

Deltona Facilities Update

Presentation to the Finance Committee
November 1, 2017

Agenda

- Project Overview
- Deltona Hospital Project Update (*HKS presentation*)
- Overview of Opportunity
- Payor Mix, Demographics and Competition
- Plan of Finance
- Financial Impact and Forecast
- Approvals Requested
- Future Approvals

Project Overview

- Free-Standing Emergency Room – opened April 25, 2017
- Medical Office Building – targeted opening date Fall 2018
- Inpatient Hospital Facility – targeted opening date late calendar year 2019
- Prepared facility design and cost estimates and volume and financial projections
- Prepared long-range forecasts with Deltona Facilities
- Identified preferred financing alternative

HKS Project Update Presentation

Overview of Opportunity

- Sustainable new inpatient and outpatient revenue stream
- Market opportunity and demographics
- Significant incremental contribution margin potential
- Deltona city leadership support
- Strong market potential
- Strengthens overall Halifax Health credit chassis
- Methodical and low risk market entry process

Disciplined Opportunity Development

Strategic Implementation Plan

Phase 1

Free Standing ED (FSED)

- Establishes “front door” to HH
- Foundation for potential additional service offerings
- Shell build out when reach 23,000 annual visits

Medical Office Building (MOB)

- Developed if/when sufficient physician interest
- Recruitment of key specialty presence
- HH has no financial exposure

Phase 2

Potential ASC

- JV with national ASC developer/operator
- Dependent upon sufficient physician interest and success of MOB

