DESERT HEALTHCARE
DISTRICT & FOUNDATION

FINANCIAL SUSTAINABILITY REPORT

NOVEMBER 2025

sowen

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PRELIMINARY ANALYSIS

The following report complements the Sowen Discovery Report and is intended to establish a foundational understanding of the anticipated financial landscape of Desert Healthcare District (DHCD) viewed specifically through the prism of mission-aligned investment and grantmaking. The guiding objective of this section is to gauge the financial context within which the overall sustainability strategy will be developed.[1]

What This is	*What This is Not*
An overview of expected mission-aligned resources over the next 30 years broken down by source of funding, noting any assumptions made in the overview as well as any legal or political considerations relevant to the Discovery phase.	An audited financial statement, financial projections, or accounting/investment recommendations.

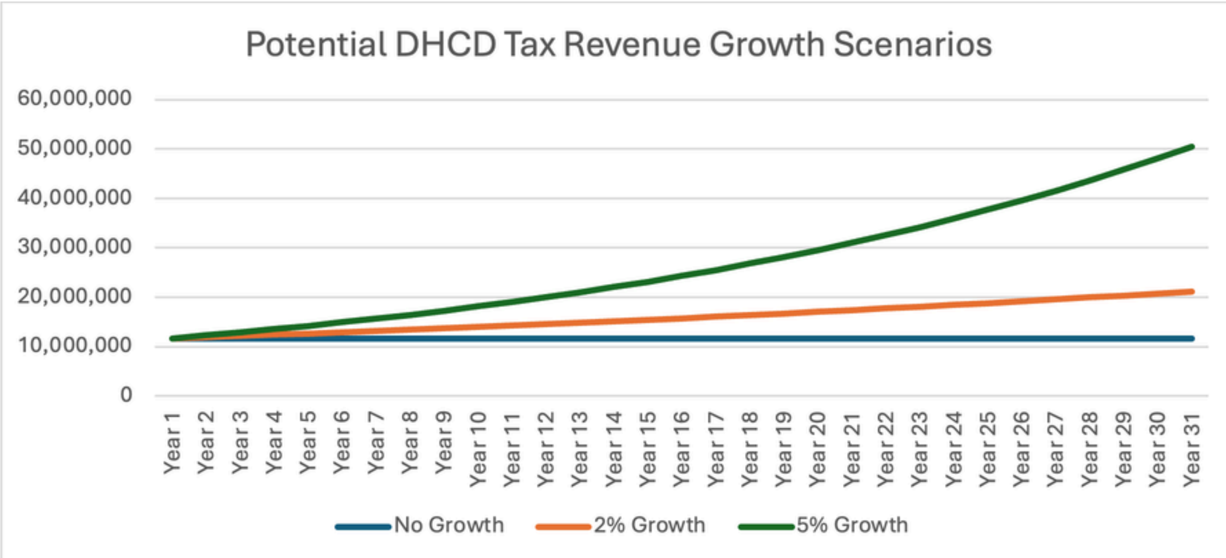
Desert Healthcare District

Over the past three years, the Desert Healthcare District has set its budget for grantmaking at $4m, $4m, and $5m, with[2] grantmaking comprising 46%, 42% and 42% of overall expenses (not including LPMP) respectively. As will be discussed below, given the major influx of funds anticipated over the next thirty years, grantmaking has the potential to comprise an even greater share of overall expenses within the district.

Funding Source #1: Tax Revenue

Property taxes have thus far served as the primary source of DHCD funding. The 2025-26 projected property tax receipts for the DHCD are $11.7m, up from a projection of $10.1m in 2024-25 and $8.8m projected for 2023-24, representing two consecutive years of 15% property tax revenue growth. While it would be unrealistic to assume consistent double-digit annual growth in property tax revenue, it is worth noting that the Riverside County Assessor's historical tabulation of the county's total assessed value shows annual increases (there were no decreases) ranging from 5.08% to 9.37% over the past 10 years. Moreover, according to the Los Angeles Times, "two of the top three communities in the state that saw the greatest growth in average income from 2017 to 2022 were in the Coachella Valley." Conversely, in the aftermath of the Great Recession, Riverside County saw four consecutive annual declines in total assessed value. The graph below maps out potential property tax revenue scenarios over the same time horizon as the Lease Purchase Agreement, with each scenario varying based on average annual property tax revenue growth.[3]

