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AGENDA
SEQUOIA HEALTHCARE DISTRICT
SPECIAL BOARD OF DIRECTORS STUDY SESSION
2:30 PM, Tuesday, May 6, 2014
Conference Room
525 Veterans Blvd., Redwood City, CA 94063

1. Call To Order And Roll Call
2. Public Comment On Non-Agenda Items*
3. For Discussion - President Shefren
 - a. Review Of The Basics Of The Development Agreement
 - b. Return Formula Calculation Steps
 - c. Auditors Review Of EBIDA Arrangement
 - d. EBIDA Performance Summary 2008-13
 - e. 40 Year EBIDA Projections
 - f. Discussion On Performance And Optional Steps To Address Concerns
4. Adjourn. The Next Regular Meeting Of The Board Of Directors Of Sequoia Healthcare District Is Scheduled For 4:30 PM, Wednesday, June 4, 2014, District Conference Room, 525 Veterans Blvd., Redwood City, CA 94063


Jerry Shefren
Board President

*Public comment will be taken for each agenda item prior to the board's consideration on that item.

Any writings or documents provided to a majority of the Board of Directors regarding any item on this agenda will be made available for public inspection at the District office, 525 Veterans Blvd., Redwood City, CA, during normal business hours. Please telephone 650-421-2155 to arrange an appointment.

If you are an individual with a disability and need an accommodation to participate in this meeting, please contact Sequoia Healthcare District at least 48-hours in advance at 650-421-2155.

Basics of the Development Agreement

1. Date of agreement- December 7th, 2007
2. Agreement period- 40 years until 2046
3. Purpose of the agreement: to modernize, upgrade and seismic retrofit Sequoia Hospital and to re-open as a 167 bed hospital in 2013 or soon after.
4. Cost of the project- \$240 million of which Sequoia Healthcare District would be responsible for \$75 million.
5. The District would provide \$50 million in cash or securities and the value of the medical office building. Any additional monies owed against the \$75 million would come through a combination of \$1 million cash payments and any or all EBIDA payments until \$75 million was paid in –full.
6. An EBIDA threshold was established at 9.3% and all “profits” above that threshold would be shared equally between CHW (now Dignity Health) and the District. If the EBIDA share in any given year did not exceed the 9.3% no payment would be made to the District for that fiscal year.
7. There was no maximum amount that the District could receive in any given year or over the 40 year agreement nor was there a minimum amount or guaranteed return amount.
8. CHW could initiate Buy-out talks at anytime but it was solely the District’s decision to agree or not agree to a buy-out.
9. The District received the right to audit the annual EBIDA calculations.
10. At the signing of the agreement the ownership of Sequoia Hospital was transferred from the District to CHW. No compensation was required and the existing building and land became the property of CHW.

Schedule 4.1 B

Return Formula Calculation Steps

Step 1: Determine Total Operating Revenue for the applicable period.

Step 2: Determine Total Operating Expense for the applicable period.

Step 3: Calculate Sequoia Hospital Operating EBIDA for the applicable period by subtracting Total Operating Expense from Total Operating Revenue.

Step 4: Calculate Operating EBIDA Margin by dividing Sequoia Hospital Operating EBIDA by the Total Operating Revenue, each for the applicable period, and expressing same as a percentage figure.

Step 5: Determine if the Operating EBIDA Margin for the applicable period is above or below 9.3%.

Step 6: If Operating EBIDA Margin for the applicable period is at or below 9.3%, no Return Formula payment is due the District for that period.

Step 7: If Operating EBIDA Margin for the applicable period is above 9.3%, a Return Formula payment is due the District for that period, which shall be calculated as follows:

Step A: Determine the amount of EBIDA Margin for the applicable period above 9.3%, measured in dollars.

Step B: Multiply the dollar amount resulting from Step A by 50%.

An example of the calculation is appended to and made a part of this Schedule.