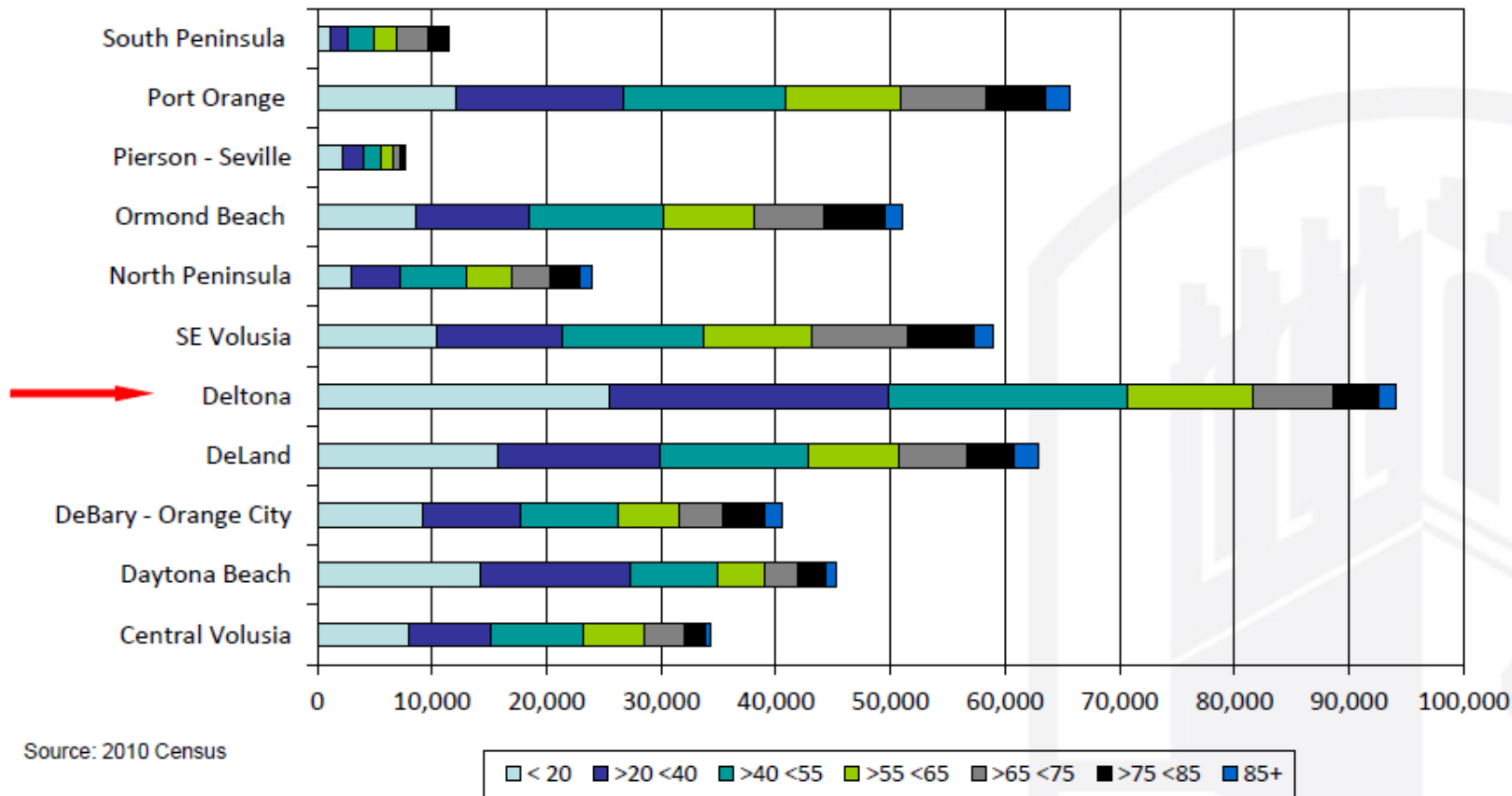
Phase 3

Potential Acute Care Hospital

- Dependent upon FSED patient volume
- Dependent upon success of MOB