

**Orcas Island Health Care District  
Finance Committee Update  
Long Term Financing Options/Needs  
Building Transfer  
August 20<sup>th</sup>, 2018**

**Long Term Financing Options**

After discussions with both Cynthia Weed from K&L Gate and Don Black with Ogden Murphy, we have identified two options on how to structure the building transfer and UW arrangement to qualify for long term financing.

The following are true under both options:

- Assumes UW foregoes payment on Q3 subsidy until January 2019.
- OMF must stay in existence through 12/31/18, extend their contract with UW through 12/31/18 for there to be amounts that OMF, rather than the District, owes UWNC (required to qualify for long term financing).
- District informs UWNC of intent to terminate the lease for the Clinic as of 12/31 and renegotiates both lease and support agreement.
- The legal work is about the same under either option.

**1. Continue Current Agreement and Assume Debt**

- As of 1/1/19, the District agrees to assume certain assets and obligations of the OMF, namely the outstanding debt to UW and OMF outstanding operating costs, if necessary.
- The District obtains long term financing to pay off the debt to UWNC (as well as to fund certain capital improvements to the clinic building).
- As a separate agreement/transaction, OMF donates the building to the District.
- OMF and UWNC agree to termination the existing agreement and the District and UWNC enter into new agreement for UWNC to operate the clinic

This option might allow us to avoid excise tax of approximately (\$7,800 - \$8,900) however there is a risk that the Department of Revenue would not view the donation and the assumption of debt as two separate transaction; therefore, there would be the risk of having to pay real estate excise tax on some amount. The argument would be stronger if there was an angel lender who would agree to fund OMFs obligations through 12/31 (I need to clarify this with Don)

OMF must come up with a way to fund or finance its monthly obligations. Options may include (a) Angel Donor, (b) Angel Lender, (c) UWNC takes them on and adds them to the amounts owed.

**2. Buy it Now Option**

- The district would immediately obtain long term financing sufficient to purchase the Clinic and other property from OMF for the amount necessary to cover the UW 2<sup>nd</sup> half contract plus OMF operating costs.
- The real estate excise tax of approximately (\$7,800 - \$8,900) would be due.
- As part of sale, OMF would be required to keep the UW portion of the money in escrow to pay off UWNC obligation through 12/31.
- OIHCD would incur interest on the loan starting est. 9/1 (approximately \$3,500) versus 1/1/19.
- If OMF has left over funds, it can donate them back to the District.

Questions:

- 1) Is the District comfortable with what the total liability would be to if the existing contract continues through 12/31?
- 2) What changes would we want to see incorporated into extension – wind down period, maximum payout, etc.

## **Building Transfer**

### **Key New Learnings**

- Prevailing wage does not appear to be a major factor and does not need to be factored into the timing of the building transfer.
- Even if the clinic is owned by an entity that is exempt from property taxes, if leased to a non-qualifying entity an equivalent leasehold tax will be due. It does not appear that UW is a qualified entity thus property taxes will be due (approx. \$10K year).
- Lead time on roof replacement permit is likely 8 weeks which will likely require deferral of job until May/June 2019 due to weather concerns. We should apply for permit ASAP regardless.

### **Summary of Bids**

- Painting bids
  - o Two bids were received ranging from \$17,242 for 1 coat to \$22,250 for 2 coats
- Roofing bids
  - o Four roof bids were received ranging from \$72K to \$104K
    - Most likely cost for a 40- year warranty shingle is approx. \$80K

### **Financing Needs**

The building transfer, UW contract options, and building repair work have been quantified and clarified to a point that our financing needs related to these items can be adequately estimated. The biggest outstanding issue is the costs associated with After Hours/Acute Care. It is imperative that we finalize the 2018-2019 direction on this topic within the next 15-30 days to meet our budget deadlines.

I have tested various scenarios with the excel model and have reached the following conclusions:

- Even with no acute/after-hours costs, we cannot set the millage rate at \$.60/1,000 if we do not proceed with one of the two options discussed under the Long-Term Financing section of this memo. Short term financing, even with the staggered loan option presented by Cynthia is not a realistic option at this rate.
- If acute/after-hours costs were zero, we could set the millage rate at \$.65/1,000 for 2019 & 2020 and drop to \$.60/1,000 for 2021 and utilize only short-term financing. While this option has the potential to save \$7K - \$9K in excise tax and est. \$5K in OMF operating costs, I do not believe that benefit exceeds the risk of foregoing the long- term option.

### **Recommendation**

- Proceed immediately with Option #1 and work with OMF and UW to extend the existing contract through 12/31/18.
  - o Identify any concerns with existing contract no later than 8/28/18.
- Begin the process to transfer the building to OIHCD effective 1/1/19.
- Accelerate efforts to reach agreement on Acute/After Hours Care no later than 9/15/18.
- Submit building permit for roofing project to SJ County by 8/31/18.