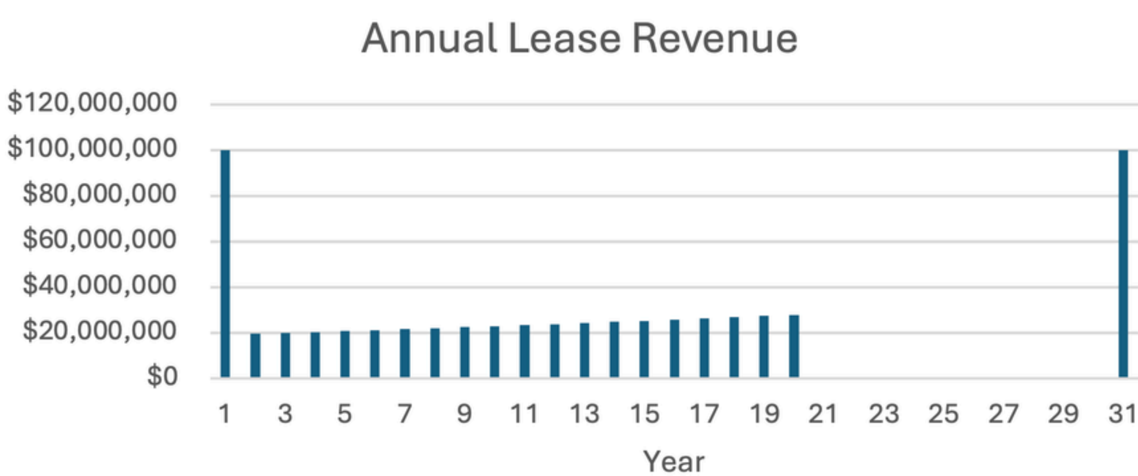
1 Note: much of the data used for calculations was manually inputted and therefore inherently susceptible to human error.
2 Referring to the FY 2023-24, 2024-25, and 2025-26
3 Note: It is our understanding from discussions with staff that the District does not have knowledge of the exact tax revenue allocation calculations as a percentage of Riverside County's revenues.



Funding Source #2: Lease Purchase Agreement

Assuming the contract with Tenet is fully carried out, beginning in June of 2027, DHCD District will begin to receive payments from Tenet, starting with a large payment of $100m, followed by a payment of $19.5m, which will gradually increase on an annual basis through June of 2046. A final payment of $100 million will then be made in June of 2057.

As a condition of the lease agreement, the DHCD must adhere to a Non-Competition Clause, which prohibits several categories of grantmaking that cannot be made within the boundaries of the healthcare district. However, according to the Lease Purchase Agreement, “The District can make grants to projects owned by Riverside County, up to the amount of the property taxes it receives in any year, less District administrative costs.”



Funding Source #3: Investment Accounts

According to the September 2025 financial statements, the District holds $73,683,934 in investment accounts, which, based on discussions with staff, is primarily comprised of treasury bonds that were initially intended to support work on the hospital in compliance with the State of California's seismic mandates. Those funds are no longer required for that purpose as "under the terms of the [Lease Purchase Agreement], Tenet will maintain seismic compliance of the hospital – without requiring the support of valley taxpayers."

Desert Healthcare Foundation

Based on a cash flow projection for FY 2025-26, the Desert Healthcare Foundation (DHCF) is expected to have a cash balance of $5.4m in October of 2025, of which a substantial portion appears to be in publicly traded securities. Over the course of the fiscal year, the DHCF is expected to disburse just under $1.4m in grants and receive $1m in Grants, Interest & F. Lowe. According to its 2023 Form 990, the DHCF does not appear to have any debt obligations. Depending on the strategic course that the Board chooses to take, a much more comprehensive understanding of the current and potential role that the Foundation plays in the overall Desert Healthcare District may be warranted.

