

Summary of the **Mendocino Coast Health Care District (MCHCD) Plan of Finance for Modernization Projects**: Dated January 8, 2026 - Wulff, Hansen & Co.

1. Strategic Imperatives

- **Total Capital Need:** ~\$73 million.
- **Drivers:**
 - Mandatory seismic retrofit to meet California's **SB 1953** standards by **Jan 1, 2030**.
 - Expansion and modernization of the Emergency Department.
- **Phased Approach:**
 - **Phase 1 (Seismic Retrofit):** ~\$19.9M, regulatory requirement, must be completed by 2030.
 - **Phase 2 (ED Expansion):** ~\$53M, strategic improvement, targeted for FY 2031-33.

2. Phase 1 Financing (2026) - **FEASIBLE**

- **Funding Plan:**
 - \$16.7M short-term, interest-only, draw-down **private placement loan** secured by Allocable Property Taxes.
 - ~\$3.2M gap funding expected from **HCAI Seismic Compliance Unit / Small Rural Hospital Relief Program (SRHRP)** grants.
- **Debt Structure:**
 - 7-year bullet maturity (due FY 2033).
 - Interest-only payments, bullet principal repayment at maturity, if not otherwise refinanced as part of Phase 2.
 - Secured by **Allocable Property Taxes** via a Direction Letter mechanism (funds bypass District operating accounts).
- **Risk Mitigation:**
 - \$16.7M cash/liquidity reserve designated as contingency to retire debt if refinancing fails.
 - Flexible redemption provisions to enable refinancing in FY 2031.

3. Phase 2 Financing (FY 2031) – **PARTIALLY FEASIBLE**

- **Challenge:** Loss of \$1.55M voter-approved taxes in 2030 → sharp revenue decline (~22.5%).
- **Refinancing Needs:**
 - Retire \$16.7M Phase 1 debt.
 - Raise ~\$53M for ED expansion.
- **Capacity in FY 2031:**
 - Standalone borrowing capacity: ~\$25M (only ~\$5M new project funds).
 - \$5M New Project Funds + \$16.7M Payoff + \$2.5M DSRF + \$500K COI
 - With **Cal-Mortgage Loan Insurance Program**: capacity increases to ~\$33M (~\$12.5M new project funds).

- \$12.5M New Project Funds + \$16.7M Payoff + \$1.5M DSRF + \$2.5M COI (includes Cal-Mortgage fee)
 - Equity of approx. \$11M available as additional source (approx. \$5M in remaining reserves after equity contribution)
- **Gap of \$29.5 million:** Still far short of \$53M → requires new revenue sources (taxes, lease enhancements, philanthropy, etc.) or reduced project scope.

4. Liquidity & Reserves

- **Cash Reserves:** ~\$16.7M in liquid investments.
- **Days Cash on Hand (DCOH)(FY 2031 estimate):**
 - Excluding AH Lease Fund: ~9,396 days.
 - Including AH Lease Fund: ~1,809 days (still far above 160 day industry standard).
- **Importance:** Exceptional liquidity strengthens credit profile and is critical for Cal-Mortgage underwriting.

5. Key Risks & Success Factors

- **Risks:**
 - Sunset of voter-approved taxes (2030).
 - Heavy reliance on **Adventist Lease Revenues**, which have opt-out provisions.
 - Limited standalone debt capacity.
- **Success Factors:**
 - On-time, on-budget completion of Phase 1.
 - Stability/extension of AH Lease.
 - Preservation of liquidity.
 - Cal-Mortgage approval.
 - No deterioration in property tax base.

6. Timeline

- **2025–26:** Finalize Phase 1 scope, secure grants, execute \$16.7M private placement.
- **2027–30:** Seismic retrofit construction, maintain 1.25x debt service coverage.
- **2030:** Complete retrofit, apply for Cal-Mortgage financing.
- **2031:** Execute refinancing, retire Phase 1 debt, fund partial ED expansion.
- **Contingency:** Use \$16.7M reserves if refinancing fails.

✓ Bottom Line:

- **Phase 1 (Seismic Retrofit)** is feasible and fully fundable with current capacity.
- **Phase 2 (ED Expansion)** is only partially feasible; full funding requires new revenue sources or project downsizing.
- The District's strong liquidity and phased financing strategy are critical to maintaining operations and creditworthiness.