

MENDOCINO COAST HEALTH CARE DISTRICT
775 RIVER DRIVE, FORT BRAGG 95437

MEMORANDUM

TO: MCHCD Board of Directors

FROM: Paul Garza, Jr.

DATE: January 2, 2025

SUBJECT: Strategic Financial Analysis

In the coming year, it will be critical that we make decisions and begin building the future physical plant of our hospital. Our finances will determine this future. Therefore, it is critical that we begin to grapple with what our financial situation is and what will impact it.

We face a number of issues that must be resolved before going forward with seismic retrofit and/or modernization construction:

- **Adventist Health defining their workplace model for our hospital;**
- Analyzing the current pattern of healthcare services and reimbursement in our District;
- Identifying and aggressively pursuing potential grant sources including HCAI, US EDA, US RDA, IGT and private philanthropy sources, and
- Engaging our community in planning a more capable facility.

We face a very significant challenge in effectively utilizing the financial resources that are available to us. We must be aware of the limitations we face, as well. While the current balance of funds in our accounts may appear comforting, the basics of our finances are:

CHALLENGES

- Becker's is reporting that hospital construction costs have grown approximately 10% each year over the last few years. Each year we will experience significantly less purchasing power.
- Many economists are predicting annual inflation to remain high at 3%. Some are predicting that tariffs could launch hyper-inflation by the end of 2025. We need to plan to lose 3% of our resources each year.
- Medicaid reimbursements appear to be a target of the Trump Administration. The hospital currently receives approximately 50% of its reimbursement from Medicaid/MediCal. Any reduction in these reimbursements will make the financial situation of the hospital more difficult.

REVENUE

- The District receives approximately \$2.60 M in taxes each year.
 - \$1.55M comes from Measure C, and
 - \$1.05M from the base parcel tax.
 - These have been very constant but could grow somewhat if the County of Mendocino improves its tax assessment and collection policies.
 - The five-year budget projection for lease income is \$13.9M.
 - The five-year budget projection for investment earnings is \$3.0M.
 - The District will have available to it from current funds, taxes and lease income approximately \$43.2M in total Cash through 2029. However, a large sum of the \$43.2M will be spent on the expenses indicated below.

EXPENSES

- **Our #1 major expense is hospital repairs, maintenance and purchase of equipment.** Our five-year capital expenditures budget projects a total cash outlay of \$11.7M. Adventist Health is currently projecting nearly \$20M in maintenance costs between now and 2029. That represents \$4M annually and does not include emergency maintenance. We do have a significant difference in projections and maybe a good portion of the projected maintenance can be reduced/eliminated by modernization/retrofits.
- The other significant expenses are payments made to repay debt borrowings from prior years incurred during hospital operations. That total cash outlay is \$3.4M for the five-year budget projection.
- The District's budget for its administrative operations for the five-year budget projection projects a total outlay of \$2.0M.
- We will need to be as efficient as possible in controlling costs while acquiring the expertise needed to guide us.

NET REVENUES (CASH BALANCE)

- For the total five-year projection period (Revenues of \$43.2M minus Expenses of \$17.1M) **leaves a net revenue cash position of just \$26.1M as of June 30, 2029.**

DISCUSSION

Looking at the sum of this, it should be apparent that careful financial planning will be required as well as aggressive attraction of additional resources. **This is almost certainly going to include asking the voters of the District to approve additional tax assessments.** Aside from grant writing and fund-raising, we must also expand our partnerships that will demonstrate the best use of our resources.

Further, **it is imperative that we begin construction for retrofit and/or modernization as soon as possible.** This will reduce the costs of construction and the overall burden on our community. The longer the wait to start the construction, the greater the cost will be.

Proposed Financial Feasibility Timeline

January to June 2025

- Determine and finalize the workplace facilities plan.
- Prepare cost analysis of the workplace facilities plan.
- Determine possible financing options.
- Hold discussions with potential bond experts and financial advisors to determine viable funding strategies.

Proposed Elections Timeline

(presumes public engagement throughout)

2025

January

- Draft a comprehensive timeline for the election process, working backward from November 3, 2026 Election date.
- Schedule community outreach and board workshops, with emphasis on aligning board messaging.
- Begin monthly updates (newsletters or press releases) for community engagement.

February

- Transition period with leadership changes (new hospital administrator).
- Begin early drafting of foundational communication materials e.g., white papers on financials and facility plans.

March

- Establish key milestones and benchmarks for the November 2026 elections.
- Identify subcommittees or teams for communication, community outreach, and strategic planning.

April to June

- Launch an early public education campaign emphasizing facility needs and the broader healthcare vision.
- Increase presence in community events (e.g., farmers' markets) for awareness campaigns.
- Increase frequency of public engagements, possibly hosting town halls or roundtable discussions.

- Start measuring community awareness and reception to the proposed ballot measures.

July to December

- Conduct regular workshops with the board and subcommittees to refine messaging and build momentum toward the proposed ballot.
- Start building community advocates to act as spokespeople (e.g., local leaders, healthcare professionals).
- Initiate pre-campaign polling to gauge public sentiment.

2026

January to March

- Prepare and finalize election documents and legal filings.
- Execute the “go/no-go” decision by **March 4** for the November 3, 2026 ballot.

April to May

- Launch the final sprint of campaign efforts, including media blitzes and public forums.

June to October

- Maintain community engagement and adapt strategy based on June outcomes.

November

- **November Election:** Conduct the November election.

December

- Debrief and evaluate election outcomes to inform future plans.