Conclusion

The Desert Healthcare District and Foundation appear to be well-positioned to continue to have a transformative impact on the health and well-being of the residents of the Coachella Valley. With a stable foundation of annual property tax revenues that have grown with regularity for over a decade, supplemented by a significant influx of Tenet lease funds over the next thirty years, overall grantmaking capacity will undoubtedly significantly increase in short order. Crucial financial considerations during the next phase of the strategic planning process are:

1. Understanding the extent to which overhead (including operations costs) will increase, along with overall budgets
2. Understanding any contractual obligations that different funding sources are bound by
3. Examining the range of politically, organizationally, and legally feasible mission-aligned investment approaches that could supplement traditional grantmaking efforts

SUSTAINABILITY ANALYSIS

There are myriad ways of defining sustainability, with multiple variables factoring in each organization's personalized definition. The following outline marks the first step toward developing the Desert Health Care District's personalized definition of sustainability. This will hopefully be achieved through pressure testing different elements and approaches, requiring multiple iterations.

PILLAR 1: FINANCIAL SUSTAINABILITY

In a world of scarce resources, many funders and mission-driven organizations seek to ensure that their capital is optimized for longevity, while still prioritizing impact. This includes an array of potential components and related approaches, which emphasize or de-emphasize certain components and differ in complexity.

Option 1. Endowment Funding [4]

Endowment funding, in general terms, is among the lowest risk, most sustainable approaches under discussion. Under this approach, a large amount of capital would form the corpus of an endowment, which could take the form of various assets. Crucially, the corpus of an endowment has the potential to grow over time, thereby magnifying and sustaining impact.[5]

Example Scenario 1.1: Foundation or District Endowment Funding

- DHCD could use some portion of its available funding to establish an endowment within an appropriate legal structure, functioning more as a conventional foundation with annual spending and reporting requirements.
  - In this scenario, the endowment exists in perpetuity, contingent on the corpus of the endowment being maintained or grown.
  - In order to preserve tax-exempt status, a certain percentage of this endowment would be used for grantmaking.
  - In addition (as will be discussed later), other approaches such as "Mission Related Investments" and "Program Related Investments" could be used to maximize endowment capital beyond traditional grant expenditures, while still generating some level of return to ensure long-term sustainability.
  - Key Preconditions: A legal framework for utilizing lease revenues for this purpose, political feasibility, an organizational infrastructure for managing endowment funds, etc. (*Cont. on next page)*

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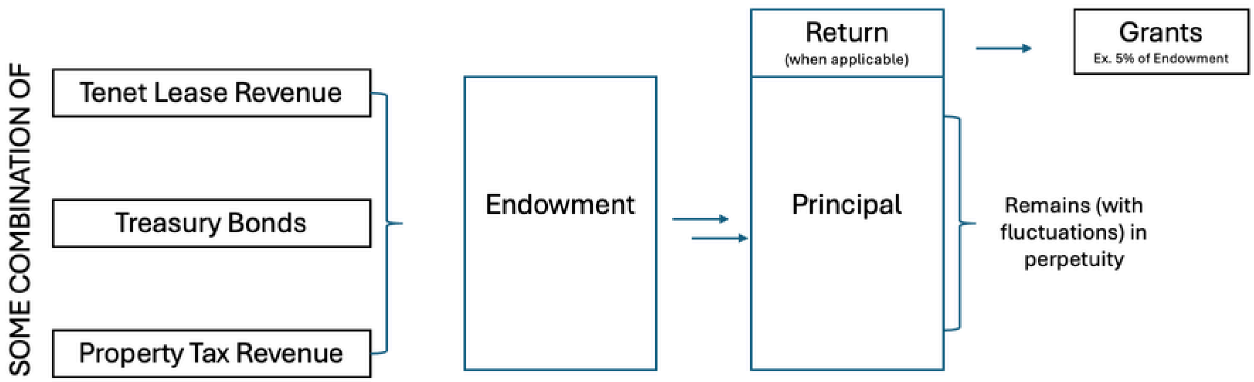
4 Note: any funding decisions discussed in this outline would need to comply with relevant laws and regulations. As such, some of these options may not be appropriate for DHCD.
5 According to the Council of Nonprofits, "Endowments may generally be described as assets (usually cash accounts that are invested in equities or bonds, or other investment vehicles) set aside so that the original assets (knows as the "corpus") grow over time as a result of income earned from interest on the underlying invested funds. The corpus may also be added to over time."