and support of physicians

Population – Age Distribution 2010

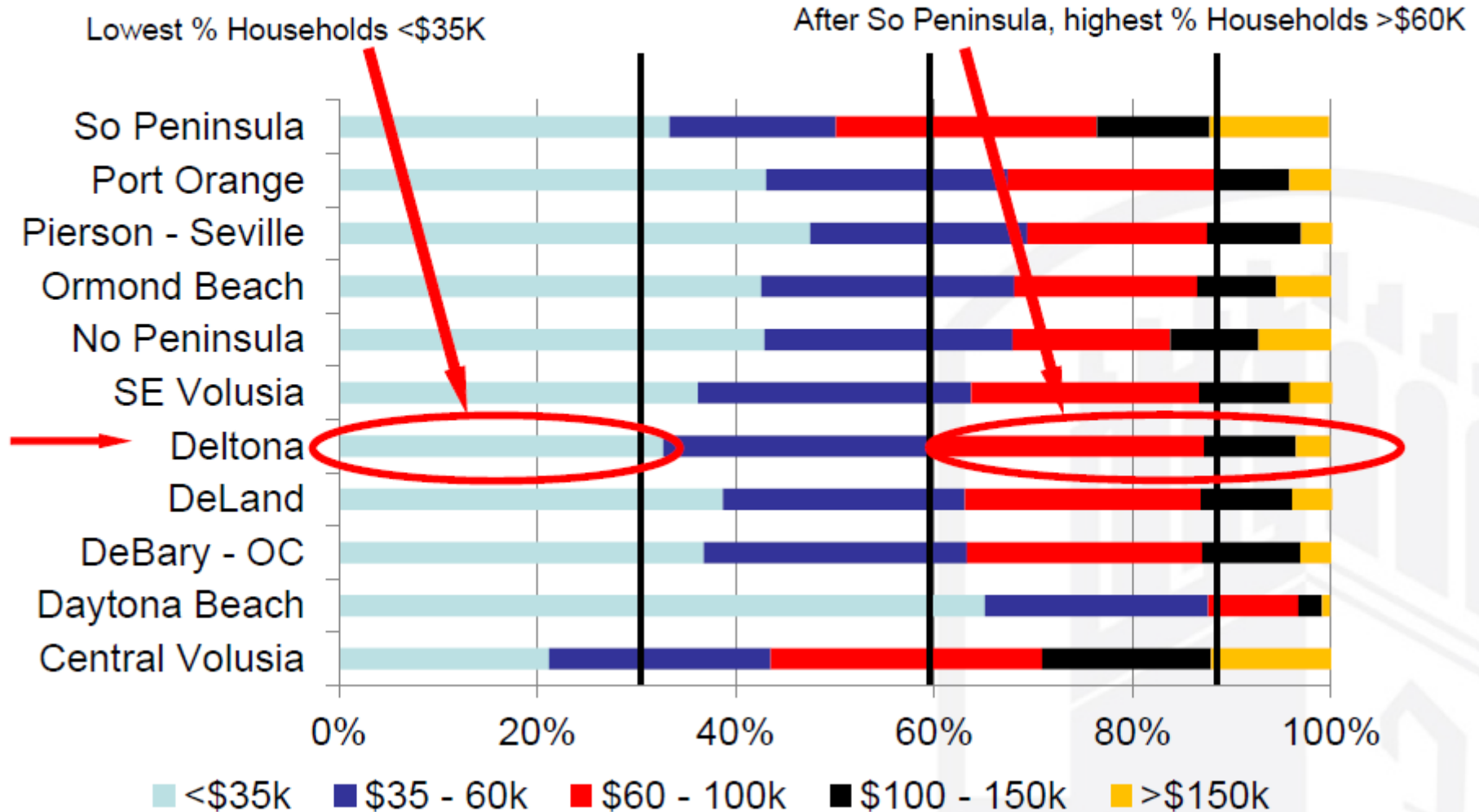
What is relative size and age mix of Deltona?



