



To: MCHCD Board of Directors
From: Wayne Allen, Chief Financial Officer
Date: 5/14/2026
Subject: FY 2026-27 Draft Budget Narrative

The Mendocino Coast Health Care District's FY 2026/2027 budget reflects a notable transition from the broader stabilization and recovery framework established in FY 2025/2026 toward a more refined operational structure focused on governance oversight, compliance, seismic planning, and long-term infrastructure stewardship. While both budgets remain grounded in the District's post-lease role as a facility owner and healthcare infrastructure steward rather than a direct healthcare operator, the FY 2026/2027 budget demonstrates tighter administrative controls, reduced discretionary spending, and a more clearly differentiated separation between operational expenditures and restricted capital planning.

The FY 2025/2026 adopted budget was developed during a period of ongoing financial restructuring and organizational transition. That budget relied upon projected distributions from the District's five-year cash flow statement totaling approximately \$685,000, divided between \$330,000 for operations and \$355,000 for restricted capital expenditures. The structure of the 2025/2026 budget reflected a substantial emphasis on rebuilding administrative capacity, addressing deferred compliance obligations, and initiating long-range seismic modernization planning. Significant allocations were directed toward outside professional services, including audit completion, legal support, financial oversight, architectural estimates, and consultant services.

In contrast, the FY 2026/2027 budget reflects a more disciplined and targeted expenditure plan. The revised budget projects total operational sources of approximately \$310,241 and restricted capital sources of approximately \$1,418,303, for a consolidated total exceeding \$1.7 million. This increase in restricted capital funding demonstrates the District's growing emphasis on long-term infrastructure obligations, particularly seismic compliance, and project readiness associated with future capital improvements. The budget reflects a strategic shift away from generalized consulting and toward project-specific planning and implementation support.

One of the most important differences between the two fiscal years is the scale and composition of professional service expenditures. In FY 2025/2026, the District budgeted heavily for catch-up administrative and financial functions. Audit expenditures alone were budgeted at approximately \$96,000 in the operational budget, reflecting the need to complete multiple years of overdue financial reporting. The FY 2026/2027 budget reduces audit expenditures significantly to approximately \$45,000



within restricted funds and \$30,000 within operations, indicating that the District is moving from corrective financial recovery into a more normalized annual reporting cycle.

Administrative services provided through Regional Government Services (RGS) remain a major operational component in both budgets. However, FY 2026/2027 reflects greater stabilization in this category. The operational RGS administrative allocation remains at approximately \$170,900, while support resources continue at lower levels. This consistency suggests the District has settled into a sustainable outsourced administrative model following the organizational restructuring associated with the Adventist Health lease arrangement.

Another significant distinction between the two budgets is the treatment of legal and financial oversight services. In FY 2025/2026, legal expenses were divided between operational and restricted funds, while CFO oversight services were heavily concentrated in restricted capital activities associated with modernization and seismic planning. The FY 2026/2027 budget continues these categories but narrows their scope and reduces overall exposure. Financial oversight expenses decline from approximately \$67,500 in restricted funds during FY 2025/2026 to approximately \$45,000 in FY 2026/2027, signaling movement toward more routine fiscal management rather than intensive restructuring oversight.

The FY 2026/2027 budget also demonstrates a stronger emphasis on infrastructure planning and project readiness. State-mandated Seismic retrofit Architectural and cost-estimate services remain a major expenditure category, though the budget reflects a more refined project orientation tied directly to seismic compliance, modernization analysis, and potential future capital construction decisions. This aligns with the District's evolving role under the Adventist Health lease, where the District retains ownership responsibility for the physical hospital plant while Adventist Health manages hospital facilities' Capital Expenditure plans and maintenance, and clinical operations.

Debt service planning also reflects changing financial conditions between the two fiscal years. The FY 2025/2026 budget incorporated larger ongoing obligations associated with the 2016 revenue bond refinancing and HELP II loan payments. By FY 2026/2027, debt schedules show continued amortization and declining outstanding balances. The revenue bond balance due as of June 30, 2026 was projected at approximately \$1.49 million, declining to roughly \$936,000 by June 30, 2027 and approximately \$374,000 by June 30, 2028. Likewise, the HELP II loan balance continues to decline steadily. These reductions improve the District's long-term fiscal flexibility and gradually increase the District's future ability to redirect revenues toward capital infrastructure investment.



Another notable contrast is the District's increasing use of restricted capital allocations compared to unrestricted operational spending. The FY 2025/2026 budget still reflected a transitional balance between operational recovery and infrastructure planning. By FY 2026/2027, the District's budget priorities had shifted much more decisively toward restricted capital activity. This reflects recognition that the District's primary long-term responsibility is preservation, modernization, and regulatory compliance of healthcare infrastructure rather than direct healthcare operations.

The five-year cash flow projections incorporated into both budget cycles further illustrate this strategic evolution. Revenue assumptions remain relatively stable across both years, anchored by Measure C parcel tax revenues, district tax receipts, and annual lease payments from Adventist Health, each increasing modestly through CPI adjustments. However, expenditure patterns increasingly prioritize deferred maintenance, seismic compliance, and long-term facility sustainability. The District's planning assumptions continue to recognize the approaching sunset of Measure C in 2030, creating an ongoing need for disciplined reserve management and careful prioritization of capital obligations.

Overall, the FY 2026/2027 budget reflects an organization that has moved beyond immediate financial stabilization and into a more deliberate phase of long-term infrastructure stewardship. Compared with FY 2025/2026, the revised budget demonstrates tighter fiscal management, lower exposure to corrective administrative costs, declining debt obligations, and a substantially greater concentration on restricted capital planning and seismic modernization activities. The progression between the two budgets illustrates the District's continued transition from a former hospital operator into a focused public healthcare infrastructure entity responsible primarily for maintaining the long-term viability of healthcare facilities serving the Mendocino Coast community.