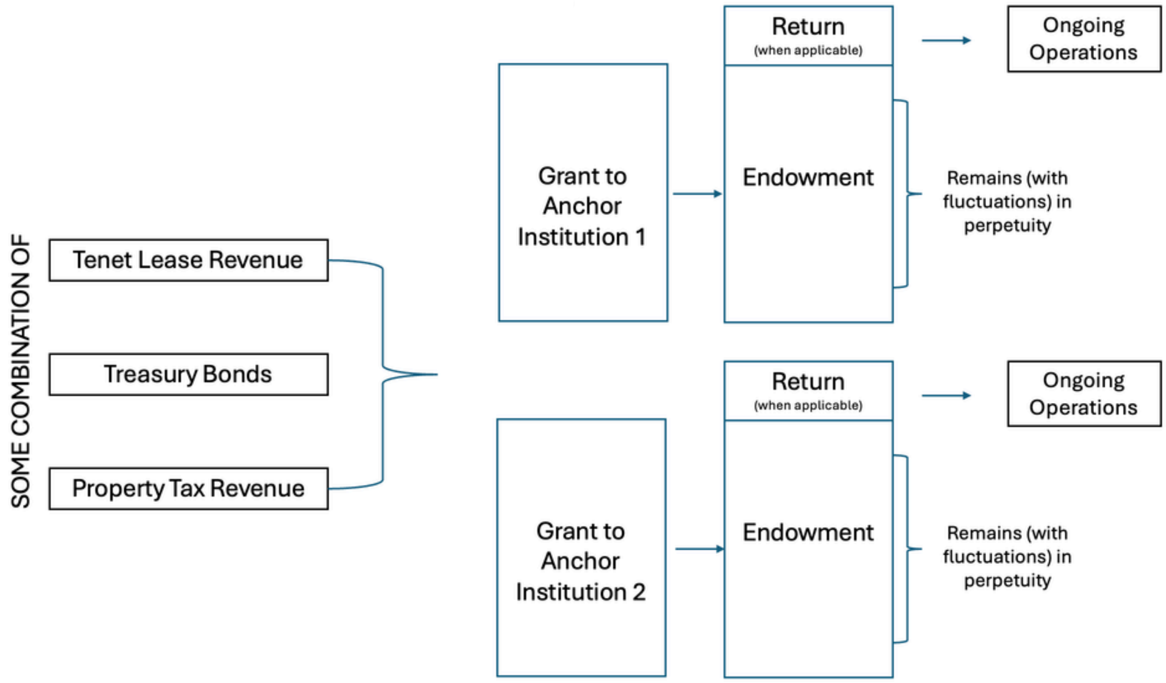
- Key Benefits: Sustainability, and the potential for expanded impact with a growing corpus.
- Key Limitations: Depending on the community context, limiting grantmaking to levels aligned with foundation spending requirements (~5%) may not be sufficient to meet the needs of the community. In fact, some large philanthropies have made the decision to spend down their endowments over time. In addition, while the corpus has the potential to increase in value, it also has the potential to contract.



Note: These scenarios are meant to be illustrative examples and the structures/approaches used can take many forms.

Example Scenario 1.2: Endowing Anchor Institutions

- DHCD could use some portion of its available funding to anchor institutions within the Valley with the specific objective of establishing endowments that could allow for organizational sustainability and a more directed focus on impact
  - In this scenario, large grants to external entities with a verified track record of meaningful impact would be eligible for such funds.
    - Key Preconditions: The presence and knowledge of existing anchor organizations that have the capacity to accept and manage relatively large grants and measure impact.
    - Key Benefits: Building on existing infrastructure with organizations that are already anchors within the community.
    - Key Limitations: Less ongoing oversight, meaning greater front-end diligence. Political risks associated with being perceived as picking winners/losers.