Source: 2010 Census

Household Income

How does Deltona household income compare to surrounding area?



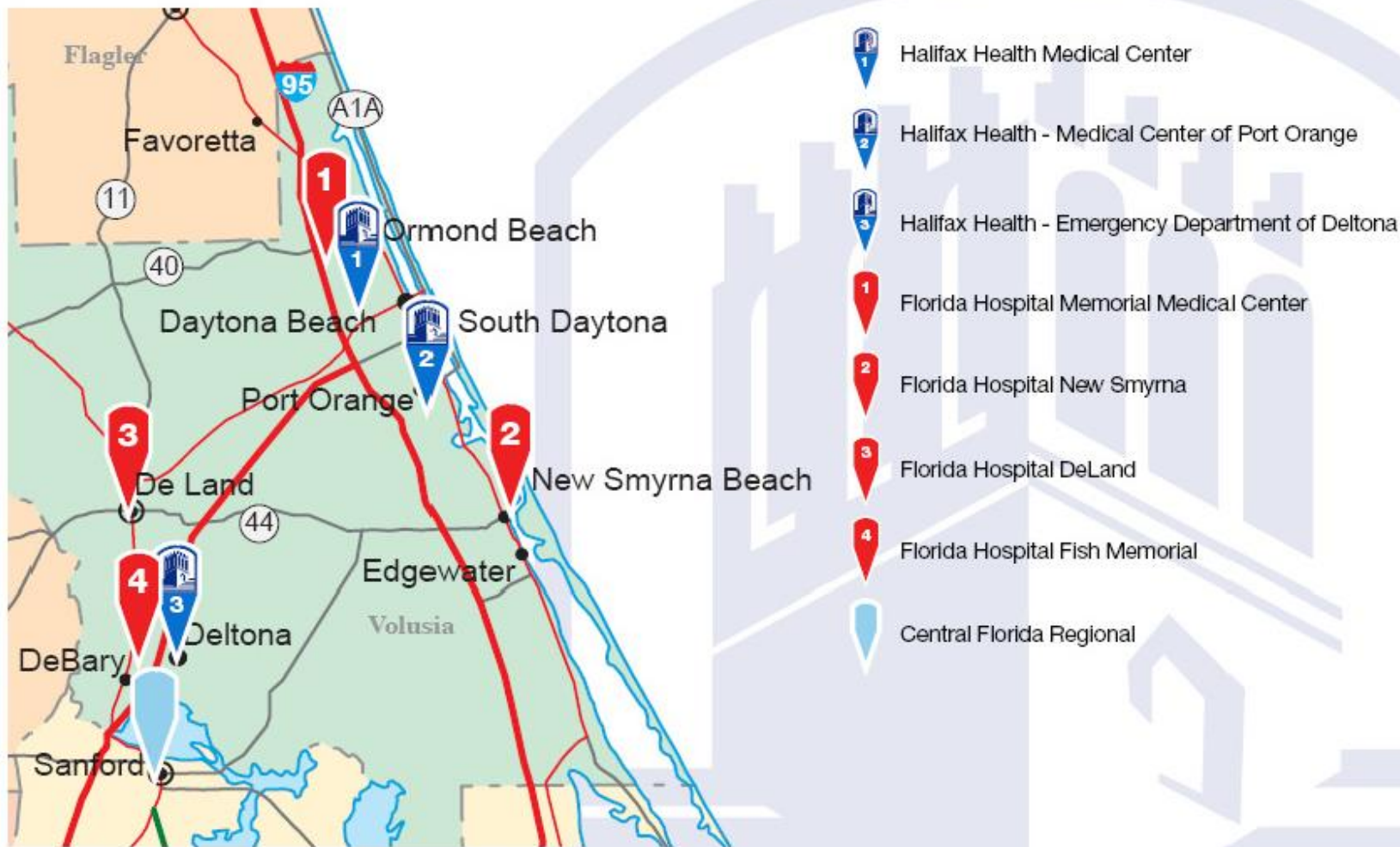
Payer Mix – Inpatient CY 2014

What is Deltona payer mix relative to surrounding areas?

	Deltona Only	Deltona Market	Halifax District	SE Volusia
Commercial	24%	22%	18%	20%
Medicaid	23%	20%	20%	15%
Medicare	42%	48%	51%	55%
Uninsured	7%	6%	8%	6%
Government	4%	3%	3%	3%
Other	1%	1%	1%	1%

Source: AHCA Data

Market Competition



Market Competition

- Florida Hospital Fish Memorial
 - Announced \$100m capital improvement and expansion plan on existing campus

Deltona FSED Operating Results

Invested --

Land	\$	4,500
Site Improvements		1,500
Equipment		2,700
	\$	<u>8,700</u>

Projected payback in 3.5 years

Comparison of Actual Cash Flow Results to Projection -

Five months ended 9/30/2017 results are approximately \$1.1 million less than Year 1 projection.

Lower cash flow results are due to higher costs for locum physician services, higher initial staffing levels to ensure a smooth opening and higher startup costs for supplies. Locum costs have been eliminated and staffing levels are now consistent with projected and budgeted levels. Routine supply costs are now consistent with projected and budgeted levels.

Patient volume, revenue per patient and all other expenses are on pace to achieve the Year 1 projected results.

Financing Objectives

- A. Access to lowest cost of capital
- B. Optimize mix of borrowed funds and cash, including proceeds from sale of non-core assets
- C. Limit impact to liquidity and DSCR
- D. Maintain debt capacity of Obligated Group

Financing Alternatives

- A. Public sale of bonds
- B. Bank loans
- C. Other financing alternatives

Halifax Management System, Inc. (HMS) Overview

- Not-for-profit affiliate of the District, organized in 1984
- Not a member of the Obligated Group
- Owns HHPO and two medical office facilities
- As of July 31, 2017, \$1.8 million of debt outstanding (final maturity in May 2018)

Financing Stages Deltona I/P Facility

- Stage 1 - Loan to HMS from HH Holdings (variable interest rate plus 25 bps)
- Stage 2 - Short-term bank loan – taxable interest rate
- Stage 3 - Long-term tax-exempt financing with SLA structure
 - HHMC is issuer
 - HMS is obligor
 - JP Morgan is lender

Issue \$105m of HMS Debt with Deltona operations within Obligated Group (Stage 3 of Financing)

ASSUMPTIONS	
Term of Debt	30 years
Borrowing Cost	2.71%
Par	105,795,000
Required Proceeds	105,000,000
Cost of Issuance	0.75%

HMS Deltona financing – indicative financing statistics

Illustrative Scenario: \$105 million Deltona construction fund deposit

Indicative Sources & Uses

Sources:

