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MENDOCINO COAST HEALTH CARE DISTRICT
MCHCD provides a hospital and fosters leadership, advocacy and collaboration for our community health and well-being.

TO: BOARD OF DIRECTORS **BOD Meeting: 11/19/2026**

FROM: Katharine Wylie, Administrator, Wayne Allen, CFO **Item: 3c)**

SUBJECT: STAFF REPORT - Public Hearing and Adoption of Resolution 2026-5 Approving the Issuance of Certificates of Participation (2026 Seismic Improvements Project) and Related Financing Documents

RECOMMENDED ACTION

Staff recommends that the Board: (1) conduct and close the public hearing required under Internal Revenue Code section 147(f) regarding the proposed issuance of the Certificate and the change in use and deemed reissuance of the 2016 General Obligation Bonds; and (2) adopt Resolution 2026-5, approving the Lease-Purchase Agreement and the Trust Agreement, authorizing the Designated Officers to execute those documents and accept the Bank's offer to purchase the Certificate within the parameters set forth in the Resolution, and approving the related official actions described in this report.

BACKGROUND

The Mendocino Coast District Hospital, portions of which were constructed several decades ago, is subject to state-mandated seismic safety requirements administered by the California Department of Health Care Access and Information (HCAI), with a statewide compliance deadline of January 1, 2030. To meet this mandate, the District must complete a series of structural and nonstructural seismic improvements to the hospital facility (the "Project"), which is owned by the District and operated by Adventist Health Mendocino Coast under a long-term lease.

The Board has previously approved a Plan of Finance, dated December 11, 2025, to fund the Project in two phases. The first phase, which is the subject of this staff report, is a short-term, mostly interest-only financing intended to provide the District time to complete the seismic improvements. Once the Project is complete and District operations and facilities are stabilized and viable on a long-term basis, the District intends to pursue a second phase: a long-term, fixed-rate takeout financing, likely subsidized or insured through the Cal-Mortgage program (administered by HCAI) or other similar programs, to retire this bridge financing on permanent terms. The financing described below implements the first phase of that previously approved Plan of Finance; it is not a new or different approach.

THE PROPOSED FINANCING

The District proposes to finance the Project through the issuance of Certificates of Participation (the "Certificate") under a lease-purchase structure. The District will lease the Project to the CSDA Finance Corporation (the "Corporation"), which will simultaneously lease it back to the District in exchange for Lease Payments. The Corporation will assign its rights under the Lease Agreement to U.S. Bank Trust Company, N.A. (the "Trustee") under a Trust Agreement, and the Trustee will execute and deliver the Certificate, which will be purchased directly by Tri Counties Bank (the "Bank" or "Lender") in a private placement. The Certificate will not be rated, registered, or assigned a CUSIP number, consistent with its status as a single instrument held by one bank lender.

Below is a summary of the key financing terms, based on the Sources and Uses of Funds and Bond Debt Service schedule prepared by Hilltop Securities Inc. as of November 4, 2026, with the 4.85% fixed interest rate locked by Tri Counties Bank through December 11, 2026.

SUMMARY OF FINANCING TERMS

- Par Amount: $19,000,000
- Interest Rate: 4.85%, fixed, rate locked through December 11, 2026
- Dated Date / Closing (Delivery) Date: December 10, 2026
- Final Maturity: August 1, 2033 (approximately a seven-year term from closing)
- Amortization: Interest-only, payable semi-annually ($460,750 per payment on each February 1 and August 1), through February 1, 2032. One principal payment of $583,779 is scheduled for August 1, 2032 (year 6, one year before final maturity); this represents what the annual principal payment would be if this financing were structured on a full 20-year amortization schedule, and accommodates the Bank's requirement that a portion of principal be repaid before final maturity. The remaining outstanding principal balance is due at the August 1, 2033 final maturity.
- Total Interest over the life of the financing: $6,091,982.55
- Total Debt Service: $25,091,982.55
- Debt Service Reserve Fund (DSRF): $921,500, equal to one year of maximum annual interest-only debt service, funded by a District cash contribution rather than from Certificate proceeds.
- Cost of Issuance: $300,000 (see breakdown under Fiscal Impact below)
- Project Fund Deposit (net proceeds available for the Project): $18,700,000
- True Interest Cost (TIC): 4.851%; All-In TIC (including cost of issuance): 5.136%

