix C: PMHD Earthquake Retrofit and IT Capital Upgrade Debt Service Assumptions

	<u>Scenario 1</u>	<u>Scenario 2</u>
Funding Needed for Seismic Upgrades (a)	\$130,000,000	\$130,000,000
IT Capital for UCSD Synergy Realization	\$20,000,000	n.a.
Working Capital	\$6,500,000	n.a.
<i>Sub-Total, Net Bond Proceeds Needed</i>	<i>\$156,500,000</i>	<i>\$130,000,000</i>
Costs of Issuance, Capitalized Interest, Debt Service Reserve, etc. (b)	\$31,300,000	\$26,000,000
Total Bond Size	\$187,800,000	\$156,000,000
Bond Term (years)	30	30
Bond Interest Rate (annual)	5.0%	5.0%
Annual Bond Debt Service	\$12,216,660	\$10,148,024

Note:

(a) Assumes \$130 million capital improvement program for PMHD facilities earthquake upgrades.

(b) Estimated at 20% of Net Bond Proceeds Needed.

Sources: County of Imperial, CA Debt and Investment Advisory Commission, BAE, 2023.