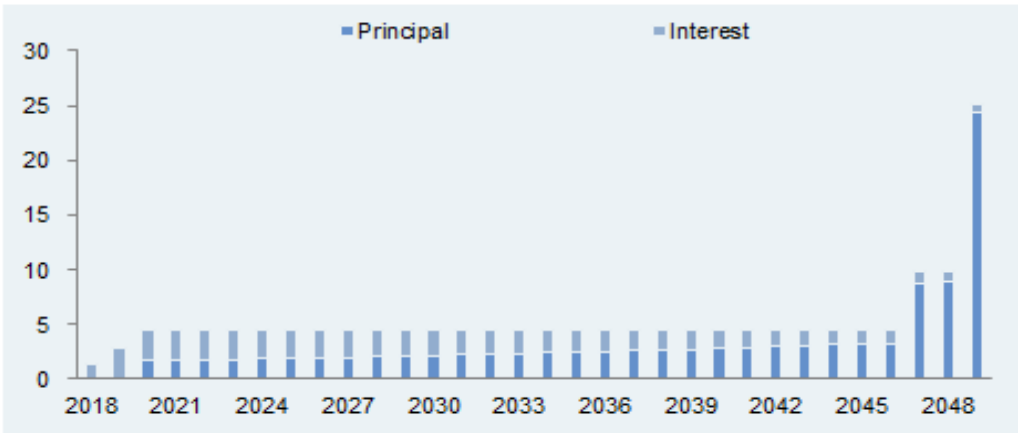
Bond Proceeds:	\$105,795,000
Total Sources:	\$105,795,000

Uses:

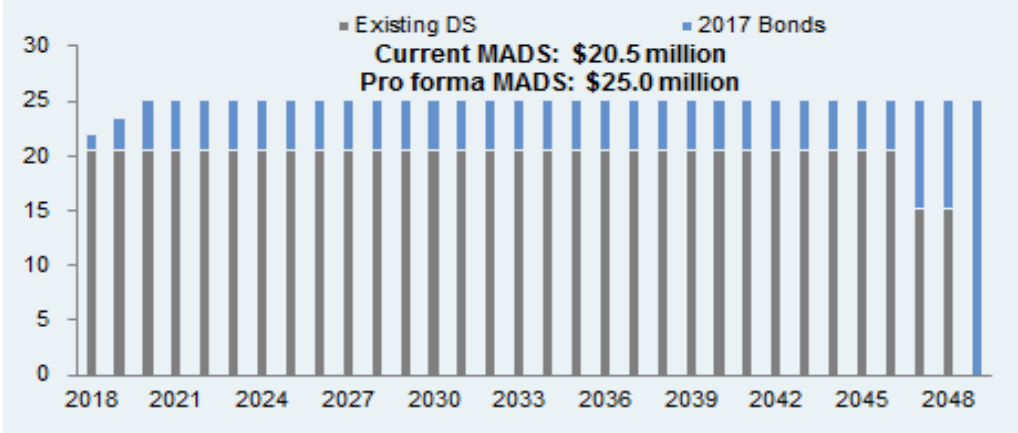
Construction Fund Deposit	\$105,000,000
Estimated Issuance Costs (0.75%)	793,463
Additional Proceeds	1,538
Total Uses:	\$105,795,000

- Assumptions include:
 - \$105 million construction fund deposit
 - Estimated COI of 0.75% of par amount
 - Interest calculated at 20Y historical average of 70% 1-Month LIBOR (1.66% as of June 26, 2017) plus a credit spread of 1.05% based upon an assumed HMS rating of BBB+; security package to be determined, and final due diligence
 - Assumes closing on December 1, 2017 with first principal payment on June 1, 2020
 - Bonds structured to achieve aggregate level debt service across the entire Halifax portfolio
 - Assumes that structured product is renewed at the above terms at each renewal date over the life of the bonds

HMS Deltona Financing - Indicative Debt Service (\$mm, FY 9/30)



Pro-Forma Aggregate Halifax Debt Service (\$mm, FY 9/30)



Debt service for variable rate Series 2008 bonds is calculated based on a principal amount of \$70 million and an assumed synthetic swap fixed payor rate of 3.837%. Interest rates used herein are hypothetical and take into consideration conditions in today's market and other factual information such as the issuer's credit rating, geographic location and market sector. Interest rates applied herein are hypothetical, based on current market facts and should not be viewed as rates that J.P. Morgan might expect to achieve for you at the time of any relevant transaction should we be selected to act as your underwriter. Information about interest rates and terms for SLGs is based on current publicly available information and treasury or agency rates for open-market escrows are based on current market interest rates and should not be seen as costs or rates that J.P. Morgan might expect to achieve for you at the time of any relevant transaction should we be selected to act as your underwriter.