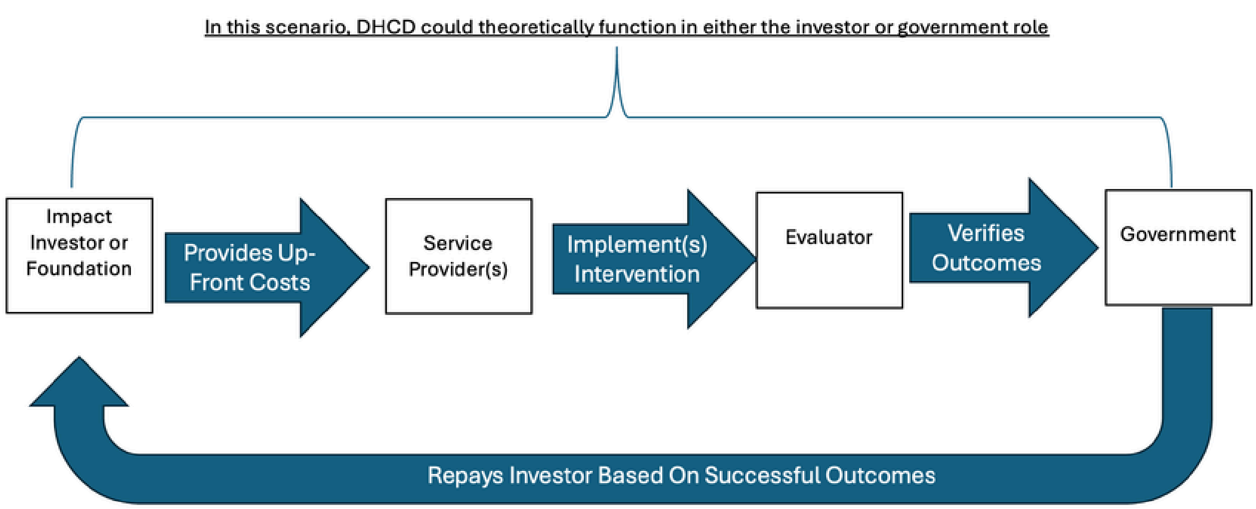
Note: These scenarios are meant to be illustrative examples and the structures/approaches used can take many forms.

Option 2. Outcomes-Based Funding

Outcomes-based funding takes many forms. But, as evidenced by its name, it links funding to outcomes being achieved. Related terms and approaches include "pay for success" and "social impact bonds." Many value propositions have been presented with regard to outcomes-based funding, including the limiting of risk borne by government, the introduction of performance management and impact verification into service delivery, and the overall development of an outcomes-oriented infrastructure within a sector often criticized for being too focused on inputs and outputs. Outcomes-based financing approaches can vary significantly in terms of complexity, and carry many trade-offs. In addition, there are many challenges specific to the health care sector with regard to such approaches. Nevertheless, they remain an approach worthy of consideration, particularly given the unique features of the DHCD and its upcoming source of significant revenue.

Example Scenario 2.1: Outcomes-Based Financing (Pay for Success)

