

April 20, 2021

Ms. Cheryl Fama, Chief Executive Officer
Ms. Vickie Yee, Chief Financial Officer
Peninsula Health Care District
1819 Trousdale Drive
Burlingame, CA 94010

Re: Assessment of Sutter Health and Mills-Peninsula Health Services

Dear Ms. Fama and Ms. Yee:

I appreciate the opportunity to again provide financial advisory services to Peninsula Health Care District (the "District") relating to the assessment of Sutter Health ("Sutter") and Mills-Peninsula Health Services ("MPHS" or the "Hospital Corporation") as owner and operator of Mills-Peninsula Medical Center, an approximate 450,000 square foot 241-bed general acute care hospital facility opened in 2011 (the "Hospital"). In this regard, you have expressed the desire to assess the financial stability of Sutter, as sole corporate member of the Hospital Corporation and the likelihood for the continued availability of needed healthcare services to District residents as a result of the continuing financial viability of Sutter and the Hospital Corporation. Unless otherwise noted, when Sutter is referenced in this report it refers to Sutter Health as combined with its affiliates and subsidiaries in its audited financial statements, including its medical and fundraising foundations, clinics and a variety of specialized healthcare organizations.

In conducting my assessment, I have reviewed the following materials relating to Sutter, the Hospital Corporation and the Hospital:

1. The Master Agreement between the District and the Hospital Corporation dated October 17, 2005
2. The District's 2019 Strategic Financial Policy Procedures approved on February 27, 2020
3. Sutter's audited financial statements for the calendar years 2016, 2017, 2018, 2019 and 2020 (dated March 3, 2021)
4. Sutter's \$1,989,205,000 Series 2020A Taxable Revenue Bonds, Official Statement, including Appendix A, dated October 22, 2020
5. S&P Global Ratings research report for Sutter, dated December 23, 2019
6. S&P Global Ratings research report for Sutter, dated April 1, 2020
7. S&P Global Ratings credit profile for Sutter, dated October 6, 2020
8. Moody's Investors Service credit opinion report for Sutter, dated October 7, 2020
9. Sutter and MPHS web sites
10. The Corporation's internally prepared operating statements for the calendar years 2018, 2019 and 2020

The following information provides an overview of Sutter, MPHS, the Hospital and provides an assessment of Sutter's financial position, operating performance and overall credit strength as well as a limited assessment of MPHS's operating performance. In addition, a summary is provided of my assessment of risks that may impede Sutter and/or MPHS from fulfilling their obligations to the District pursuant to the Master Agreement between the District and MPHS.

GENERAL OVERVIEW OF THE MASTER AGREEMENT, THE HOSPITAL CORPORATION, AND THE HOSPITAL

On October 17, 2005, the District and MPHS entered into a Master Agreement relating to the lease of land comprising the Hospital site, the construction and operation of the Hospital, among other matters. The Master Agreement incorporates a land lease with a base term of 50 years and requires MPHS to pay the District approximately \$2.2 million annually, adjusted for inflation every three years. The Master Agreement and land lease can be renewed for an additional 25 years upon MPHS's request and the District's consent. MPHS has agreed to provide core clinical services at the Hospital during the term of the Master Agreement. MPHS may request financial support from the District for projects or services that benefit the community or target underserved or disadvantaged populations within the District. Upon the request of MPHS, the District must act in good faith in reviewing such requests for financial support, but is not obligated to approve the same. MPHS is required to provide the District with quarterly reports of the operations of the Hospital. Upon the occurrence of certain events of default under the Master Agreement, the District may pursue a variety of remedies which shall not include termination of the Master Agreement unless specified serious defaults occur. Upon termination of the Master Agreement for specified serious defaults or due to the expiration of the Master Agreement, MPHS would be required to transfer ownership and control of the Hospital to the District in accordance with the terms and conditions of the Master Agreement.