Financial Impact to System

- Deltona I/P facility is anticipated to incur operating losses in FY 2020 and FY 2021 and achieve positive operating results thereafter
- System for FY 2020, targeting 3% operating margin excluding Deltona
- Lower FY 2020 System operating margin and DSCR

Deltona Average Daily Census, Revenue and Adjusted Cash Flow

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
Average daily patient census	18	31	47	48
Net patient service revenue	\$22.9m	\$39.5m	\$61.6m	\$63.10
Adjusted Deltona facility cash flow, before debt service/internal lease costs	\$618k	\$10.1m	\$22.2m	\$22.2m
Estimated interest cost %		2% to 6%		
Estimated net interest cost \$		\$1.5m to \$6.3m		
Average principal payment		\$2.5m to \$3.5m		
Estimate equipment lease cost		\$1.0m to \$2.0m		

Halifax Health Deltona
Statement of Revenues, Expenses and Changes in Net Position
Financial Forecast
(\$ in thousands)

	Forecast		
	FY 2020	FY 2021	FY 2022
Total operating revenues	\$20,850	\$35,537	\$55,575
Operating expenses:			
Salaries and benefits	10,049	11,000	14,205
Purchased services	3,076	4,260	5,833
Supplies	4,687	8,163	12,796
Other	3,995	4,915	6,105
Total operating expenses	<u>21,806</u>	<u>28,338</u>	<u>38,938</u>
Income (loss) from operations before depreciation, interest and lease expense	(\$957)	\$7,200	\$16,637
Depreciation, interest and lease expenses:			
Depreciation and amortization	4,100	4,100	4,100
Interest expense	-	-	-
Lease/Rentals	5,799	5,799	5,799
Total Depreciation, interest and lease expenses:	<u>9,899</u>	<u>9,899</u>	<u>9,899</u>
Increase (decrease) in net position	<u>(\$10,856)</u>	<u>(\$2,699)</u>	<u>\$6,738</u>

Halifax Health
Statement of Revenues, Expenses and Changes in Net Position
Financial Forecast
(\$ in thousands)

	Actual		Projected	Budget	Forecast			
	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Operating revenues:								
Net patient service revenue	\$467,491	\$489,861	\$510,528	\$525,818	\$532,738	\$566,708	\$592,343	\$624,641
Ad valorem tax revenue	13,149	13,252	11,252	6,048	-	-	-	-
Other revenue	24,122	30,541	26,902	26,004	26,351	31,900	32,259	32,622
Total operating revenues	\$504,761	\$533,654	\$548,682	\$557,869	\$559,089	\$598,608	\$624,602	\$657,263
Operating expenses:								
Salaries and benefits	236,144	254,494	280,754	288,459	295,459	307,181	314,674	322,376
Purchased services	77,761	80,911	77,557	73,904	74,644	77,121	78,929	80,617
Supplies	87,998	93,347	100,475	97,520	100,934	107,774	114,740	122,456
Depreciation and amortization	23,677	24,951	23,815	24,081	24,314	30,374	30,611	30,851
Interest expense	18,102	17,199	16,863	16,697	16,647	19,514	19,451	19,386
Ad valorem tax related expenses	6,798	7,460	7,479	6,376	2,876	2,876	2,876	2,876
Lease/Rentals	9,560	9,142	9,295	9,635	9,730	15,626	15,724	15,822
Other	27,339	28,153	26,818	28,102	28,383	32,661	33,868	35,348
Total operating expenses	487,378	515,657	543,056	544,775	552,987	593,128	610,873	629,734
Income (loss) from operations	\$17,383	\$17,998	\$5,625	\$13,094	\$6,102	\$5,480	\$13,728	\$27,530
Nonoperating revenues, expenses, and gains/(losses)								
Investment income	2,871	12,313	7,379	4,367	4,600	4,600	4,600	4,600
Donation revenue	1,250	1,979	1,082	692	700	700	700	700
Interest expense - bond issue costs	(1,359)	(1,774)	-	-	-	-	-	-
Income from affiliates	-	-	-	-	-	-	-	-
Nonoperating gains (losses), net	(240)	(14)	23	-	-	-	-	-
Total Nonoperating revenues, expenses, and gains/(losses)	2,522	12,504	8,484	5,060	5,300	5,300	5,300	5,300
Increase (decrease) in net position before margin improvements	\$19,905	\$30,501	\$14,110	\$18,154	\$11,402	\$10,780	\$19,028	\$32,830
Additional Margin Improvements needed	-	-	-	-	10,655	917	5,003	-
Income (decrease) in net position	\$19,905	\$30,501	\$14,110	\$18,154	\$22,057	\$11,697	\$24,031	\$32,830