Schedule 4.1 B Example

Consolidated FY 2007				
	<u>Sequoia</u>	<u>Sequoia</u>		
	<u>Hospital</u>	<u>Medical Group</u>	<u>Eliminations</u>	<u>Combined</u>
Total operating revenue	221,365	577	-	221,942
Less EBIDA Detail Adjustments Included in Total Operating Revenue: ⁽¹⁾				
Market adjustments on swaps, net ⁽³⁾	-	-	-	-
Gain/loss on early extinguishment of debt ⁽³⁾	-	-	-	-
Investment income/loss, net ⁽²⁾	-	-	-	-
District Funding expense/credit ⁽³⁾	-	-	-	-
Investment earnings/loss on the Escrow Account and Philanthropy ⁽³⁾	-	-	-	-
The Philanthropy ⁽³⁾	-	-	-	-
Gain/loss on sale of District MOB ⁽³⁾	-	-	-	-
Other revenue, gain, expense or loss reflected in any entries generated from the transactions between the District and CHW or SHS as provided in this Agreement ⁽³⁾	-	-	-	-
Less Prior Return Formula Payments ⁽³⁾	-	-	-	-
Total Operating Revenue	221,365	577	-	221,942
Total expense	195,702	2,371	-	198,073
Less EBIDA Detail Adjustments Included in Total Operating Expense: ⁽¹⁾				
Depreciation	(7,585)	(162)	-	(7,747)
Amortization ⁽³⁾	-	-	-	-
Interest expense	(1,382)	-	-	(1,382)
Market adjustments on swaps, net ⁽³⁾	-	-	-	-
Gain/loss on early extinguishment of debt ⁽³⁾	-	-	-	-
Investment income/loss, net ⁽²⁾	-	-	-	-
District Funding expense/credit ⁽³⁾	-	-	-	-
Investment earnings/loss on the Escrow Account and Philanthropy ⁽³⁾	-	-	-	-
Other revenue, gain, expense or loss reflected in any entries generated from the transactions between the District and CHW or SHS as provided in this Agreement ⁽³⁾	-	-	-	-
Less Prior Return Formula Payments ⁽³⁾	-	-	-	-
Total Operating Expense	186,735	2,209	-	188,944
Sequoia Hospital Operating EBIDA				32,998
Operating EBIDA Margin				14.9%
Value of EBIDA margin of 9.3%				20,641
Current EBIDA over 9.3%				12,357
Return Formula Payable to District (50% of EBIDA over 9.3%)				\$ 6,179

Notes:

(1) EBIDA Detail Adjustments recalculate EBIDA, pursuant to Development Agreement between CHW and District dated November 1, 2007, Schedule 4.1.

(2) N/A in FY 2007 as amounts are not reported in unrestricted operating revenues and other support.

(3) N/A in FY 2007.

Auditors review will be presented at the meeting.

EBIDA Performance Summary

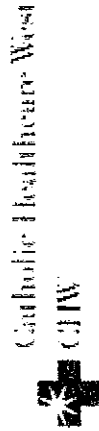
1. The District has received EBIDA funds for six fiscal years.
2. The actual return to District exceeded projections once and trailed projections five times.
3. Overall the return has trailed projections by \$16.5 million.
4. The lowest return was realized this fiscal year.
5. The projections for the next four years are \$16.5 million or \$4.1 million per year.

Note: The projections were made in 2007 by Goldman Sachs, which was hired by the District.

Year	EBIDA Projected	EBIDA Received	Difference
2008	\$5,187,000	2,142,000	(3,045,000)
2009	\$5,759,000	6,272,000	513,000
2010	\$6,138,000	2,479,000	(3,659,000)
2011	\$5,697,000	2,158,000	(3,539,000)
2012	\$5,239,000	2,114,000	(3,125,000)
2013	\$3,853,000	127,000	(3,726,000)
Total	\$31,873,000	15,292,000	(16,518,000)
2014-17	\$16,848,000		



Summary of EBIDA Sharing Arrangement



Agenda Item No. 3. E.
Board of Directors Meeting
Date 5-6-14

September 2007



Summary of Proposed EBIDA Sharing Arrangement Projection Period

Projected Cash Flows

Year	Operating Revenue (\$000)	Operating Revenue Growth (%)	EBIDA Margin (%)	EBIDA (\$000)	EBIDA in Excess of 9.3%	Sequoia Share of EBIDA in Excess of 9.3%
2008	\$231,728	NA	13.8%	\$31,925	\$10,374	\$5,187
2009	245,626	6.0%	14.0%	34,361	11,517	5,759
2010	260,354	6.0%	14.0%	36,488	12,275	6,138
2011	261,521	0.4%	13.7%	35,716	11,394	5,697
2012	263,045	0.6%	13.3%	34,941	10,477	5,239
2013	264,157	0.4%	12.2%	32,273	7,707	3,853
2014	279,537	5.8%	12.1%	33,731	7,734	3,867
2015	295,876	5.8%	12.0%	35,585	8,069	4,034
2016	313,240	5.9%	12.1%	37,753	8,622	4,311
2017	331,693	5.9%	12.1%	40,120	9,273	4,636
Total				\$352,893	\$97,443	\$48,721



Summary of Proposed EBIDA Sharing Arrangement Base Case

Projections - Base Case: 4% Revenue and Expense Growth

Year(s)	EBIDA Margin (%)	Sequoia's Share of EBIDA
2008	13.8%	\$5,187
2009	14.0%	5,759
2010	14.0%	6,138
2011	13.7%	5,697
2012	13.3%	5,239
2013	12.2%	3,853
2014	12.1%	3,867
2015	12.0%	4,034
2016	12.1%	4,311
2017	12.1%	4,636
2018 - 2047	12.1%	270,428
		\$319,150

IRR Sensitivity Analysis

Growth in EBIDA Margin (%)

Revenue / Expense Growth Rate (2018 - 2047)	0.00%	
	2.0%	6.6%
3.0%	7.1%	
4.0%	7.6%	



Summary of Proposed EBIDA Sharing Arrangement Assumptions

- The starting point for all analyses are CHW's projections from 2008 through 2017, as reviewed on behalf of the District by HFS.
- Sequoia shares 50% of EBIDA above a 9.3% EBIDA Margin Threshold.
- As the transaction lasts for 40 years, we make assumptions about growth rates in years 2018 through 2047. We also looked at the impact of different EBIDA Margins from 2008 to 2047.