- Prepayment: the financing will include borrower-favorable prepayment terms so the District can pay down the Certificate early using cash on hand, without an onerous penalty, if and when that becomes advantageous.

Bond Year Ending	Principal	Interest	Debt Service	Bond Balance
08/01/2027	—	$591,296	$591,296	$19,000,000
08/01/2028	—	$921,500	$921,500	$19,000,000
08/01/2029	—	$921,500	$921,500	$19,000,000
08/01/2030	—	$921,500	$921,500	$19,000,000
08/01/2031	—	$921,500	$921,500	$19,000,000
08/01/2032	$583,779	$921,500	$1,505,279	$18,416,221
08/01/2033	$18,416,221	$893,187	$19,309,408	$0
Total	**$19,000,000**	**$6,091,983**	**$25,091,983**	

Figures above are rounded to the nearest dollar; totals may differ from unrounded source figures by a dollar due to rounding.

FINANCING DOCUMENTS

The Board is being asked to approve the following documents, each of which is summarized briefly below.

Lease-Purchase Agreement.

The Lease-Purchase Agreement between the District and the Corporation documents the lease/leaseback structure described above. It obligates the District to make semi-annual Lease Payments, which are used to pay debt service on the Certificate, and it sets out the District's covenants to the Bank, including financial reporting, insurance, restrictions on disposing of or encumbering the Hospital without the Bank's consent, and a covenant to pursue take-out financing. Security for the Lease Payments is the District's Pledged Revenues (described below); there is no pledge of real property.

Trust Agreement.

The Trust Agreement among the Trustee, the Corporation, and the District establishes the Certificate, the Project Fund, and the Debt Service Reserve Fund, and sets out the mechanics for collecting Lease Payments from the District and paying debt service to the Bank as the registered owner of the Certificate. It confirms Tri Counties Bank as the Original Purchaser and owner of the Certificate for so long as the Bank holds it.

Term Sheet/Commitment Letter.

Tri Counties Bank's commitment letter sets out the terms the Bank is willing to lend on, including the par amount, interest rate, amortization structure, security (a first lien on the District's Pledged Revenues, consisting of General Operating Ad Valorem Tax Revenues and Gross Revenues, including lease revenue from Adventist Health, with no

pledge of real property), the Debt Service Reserve Fund requirement, reporting covenants, and the prepayment schedule. The Lease-Purchase Agreement and Trust Agreement implement these terms.

Resolution 2026-5.
The Resolution is the Board's formal approval of the financing. It authorizes the Designated Officers (the President and Vice President of the Board, and the Agency Administrator and CFO) to execute the Lease-Purchase Agreement and Trust Agreement, approves the Phase I plan of finance for purposes of the TEFRA hearing described below, and approves the change in use and deemed reissuance of the District's 2016 General Obligation Bonds described below. The Resolution authorizes a not-to-exceed par amount of $21,000,000 and a maximum interest rate of 6.00%, both of which provide headroom above the $19,000,000 par and 4.85% rate currently locked with Tri Counties Bank, so that modest changes in final terms before closing would not require the Board to reconvene for a second approval.