Note: FY 2020 Operating Margin target assumes 3% excluding Deltona. Assumes Deltona Inpatient facility opens in FY 2020

**Halifax Health
Financial Ratios
Financial Forecast
(\$ in thousands)**

	Actual		Projected	Budget	Forecast			
	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Total Margin	3.9%	5.6%	2.5%	3.2%	3.9%	1.9%	3.8%	5.0%
Operating Margin	3.4%	3.4%	1.0%	2.4%	3.0%	1.1%	3.0%	4.2%
EBIDA Margin	12.4%	13.6%	9.8%	10.4%	11.1%	10.2%	11.7%	12.5%
Days Cash on Hand	271.0	275.2	263.6	257.6	265.0	246.7	244.2	244.5
Unrestricted Cash (\$ in 000s)	\$345,269	\$370,311	\$375,009	\$369,463	\$377,986	\$378,858	\$385,770	\$401,172
Unrestricted Cash to Debt	96.9%	104.5%	108.1%	79.6%	83.0%	84.9%	88.2%	93.8%
Long-term debt to Capitalization	58.6%	57.0%	55.5%	59.6%	57.4%	56.1%	53.9%	51.3%
MADS Coverage ratio	3.02	3.43	2.66	2.18	2.45	2.39	2.88	3.23

Note: Assumes 3% operating margin in FY 2020 excluding Deltona Hospital

Halifax Health
Statement of Net Position
Financial Forecast
(\$ in thousands)

	Actual		Projected	Budget	Forecast			
	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Assets								
Cash and cash equivalents	\$55,753	\$58,573	\$37,795	\$38,500	\$38,500	\$38,500	\$38,500	\$38,500
Investments	245,024	266,685	267,908	272,730	273,452	284,323	291,233	306,633
Board Designated Assets	44,492	45,053	65,176	58,233	58,233	58,233	58,233	58,233
Accounts receivable	61,329	60,604	63,000	63,500	63,500	63,500	63,500	63,500
Restricted assets whose use is limited	26,722	18,547	5,671	72,671	15,671	5,671	5,671	5,671
Other assets	49,147	41,641	39,467	39,467	39,467	39,467	39,467	39,467
Deferred outflow - swap	33,267	39,431	30,898	30,898	30,898	30,898	30,898	30,898
Deferred outflow - loss on bond refunding	-	17,379	16,455	15,531	14,644	13,739	12,833	11,928
Deferred outflow - pension	15,218	37,204	29,392	26,272	23,330	18,397	19,663	19,272
Property, plant and equipment	362,697	356,341	355,802	394,867	458,053	448,179	438,068	427,717
Total Assets	\$893,649	\$941,457	\$911,564	\$1,012,669	\$1,015,749	\$1,000,907	\$998,066	\$1,001,818
Liabilities and Net Position								
Accounts payable	\$34,151	\$33,386	\$35,000	\$34,000	\$34,000	\$34,000	\$34,000	\$34,000
Other liabilities	84,744	81,231	75,402	75,402	75,400	75,400	75,400	75,400
Deferred inflow - pension	20,139	1,262	-	-	-	-	-	-
Net pension liability	112,819	129,143	106,856	93,207	83,244	65,565	47,913	28,420
Long-term debt	356,351	354,395	347,472	445,658	437,315	429,125	420,575	411,660
Discount/Premium on LTD, net	-	19,932	19,261	18,589	17,919	17,249	16,579	15,909
Long-term value of swap	33,267	39,431	30,898	30,898	30,898	30,898	30,898	30,898
Net position	252,178	282,678	296,675	314,915	336,972	348,669	372,700	405,530
Total Liabilities and Net Position	\$893,649	\$941,457	\$911,564	\$1,012,669	\$1,015,749	\$1,000,907	\$998,066	\$1,001,818