Summary of Proposed EBIDA Sharing Arrangement FY 2007 Actual Results

FY 2007

Total Operating Revenue	\$221,338	EBIDA Margin	15.6%
Total Operating Expenses	195,705	Threshold	9.3%
Operating Income	\$25,633	Difference	6.3%
Depreciation	7,585	Arrangement	50%
Interest	1,382	EBIDA Share	3.2%
EBIDA	\$34,600	Sequoia Share of EBIDA in Excess of 9.3%	\$7,008

Actual Cash Flows - FY 2007

Year	Operating Revenue (\$000)	Operating Expenses (\$000)	EBIDA Margin (%)	EBIDA (\$000)	EBIDA in Excess of 9.3%	Sequoia Share of EBIDA in Excess of 9.3%
2007	221,338	195,705	15.6%	34,600	14,016	7,008



Summary of Proposed EBIDA Sharing Arrangement

EBIDA Growth: +1%

Projections - Base Case: 4% Revenue and Expense Growth

Year(s)	EBIDA Margin (%)	Sequoia's Share of EBIDA
2008	14.8%	\$6,346
2009	15.0%	6,987
2010	15.0%	7,439
2011	14.7%	7,005
2012	14.3%	6,554
2013	13.2%	5,174
2014	13.1%	5,265
2015	13.0%	5,514
2016	13.1%	5,877
2017	13.1%	6,295
2018 - 2047	13.1%	367,164
		\$429,619

IRR Sensitivity Analysis

Growth in EBIDA Margin (%)

Revenue / Expense Growth Rate (2018 - 2047)	1.00%	
	2.0%	8.9%
3.0%	9.3%	
4.0%	9.8%	



Summary of Proposed EBIDA Sharing Arrangement

EBIDA Growth: +2%

Projections - Base Case: 4% Revenue and Expense Growth

Year(s)	EBIDA Margin (%)	Sequoia's Share of EBIDA
2008	15.8%	\$7,504
2009	16.0%	8,215
2010	16.0%	8,741
2011	15.7%	8,312
2012	15.3%	7,869
2013	14.2%	6,495
2014	14.1%	6,663
2015	14.0%	6,993
2016	14.1%	7,443
2017	14.1%	7,953
2018 - 2047	14.1%	463,899
		\$540,089

IRR Sensitivity Analysis

Growth in EBIDA Margin (%)

Revenue / Expense Growth Rate (2018 - 2047)	2.00%	
	2.0%	10.9%
3.0%	11.3%	
4.0%	11.8%	



Summary of Proposed EBIDA Sharing Arrangement

EBIDA Growth: (1%)

Projections - Base Case: 4% Revenue and Expense Growth

Year(s)	EBIDA Margin (%)	Sequoia's Share of EBIDA
2008	12.8%	\$4,028
2009	13.0%	4,531
2010	13.0%	4,836
2011	12.7%	4,389
2012	12.3%	3,924
2013	11.2%	2,533
2014	11.1%	2,469
2015	11.0%	2,555
2016	11.1%	2,745
2017	11.1%	2,978
2018 - 2047	11.1%	173,693
		\$208,680

IRR Sensitivity Analysis

Growth in EBIDA Margin (%)		
Revenue / Expense Growth Rate (2018 - 2047)	(1.00%)	
		2.0%
	3.0%	4.5%
	4.0%	5.0%

Summary of Proposed EBIDA Sharing Arrangement EBIDA Growth: (2%)

Projections - Base Case: 4% Revenue and Expense Growth

Year(s)	EBIDA Margin (%)	Sequoia's Share of EBIDA
2008	11.8%	\$2,870
2009	12.0%	3,302
2010	12.0%	3,534
2011	11.7%	3,082
2012	11.3%	2,608
2013	10.2%	1,212
2014	10.1%	1,072
2015	10.0%	1,076
2016	10.1%	1,179
2017	10.1%	1,319
2018 - 2047	10.1%	76,957
		\$98,211

IRR Sensitivity Analysis

Growth in EBIDA Margin (%)

Revenue / Expense Growth Rate (2018 - 2047)	(2.00%)	
	2.0%	0.1%
	3.0%	0.6%
	4.0%	1.2%



Summary of Proposed EBIDA Sharing Arrangement Summary of Internal Rates of Return

IRR Sensitivity Analysis

		EBIDA Margin (%)				
		(2.00%)	(1.00%)	Base Case	1.00%	2.00%
Revenue / Expense Growth Rate (%)	2.0%	0.1%	3.9%	6.6%	8.9%	10.9%
	3.0%	0.6%	4.5%	7.1%	9.3%	11.3%
	4.0%	1.2%	5.0%	7.6%	9.8%	11.8%

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