San Juan County Public Hospital District #2
d/b/a Lopez Island Hospital District (LIHD)
Summary of Forecast Assumptions DRAFT
October 28, 2021

Statements of Net Position

1. Accounting on the modified cash basis, therefore, no accrual of receivables and payables.
2. Draws on the Limited Tax General Obligation Bond were taken in the amount of $105,477 in August 2018 and $207,502 in December 2018. GO Bond to be repaid in accordance with the agreement with Islanders Bank, per revised amortization schedule associated with the 2020 reduced interest rate. Bond matures in 2037.
3. UW Medicine payments continued to be scheduled coinciding with the Property Tax deadlines of April 30th and October 30th. In 2022, the potential for **significant additional expenses associated** with the recruitment of a new MD could create volatility in the budget. There is also the ongoing uncertainty of how this change could impact UW's future revenue and expense calculations.
4. Accumulation of cash reserves started in 2019. To-date $75,000 was to be deposited in the Reserve Fund in May and October of each year until the Reserve Fund exceeded 50% of prior year's General Fund Property Tax Revenue, in accordance with the Financial Management policy. **The Reserve Fund balance will reach the maximum level of $450,000 as of 12/31/21.**
5. The District's Reserve Fund is designed to address longer-term and unexpected changes in either Revenue or Expense. It's also designed to ensure the District's ability to service the long-term debt should economics change. Other uses for the Reserve funds include ensuring the LIHD is able to fund an unexpected large-scale project, or be able to maintain operations and survive a sustained economic downturn. The Financial Management Policy stipulates that the LIHD will avoid utilizing reserves to fund recurring operating expenditures.
6. **It is proposed the District continue to annual allocations to the Reserve Fund, and a General Fund balance target be established as a hedge against volatility of Expenses in any fiscal year.** The General Fund balance, or Ending Cash, will be established at a level to serve as a hedge against fluctuations in cash flow that could impact the LIHD's ability to fund normal operations. **The LIHD proposes establishing a target General Fund balance, or Ending Cash target, equal to approximately 42%** (5/12) **of Annual Expenses. This will exclude the Clinic's subsidy payments made semi-annually, which align with receipt of Property Tax Revenue. Also excluded will be 50% of other subsidy payments that are made on a quarterly basis (e.g., currently to Lopez Island Physical Therapy), recognizing half of the payments also coincide with the Property Tax schedule.**

   While the Ending Cash is higher than the target, it **is advised that based on the degree of unknowns in 2022, as well as the longer-term unknown impact on expenses, these funds are carried forward through 2023. There is also uncertainty about what will come out of the Strategic Plan, and the LIHD could determine there are unmet community needs to be considered in the future.**

Capital Improvements and Equipment Purchases

1. No capital purchases anticipated with a cost in excess of the IRS de minimis safe harbor threshold of $2,500, therefore, costs will be expensed as incurred.

SJC PHD#2
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Statements of Revenues and Expenses

1. The method for estimating Property Tax Revenue will be changed for 2022 and beyond. Now that the LIHD has been through several budget cycles there is more confidence in having a less conservative approach. Using 2021 Actuals, the **2022 Property Tax Revenue projection will be based on a 1% increase plus the Assessor's estimate for New Construction, less a 1% reduction to allow for uncollectible accounts.**
2. To more accurately reflect actual cash flow, timing of revenue was considered over the past two years to come up with a **method to spread Property Tax receipts over the calendar year. This helps in understanding cash flow needs and the timing of large expenses**, versus past practice of using 50% allocation for tax deadlines of April 30th and October 31st of each year.
3. It is proposed that the Superintendent's **FTE increase to .5625, or an additional 10 hours/month**, to reach 90 hours/month. This assumes the position is no longer shared with Orcas in 2022. A summary of the proposed changes associated with this transition are below.
   a. As of January 2022, Orcas will no longer provide $500/month in Insurance Reimbursement. As such, that is no longer shown as Insurance Recoveries in Revenue, and the Benefits expense is adjusted down from $1,300 to $800 to reflect LIHD's contribution only.
   b. To receive a full year's credit in PERS an employee must work 90 hours/month. As such, over the past four years the service credit the Supt is ultimately eligible to receive is 2 NOT 4 years. At a continued .5 FTE the Supt will need to work six more years to get three full years of credit.
   c. Moving from .5 FTE to .5625 FTE meets the requirements to be credited a full year of PERS service going forward, which would result in fully vesting in five years. At the current rate of $39.375/hour, moving to a slightly higher FTE results in a gross annual salary of **$46,069 versus the current $40,950**. The **$5,118.75 additional salary** is slightly higher than the annual cost approved by the District associated with the cost of the past four years of service credit. The aggregate cost of the past service credit was approximately $20,000, and this change assume the new salary will be static over the five-year period associated with the PERS vesting (2022 through 2026).
   d. Proposal is to enter PERS without the past service credit and, as of January 1, 2022, increase the Supt FTE to be .5625, or 90 hours/month/1,170 hours/year.
4. While many expenses are maintained at the current level, certain expenses are increased by 3% over the 2021 budgeted amounts. A few exceptions to note are summarized below:

   a. **FICA will be replaced by PERS** for the Superintendent, effective January 1, 2022. Current PERS contribution rate is 10.25% as compared to Social Security of 6.2%.
   b. There is **no change to the Superintendent's benefit** amount for 2022; however, it is assumed this will no longer be a shared expense with OIHCD so only the LIHD contribution is reflected as an Expense and there is no associated Revenue item for Insurance Recovery.
   c. Payments to **UW Medicine** to subsidize the Clinic are based on the payment amounts per the executed agreement that runs through June 30, 2023. Subsequent years continue at a **6% annual increase** to the subsidy.
   d. A placeholder of **$75,000 for possible expenses associated with the recruitment of a new MD and/or cost of a temporary provider**.
   e. Payments under the **physical therapy contract continue at $50,000** per year, payment schedule to be one-fourth of the amount paid quarterly.
   f. Election services cost of $5,000 and State Audit cost of $8,000 will only be incurred every other year.
   g. **Independent Contractor of $12,500 in 2022** to reflect the possibility there could be support required for activities that emerge from the Strategic Plan.

h. Changes in the method of distribution for **HealthMatters 2.0** are reflected in Expense items for Printing and Postage. The frequency is estimated to be three times per year at a cost of approximately **$1,500 to reach all Lopezians with a mailbox,** as compared to $900 to reach 550 subscribers via the Weekly. The Communication Committee has not yet come up with their recommendation based on the recent data collected, and it could be that the number of issues is reduced to twice per year. It is also assumed, and yet to be confirmed, that the cost will be offset by Revenue received from Community Partners.

i. Interest payments are determined based on the GO Bond loan amortization schedule and paid in June and December. One principal payment is due in December.