THE TEFRA PUBLIC HEARING

Because the Certificate is tax-exempt, federal tax law (Internal Revenue Code section 147(f), commonly referred to as the "TEFRA" requirement) requires that an "applicable elected representative" of the jurisdiction where the financed project is located approve the plan of finance, following reasonable public notice and a public hearing at which interested persons may comment on the financing and the nature and location of the facilities being financed. For this financing, the Board of Directors serves as that applicable elected representative. Notice of the hearing has been posted to the District's website in advance of this meeting as required. The public hearing is to be held prior to adoption of the Resolution as a part of the agenda item. Adopting the resolution approving the financing includes, for the purposes meeting the TEFRA requirements, approval of the proposed plan of finance for the Project and approval of the change in use and deemed reissuance of the 2016 General Obligation Refunding Bonds (detailed in the next section) as qualified 501(c)(3) bonds under Internal Revenue Code section 145. Those approvals will facilitate the tax-exempt status of the Certificate and the 2016 GO Bonds.

CHANGE IN USE AND DEEMED REISSUANCE OF THE 2016 GENERAL OBLIGATION BONDS

Separately, but as part of the same public hearing, the Board is being asked to approve a change in use and deemed reissuance of the District's General Obligation Refunding Bonds, Series 2016 (the "2016 GO Bonds"), currently outstanding in the principal amount of approximately $2,300,000, as qualified 501(c)(3) bonds under Internal Revenue Code section 145. The 2016 GO Bonds originally refunded the District's

Election of 2000 General Obligation Bonds, which financed real property improvements to the hospital facility. Because that facility is now leased to and operated by Adventist Health Mendocino Coast, a 501(c)(3) nonprofit corporation, rather than operated directly by the District, federal tax law potentially views this as private business use requiring a remedial action to preserve the tax-exempt status of the 2016 GO Bonds. The deemed reissuance as qualified 501(c)(3) bonds is that remedial action. This item is distinct from, and should not be confused with, the 2016 Insured Revenue Bonds discussed immediately below, which are a separate bond issue being retired entirely, not reissued. There is no fiscal impact to the District from this change in use and deemed reissuance; it does not affect the District's debt service, cash flow, or balance sheet. Its sole purpose is to reduce the risk of an adverse taxability determination with respect to the 2016 GO Bonds, as concluded by the District's bond counsel.

RETIREMENT OF EXISTING DEBT: HELP II LOAN AND 2016 INSURED REVENUE BONDS

Separate from the Certificate financing itself, but occurring in connection with the Certificate closing, the District will use its own cash to defease and retire two existing obligations: the District's HELP II Loan, with a current outstanding principal balance of $269,767.46 as of the date of this meeting, and its 2016 Insured Health Facility Refunding Revenue Bonds (the Cal-Mortgage insured bonds), with a current outstanding principal balance of $1,530,000. Retiring both obligations is a condition of the new financing: Tri Counties Bank's security interest in the District's Pledged Revenues requires that these prior obligations be cleared so the Bank holds a clean, first-priority claim on those revenues going forward. Doing so also cleans up the District's balance sheet by eliminating two legacy obligations rather than carrying them alongside the new financing, and paying them off with cash now, rather than refinancing or extending them, ensures that these obligations are not carried further out into the future than was initially intended by the District Board.

The District's total cash contribution to this transaction has three components: (1) payoff of the HELP II Loan and the 2016 Insured Revenue Bonds described above, totaling approximately $1,799,767.46; (2) the $921,500 District cash contribution that funds the Debt Service Reserve Fund (see Summary of Financing Terms above); and (3) the difference between the estimated $20 million total cost of the seismic Project and the $18,700,000 Project Fund deposit provided from Certificate proceeds, which is estimated to be $1,300,000. Together, these three components bring the District's total cash contribution to approximately $4.0 million. This is a round, approximate figure: the actual payoff amounts for the HELP II Loan and the 2016 Insured Revenue Bonds will include accrued interest once final payoff letters are obtained, which will modestly increase the first component, though the scale of that addition is expected to be

relatively minor. The $1,300,000 project cost delta component could likely be fully or partially offset by grant receipts the District expects to receive under the HCAI Seismic Compliance Unit (SCU) Grant Program, which would further reduce the actual amount of District cash needed. The District has the discretion to contribute more cash than this amount, which would further reduce the Certificate par amount and lower annual debt service, but doing so is not the current intention of the CFO and the financing team. In staff's and the Municipal Advisor's view, the currently contemplated contribution is both sufficient and prudent, because it allows the District to retain the large majority of its cash and reserves, and that liquidity will be meaningful when it comes time to pursue long-term takeout financing, and potentially the Emergency Department projects, once the seismic Project is complete.