**Halifax Health
Financial Ratios
Financial Forecast
(\$ in thousands)**

	Actual		Projected	Budget	Forecast			
	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Total Margin	3.9%	5.6%	2.5%	3.2%	3.9%	1.9%	3.8%	5.0%
Operating Margin	3.4%	3.4%	1.0%	2.4%	3.0%	1.1%	3.0%	4.2%
EBIDA Margin	12.4%	13.6%	9.8%	10.4%	11.1%	10.2%	11.7%	12.5%
Days Cash on Hand	271.0	275.2	260.7	257.6	259.5	248.1	245.6	245.8
Unrestricted Cash (\$ in 000s)	\$345,269	\$370,311	\$370,879	\$369,463	\$370,185	\$381,056	\$387,966	\$403,365
Unrestricted Cash to Debt	96.9%	104.5%	106.7%	79.6%	81.3%	85.4%	88.7%	94.3%
Long-term debt to Capitalization	58.6%	57.0%	55.3%	59.6%	57.5%	56.1%	54.0%	51.3%
MADS Coverage ratio	3.02	3.43	2.66	2.18	2.45	2.39	2.88	3.23

Note: Assumes 3% operating margin in FY 2020 excluding Deltona Hospital

Approvals Requested

1. HHMC – Inpatient Hospital Facility in Deltona at a cost of \$105 million and overall plan of financing/leasing
2. HH Holdings – loan to HMS to fund construction of inpatient hospital facility until permanent financing secured (variable interest rate, plus 25 bps) – Stage 1 of project financing

Future Approvals

1. HH Holdings – ground lease to HMS for inpatient hospital facility
2. HHMC – Issue debt to finance inpatient hospital facility – with either HH Holdings or HMS as obligor
3. HHMC – lease inpatient hospital facility from HMS
4. HMS (separate board) – Incur capital costs of \$105 million to construct inpatient hospital facility in Deltona and financing stages:
 - i. Loan from HH Holdings (Stage 1)
 - ii. Short-term bank loan – taxable rate (Stage 2)
 - iii. Long-term tax-exempt financing with SLA structure (Stage 3)

Appendix



Global Assumptions

- Margin improvement initiatives are achieved
 - System Operating Margin
 - FY 2018 – 2%
 - FY 2019 – 3% excluding Deltona
 - FY 2020 and future – greater than 3%
- Ad valorem tax revenue goes to \$0 in FY 2019
- Deltona comes on-line in FY 2019 assuming Grant Thornton Proforma
 - Updated for Landmark lease, Physician component and updated financing costs

**Halifax Health
Healthcare Reform
Reimbursement Assumptions
(\$ in Thousands)**

Component	Change from FY 2016			Assumptions
	FY 2017	FY 2018	FY 2019 and after	
Medicare DSH	(\$135)	(\$2,900)	(\$3,866)	Assuming 50% reduction by FY 2019
Medicaid LIP / DSH	(4,047)	(7,924)	(11,801)	FY 2017 reduction based Legislative Appropriations Conference Committee Agreement, March 3, 2016. Assumes elimination of supplemental payments by FY 2019.
Medicaid Outpatient				Medicaid transitions to Prospective payment system for Outpatient.
Medicaid DRG for Peds / Neonate	1,638	1,638	1,638	FY 2017 increase based upon Legislative Appropriations Conference Committee Agreement, March 3, 2016.
Medicaid Expansion (State of Florida has yet to expand the Medicaid program) /Uninsured Coverage	-	-	-	Not assuming Medicaid Expansion is approved by State Legislature in the forecasted years. Estimated Annual revenue impact is \$13 million if implemented.
Impact on Net Patient Service Revenue	(\$2,545)	(\$9,186)	(\$14,029)	

Forecast Assumptions for Expenses

- Merit - \$4m per year (2% increase)
- Market - \$1.5m per year
- Misc/other benefits - \$1m per year
- Pension expense – Based on latest actuarial study
- Purchased services – 1% increase per year
- Supplies -3.5% increase per year
- Other expenses – 1% increase per year