GENERAL OVERVIEW OF SUTTER HEALTH

Sutter provides fully integrated healthcare services in two geographic areas (Sutter Health Bay Area and Sutter Health Valley Area) primarily in Northern California. It is one of the largest and most successful single state healthcare systems in the country. Sutter operates 30 acute care hospital facilities (approximately 4,200 licensed beds), one free-standing chemical dependency recovery hospital, its own health plan, several out-patient health facilities, and partners with physicians contracted through two medical foundations (approximately 2,500 physicians) and operates numerous other healthcare organizations. Sutter provides bondholders a gross revenue fund pledge and a "joint and several" obligation of its aggregate operating entities within an Obligated Group structure provided pursuant to their Master Trust Indenture (updated in October of 2020). The Obligated Group structure in essence consolidates the revenues of all members of the Obligated Group as security for the repayment of debt obligations under the Master Trust Indenture. Approximately 98% of Sutter's system-wide consolidated revenues are captured within this Obligated Group structure. Sutter currently holds the following bond ratings from Moody's Investors Service (A1 with a negative outlook revised on October 7, 2020), Standard & Poor's (A+ with a stable outlook revised on April 1, 2020) and Fitch (A+ with a negative outlook). All three ratings have recently been downgraded from their prior "Aa3/AA-" rating categories due to underperforming operations driven by a material increase in labor related costs, the effects of several northern California wild-fires, the COVID-19 pandemic, significant capital

costs and related debt issuances over the past several years in order for Sutter to meet earthquake retrofit requirements imposed by SB 1953 at its acute-care facilities.

FINANCIAL POSITION OF SUTTER HEALTH

Sutter recently completed a 20-year seismic upgrade program that has achieved compliance at all of its major acute hospital facilities (as reported in Moody's credit opinion dated October 7, 2020) with respect to SB 1953 that requires its acute-care hospitals to meet more stringent seismic building standards, including a complete rebuild of two San Francisco hospitals in 2018 and 2019, at a total cost of over \$2.5 billion. It has accomplished this mandate well ahead of its 2030 deadline while still keeping its debt burden at relatively manageable levels (demonstrated by Sutter's debt to capital ratio as of December 31, 2020, of 34%) and its liquidity still at reasonably strong levels (demonstrated by Sutter's adjusted days cash on hand as of December 31, 2020, of 227 days). Sutter's ongoing investment in its facilities and equipment places Sutter in a strong position with respect to its competitors when it comes to providing state-of-the-art facilities for its medical staff to practice while meeting state mandated seismic requirements (as demonstrated by its 9.6 years average age of plant in 2018 and 2019 as compared with an S&P median ratio of 12.0 for an A+ rating category). Its low leverage and strong liquidity positions are also supported by Sutter's cash to debt ratio as of December 31, 2020, of 173%, and attests to Sutter's success in upgrading its facilities over the past several years while not impairing its balance sheet with an excessive use of debt or a reduction in its unrestricted reserves. Although a total of \$4.6 billion in outstanding revenue bond debt appears to be excessive at first glance, the resulting debt to capital and cash to debt ratios indicated above combined with an 88% funding of its defined benefit retirement plan obligations places Sutter at an enviable position for many healthcare providers, small or large. Finally, Sutter's near-term capital budgets are modest in comparison with past year's capital budgets as there are no major capital projects on Sutter's horizon which should reduce future debt levels, leverage ratios and help to preserve reserves and improve current liquidity levels into the future.

However, future challenges await Sutter with the need to reduce the growth of its staffing costs, recover from past and potentially future state mandates to cease providing elective surgeries and procedures for prolonged periods, repay its outstanding long-term debt associated with capital improvements at its health facilities and medical office building leases and reduce its habit of ending up on the losing end of major lawsuits and the related impact this ultimately has on its cash reserves and operations, including the payment of a \$575 million recent settlement of a class action lawsuit and compliance with restrictions and oversight measures associated with its past contracting practices.

