



POLICY TITLE: FINANCIAL RESERVE
POLICY NUMBER: FIN-06
DRAFT DATE: 07/17/2019
BOARD APPROVAL DATE: 07/23/2019 New Policy

POLICY: FINANCIAL RESERVE

Policy #FIN-06:

1.1 Purpose: The Desert Healthcare District (District) shall maintain reserve funds in accordance with the District's Reserve Policy. This policy establishes the procedure and level of reserve funding to achieve the following specific goals:

- a) Fund the operating capital of Desert Regional Medical Center (DRMC) for two (2) months in the event of early termination of the lease of DRMC by Tenet or the District; or
- b) Fund major repairs of DRMC, including partial seismic retrofit costs; or
- c) Fund grants and overhead costs of operation of the District.

1.2 Policy: Use of District Reserves is limited to the reserve fund established with MUFG Union Bank. Special use of the funds will be designated by formal action of the Board of Directors. The purposes of the reserve fund are listed below.

- a) DRMC Operating Capital:

The District is in a 30-year lease to operate DRMC with Tenet Health Systems which expires on May 29, 2027. In the event of termination of the lease agreement, the District would be responsible for operating the hospital during the transition without interruption and would require upfront operating capital for two (2) months of approximately \$72M.

- b) Major repairs of DRMC, including seismic retrofit costs:

DRMC falls under the seismic retrofit guidelines of SB 1953, which requires the hospital



to be seismically compliant by the year 2030. Should the District be required to complete the seismic retrofit, it is estimated \$120M - \$180M will be required to bring DRMC into compliance. It is presently unknown if the Lessee (Tenet) or the District will pay for the seismic retrofit.

c) Grant funding and District operating expenses:

The District receives an estimated \$6M annually from county property tax allocation. The operations of the District, including grant funding, are mostly funded by the annual tax allocation. The Reserve Fund is increased as tax payments are received or decreased as grant and operational costs are expended.

1.3 Using Reserve Funds:

a) DRMC Operating Capital:

Reserve funds will be used exclusively for operating DRMC during a transition period should the hospital lease be terminated.

b) Major repairs of DRMC, including seismic retrofit costs:

Reserve funds will be used exclusively for major repairs, including seismic retrofit costs, of DRMC should the District be responsible for these costs.

c) Grant funding and District operating expenses:

Reserve funds will be used as necessary for grant funding and District operating expenses.

4.4 Monitoring Reserve Levels & Records: The Chief Executive Officer, in collaboration with the Chief Financial Officer, shall maintain accurate accounting records of the reserve fund and provide transparency to the Board of Directors.

a) The District's Reserve Fund shall be maintained at approximately \$58M.