PLAN OF FINANCE: BRIDGING TO LONG-TERM TAKEOUT FINANCING

As noted above, this financing is intentionally structured as a short-term bridge, not permanent financing. The interest-only structure through February 2032, followed by a balloon payment of substantially all remaining principal at the August 2033 final maturity, is deliberate: it keeps near-term debt service low while the Project is completed, with the expectation that the District will refinance the balloon through a long-term, fixed-rate takeout financing before it comes due, most likely subsidized or insured through the Cal-Mortgage program or a comparable program, once the Project is complete and District operations and facilities are stabilized and viable on a long-term basis. Staff and the Municipal Advisor believe that long-term financing of this kind is unlikely to be viable for the District (absent new voter-approved tax revenue) until the seismic improvements are completed, which is the primary reason this transaction is structured as a bridge rather than permanent financing from the outset. This approach is consistent with, and implements, the Plan of Finance the Board previously approved.

More broadly, the goal of this financing is not only to fund the seismic Project, but to position the District for long-term operational viability. Completing the Project, retiring the HELP II Loan and the 2016 Insured Revenue Bonds, and cleaning up the District's balance sheet in the process are all steps toward that same end: a stabilized District that is a stronger candidate for the long-term takeout financing described above. That stability is also what positions the District to pursue a second phase of capital improvements after the seismic work is complete, specifically Emergency Department capital improvements, which are part of the District's longer-term facilities vision. This financing is intended to clear the path for that future phase, not to compete with it for capacity.

FISCAL IMPACT

Sources and Uses of Funds (Certificate financing only, as of November 4, 2026):

Description	Amount
SOURCES OF FUNDS	
Certificate Par Amount	$19,000,000
District Cash Contribution (Debt Service Reserve Fund)	$921,500
Total Sources	**$19,921,500**
USES OF FUNDS	
Project Fund Deposit	$18,700,000
Debt Service Reserve Fund	$921,500
Cost of Issuance	$300,000
Total Uses	**$19,921,500**

Cost of Issuance ($300,000 total) is paid from Certificate proceeds at closing, not from the District's operating budget, and breaks down as follows:

- Bond Counsel: $75,000
- Municipal Advisor: $77,500
- Placement Agent: $57,000
- Lender's Counsel: $20,000
- 501(c)(3) Counsel (Adventist Health): $20,000
- Trustee: $10,000
- District Counsel: $0 (to be confirmed; funds available under Unassigned Miscellaneous if needed)
- CDIAC Fee: $5,000
- Title Report: $1,800
- Counterparty and Counterparty Legal: $9,250
- District Reimbursements: $0 (to be confirmed; funds available under Unassigned Miscellaneous if needed)
- Unassigned Miscellaneous: $24,450

Separately, the District anticipates contributing approximately $4.0 million in cash to this transaction, as described in detail under Retirement of Existing Debt above. A portion of this amount may be offset by grant proceeds under the HCAI SCU Grant Program once received. The full amount is not reflected in the sources and uses table above, since only the portion related to debt service reserve fund is directly tied to this financing as contemplated by the financing documents. Separately, there is no fiscal

impact to the District from the change in use and deemed reissuance of the 2016 GO Bonds described above; that action does not affect debt service, cash flow, or the balance sheet.

Annual debt service on the Certificate is shown in the debt service page 2 of this staff report. Furthermore, good faith estimates for the financing are included as Appendix A to the Resolution.