OPERATING PERFORMANCE OF SUTTER HEALTH

Sutter's operating performance over the past five years has been characterized by increasing revenues (with the exception of a pandemic influenced 2020), but declining operating margins over the past three years (averaging 1.70%) and declining from 1.58% to (2.43%) from 2018 to 2020). Diversification of revenues, its excellent regional market position, a fully integrated health delivery system (both horizontal and vertical) with a large physician base that has been aligned closely with Sutter's acute-care facilities (approximately 5,500 active physicians in total) and a strong management team are some of the more important credit related strengths that Sutter has exhibited over the past several years. Another Sutter credit strength is its ability to

service the repayment of its debt obligations (demonstrated by a debt service coverage ratio of 3.57x and 3.63x in 2019 and 2020, respectively), even during a time of weak operating performance helped by investment earnings derived from the investment of its sizeable cash reserves and contributions from the efforts of community based charitable foundations, along with manageable debt service requirements (even though it doesn't utilize variable rate debt).

OPERATING PERFORMANCE OF MILLS PENINSULA HEALTH SERVICES

MPHS's operating performance over the past three years has been characterized by increasing revenues (with the exception of the pandemic 2020), strong operating margins (averaging 2.8% over the past three calendar years) and consistent positive cash flow that has produced decent excess margins (averaging 3.87% over the past three calendar years) and very strong EBIDA margins (averaging 12.4% over the past three calendar years). Consistency in MPHS's financial performance from year-to-year and its significant contribution to Sutter's obligated group structure (see below analysis) demonstrates MPHS's value and importance within the Sutter system. This consistent and strong operating performance has not been duplicated by many other California healthcare providers over the past three years, including Sutter.

Although only limited information over the past three calendar years was provided for MPHS, this information is none-the-less helpful in evaluating its contribution to Sutter's operations over this period. In particular, MPHS has out-performed Sutter over the past three years in its operating margin (2.80% vs. (1.70%)), in its excess margin (3.87% vs. 0.67%) and in its EBIDA margin (12.40% vs. 7.09%). In addition, when MPHS is compared with the Sutter system, it represents only 5.7% of total beds and only 5.0% of total operating revenues but represents 28.9% of its net income and 8.6% of its earnings before interest, depreciation and amortization (EBIDA), as follows:

(Dollars in Millions)	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Average</u>
Licensed Beds:				
Sutter	4,200	4,200	4,200	4,200
MPHS	<u>241</u>	<u>241</u>	<u>241</u>	<u>241</u>
Percentage	5.7%	5.7%	5.7%	5.7%
Total Operating Revenues:				
Sutter	\$12,697	\$13,304	\$13,220	\$13,074
MPHS	<u>\$ 643</u>	<u>\$ 677</u>	<u>\$ 643</u>	<u>\$ 654</u>
Percentage	5.0%	5.0%	4.9%	5.0%
Net Income (Loss):				
Sutter	\$(120)	\$189	\$200	\$90
MPHS	<u>\$ 30</u>	<u>\$ 28</u>	<u>\$ 19</u>	<u>\$ 26</u>
Percentage	N/A	14.8%	9.5%	28.9%
Total Available (EBIDA):				
Sutter	\$676	\$1,084	\$1,105	\$955
MPHS	<u>\$ 88</u>	<u>\$ 85</u>	<u>\$ 73</u>	<u>\$ 82</u>
Percentage	13.0%	7.8%	6.6%	8.6%

PERCEIVED FUTURE RISKS – INTERNAL AND EXTERNAL

The providing of healthcare services in the State of California is a difficult challenge even in good economic times, but can be very challenging in times of economic crisis as has occurred over the past couple years in California due to massive wild-fires, the COVID-19 pandemic and related restrictions on elective surgeries and procedures, combined with state mandated operating and construction requirements without corresponding or sufficient reimbursement support. I believe the present economic climate, for the State of California in particular, and the nation as a whole, is the greatest immediate risk to Sutter's future operations and ultimately to their enviable financial position. Fiscal shortfalls and related problems due in large part to the continuing pandemic, the improved but still low level of reimbursement associated with California's Medi-Cal program, high costs associated with the construction of and improvements to acute care facilities due to OSHPD requirements, increasing staffing issues and related costs combined with Sutter's own continued poor labor relations, and problems stemming from litigation with several of Sutter's partners in the healthcare arena should all be of concern. These and other factors have caused many cities, counties and other public agencies struggling to face significant declines in tax revenues and other sources of revenues combined with the rise in underfunded pension plan obligations seeking either federal support or facing the possibility of filing for Chapter 9 bankruptcy protection in the future. Many local governmental agencies have already looked to Congress for financial support or will undoubtedly soon be seeking some form of government support. In addition, unemployment has increased in almost all sectors of California's economy with many of the most vulnerable in its population taking the greatest hits. Higher unemployment combined with businesses attempting to keep operating costs down will undoubtedly continue to move more employers/employees to high-deductible health plans with more co-payment requirements and higher deductible amounts. In addition, some California businesses have elected to move their businesses to other states that have a more favorable business climate than the state of California. These factors likely will have the impact of constricting revenues, operating margins and cash flow for physicians and healthcare providers alike. As mentioned above, California healthcare providers face significant challenges even during the best of economic times, but when the economy worsens, the challenges only intensify. This economic environment is reflected in all three rating agencies still retaining a negative outlook for the healthcare industry as a whole, that has been in place since early 2020.