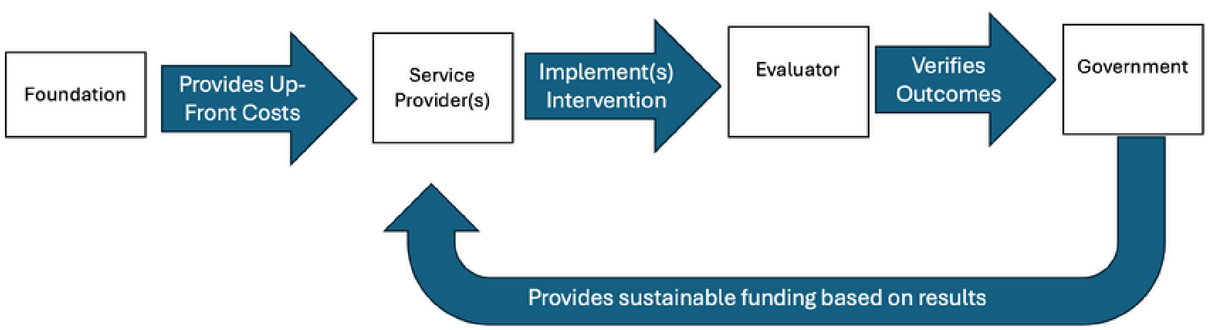
- DHCD could participate in traditional Pay For Success (PFS) project(s). A traditional PFS project (also known as a social impact bond) typically involves private capital (philanthropic or impact investment) covering upfront intervention costs, a service provider delivering the services to the target population, an evaluator verifying outcomes that have an assigned value (based on savings or benefits that are quantified and agreed upon as part of the structuring process), an end-payor (typically a government) who ultimately repays investors based on verified outcomes, and an intermediary to coordinate the transaction. Given their unique circumstances, DHCD could plausibly function as either a front-end (investor) or back-end (government) payor. The former would offer the chance for financial sustainability. The latter would offer the chance for funds closely tracking to realized impact.
    - *Key Preconditions:* The identification of measurable, meaningful outcomes that can be linked to a cashable savings or benefit that is quantifiable. Next, there needs to be available capital on the front and back end via the presence of investors and a willing government end-payor. In addition, there needs to be an intervention available that is cost-effective and that is effective on the relevant target population. Finally, an evaluation must be possible.
    - *Key Benefits:* If successful, the front-end payor would recoup their investment and the back-end payor would only pay for verified successful outcomes. In addition, the development of a performance measurement framework can be beneficial.
    - *Key Drawbacks:* Transaction costs, timing, and complexity. Rigidity of evaluation requirements once the intervention has been launched. In addition, depending on the overall objectives of the DHCD, there are risks that the interventions most likely to be funded in a PFS project would be considered low-risk, and it would be more efficient to direct-fund the intervention without the complexity of a transaction. Of course, a valid rebuttal to this critique is that but for the introduction of external capital, the opportunity to fund the project would not have arisen.



Note: These scenarios are meant to be illustrative examples and the structures/approaches used can take many forms.

Example Scenario 2.2: Outcomes-Based Financing (Outcomes-Based Evergreen Grant)

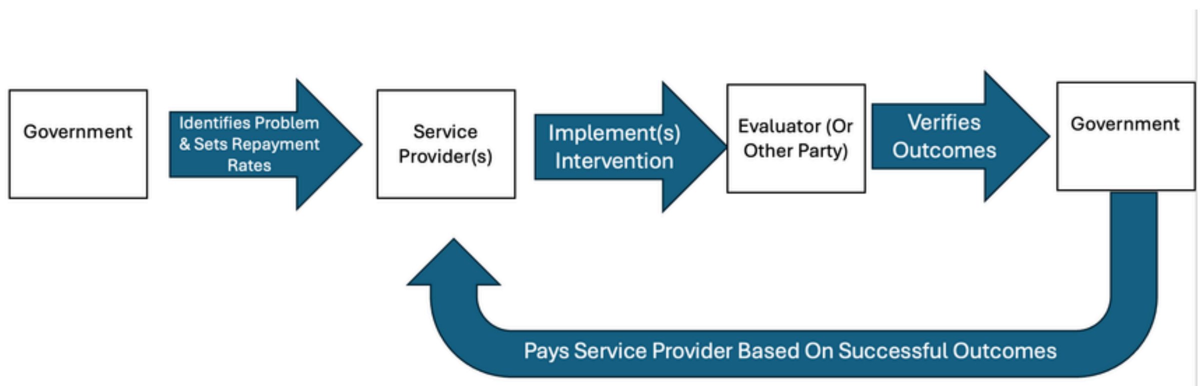
- DHCD could participate in an outcomes-based evergreen grant. Also known as a Reinvest in Success (RIS), outcomes-based evergreen grants draw inspiration from traditional Pay For Success transactions, but do not offer a return to investors. Instead, a grantmaker provides the front-end capital on an intervention or program, and government commits to sustaining the program commensurate with the level of success (as defined at the design stage) the project achieves. Given the lack of market-level returns, transaction costs are much lower, and there is much more flexibility with regard to evaluation. In this context, DHCD could function as either the front-end grantmaker or the back-end government payor, with similar tradeoffs as those outlined in Scenario 2.1.
    - *Key Preconditions:* A government end payor who is willing to sustain a program that is proven to achieve impact. A mutually agreed upon framework for measuring/verifying impact. Quantifiable/cashable outcomes.
    - *Key Benefits:* The potential to motivate government to sustain proven programs that are aligned with the priorities of the DHCD. Given the absence of need to demonstrate market-rate returns, interventions could be less proven, but high potential/innovative.
    - *Key Drawbacks:* Depending on the terms of the transaction, the level of guarantee that government provides regarding sustaining the program may vary.



Note: These scenarios are meant to be illustrative examples and the structures/approaches used can take many forms.

Example Scenario 2.3: Outcomes-Based Financing (Rate Card)

- DHCD could establish a rate card, agreeing to pay for outcomes, often on a per-participant basis, without the rigidity of a rigorous evaluation. According to Social Finance, “an outcomes rate card is a set of metrics for which service providers can earn a payment for the achievement of each metric. A government agency uses a rate card to predefine operational and performance priorities, paired with a monetary incentive to influence service provider performance. Crucially, a rate card, unlike a traditional PFS transaction, does not have the potential to generate a partial or complete return to investors. However, it does leverage capital to promote performance management across service providers.
    - *Key Preconditions:* Available, reliable service providers. A clear target population with a feasible referral pipeline. Available data to identify rate card priorities and to set rates.
    - *Key Benefits:* A potentially efficient mechanism for leveraging funds to maximize the likelihood of achieving impact. Incorporating performance incentives for service providers. Limiting risk exposure for government, in the event that success is not achieved.
    - *Key Drawbacks:* Not all priorities to the DHCD can fit neatly within a rate card context. In addition, there may be political/relational implications if a service provider is not meeting outcome targets.



Note: These scenarios are meant to be illustrative examples and the structures/approaches used can take many forms.

Option 3. Leveraging Private Capital to Complement and Maximize Grantmaking Efforts

It has been said that "grantmaking has a -100% return." A logical extension of this is that, in a time of scarce resources, the extent to which market rate (or even below-market rate) returns can be achieved while still maintaining fidelity to DHCD's strategic goals, would represent a major step toward sustainability. Alternatively, engaging external funders to supplement DHCD grants can also promote sustainability.

Example Scenario 3.1:

- DHCD could purchase facilities for primary care physicians' offices and offer below-market leases to incentivize providers, while still owning the asset which could potentially gain value over time.

Example Scenario 3.2:

- DHCD could offer student loan repayment options (either in terms of repayment assistance or low-rate refinancing) to primary care providers, contingent on their remaining in the service area for a predetermined amount of time.

Example Scenario 3.3:

- DHCD could join a funding collaborative that is aligned on specific strategic goals. It could also cultivate relationships with other funders, potentially leading to co-funding opportunities.

Example Scenario 3.4:

- DHCD could expand programs that are potentially eligible for philanthropic matching funds, similar to the efforts that the State of Maryland has taken in partnership with Arnold Ventures.

Example Scenario 3.5:

- DHCD could either provide matching funds for state and federal grants (if applicable and necessary) or it could provide technical support for government and nonprofit organizations interested in applying for federal or state grant funds.

PILLAR 2: POLITICAL SUSTAINABILITY

Independent of (though certainly related to) the financial dimension of sustainability, political sustainability is vital to ensuring that DHCD's impact will endure. This is even more the case given the extraordinary increase in funding made available as a result of the lease terms.

- First and foremost, building and reinforcing systems and structures that ensure compliance with AB2019 are essential.
- Communicating impact and ensuring transparency is essential to preserving and building community buy-in.
- Adequately assessing the potential political (direct and indirect) risks and benefits associated with potential grants/investments is crucial.

PILLAR 3: OPERATIONAL/ORGANIZATIONAL SUSTAINABILITY

Given the fact that board members may experience turnover, it is essential that institutional memory regarding strategy, processes, and stakeholder relationships be preserved and updated.

- In other words, DHCD must ensure that, over time, the core functions of the District administration are memorialized and codified such that any personnel transitions won't pose a threat to the sustainability of the operation.

APPENDIX - SOURCES

For clarity and readability, source-to-text attributions are documented in a separate reference file. We are happy to provide this upon request.

Preliminary Analysis

https://www.dhcd.org/media/2465/DHCD%20Budget%202023-2024_FINAL_BOD%20Approved_05.23.23.pdf
https://www.dhcd.org/media/3360/DHCD%20Budget%202024-2025_FINAL_BOD%20Approved_05.28.24.pdf
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