Sutter's ongoing contentious relationship with its labor unions has been a difficult situation for many years and will likely continue to be a cause for concern in the future. In fact, Sutter is the only California healthcare system that still does not have a system-wide agreement with CNA, SEIU or any other labor union. Approximately 25% of Sutter employees are represented by collective bargaining units with ongoing union organizing activities at some of Sutter's facilities. The two largest unions representing Sutter employees include the California Nurses Association (CNA) and SEIU United Healthcare Workers West (formerly known as the Service Employees International Union). Sutter's relationship with organized labor will likely not change in the near future due in part to a nursing labor pool that continues to lag behind demand in California and most every other state in the nation. As a consequence, Sutter will likely continue to experience labor disputes and maybe even disruptions.

Several outstanding lawsuits, including a class action lawsuit relating to Sutter's arrangements with health plans, another lawsuit relating to billing and collection activities at a lab outreach program, two US Attorney's Office investigations of the billing activities of its reference lab testing and a separate criminal investigation associated with the lab outreach program and a Department of Justice investigation regarding potential False Claims Act violations, among others, were listed in Sutter's Official Statement dated October 22, 2020. Sutter management states "there can be no assurance that the final resolution of these matters will not have a material adverse impact on Sutter Health's consolidated financial position or results of operations and, therefore, could have a material adverse effect on the Obligated Group, taken as a whole." Although these disclosures of pending litigation are not uncommon in Official Statements associated with the issuance of debt by large healthcare providers, the total number of lawsuits listed by Sutter in this most recent Official Statement are more than I would typically expect to see and I believe is reflective of ongoing issues at Sutter in this area.

Competition from Kaiser Permanente, Dignity Health (part of CommonSpirit Health), Adventist Health, St. Joseph's of Orange and other independent healthcare providers continue to place pressure on its current market share and operating margins.

Unfunded state mandates for California healthcare providers including (i) minimum nurse staffing ratios, (ii) relatively stringent building code requirements overseen by the Office of Statewide Health Planning and Development ("OSHPD"), (iii) an expensive and protracted OSHPD plan check review process and (iv) an underfunded Medicaid (Medi-Cal in California) program are all concerns.

Current volatile investment earnings and in some instances substantial investment losses are problematic and deteriorating values associated with fixed income securities (caused in an increasing interest rate market environment) can lessen past years performance if profits are not continued. These same factors may also require funding increases in defined benefit pension plans and may also reduce contributions from fundraising efforts associated with Sutter operating entities.

From an industry perspective, all three rating agencies revised their outlooks for the healthcare industry from stable to negative in early 2020. These outlook changes by the rating agencies reflect their concerns for the fundamental credit conditions in the healthcare industry in the near future. Many reasons were listed for the recent change to a negative outlook, but the most influential factors appear to be the concern of a prolonged and deep recession caused in large part by the pandemic and related governmental actions taken to stem the loss of life associated with the COVID-19 virus. For Sutter specifically, the rating agencies indicated their concerns about the high cost of living in Sutter's service areas, a strong union presence in the communities served by Sutter, a challenging payer mix, high managed care penetration and unfunded mandates.

CONCLUSION

Although the above-stated potential risks can be significant, Sutter is likely one of the best prepared healthcare systems to survive the ongoing difficulties impacting the California healthcare industry. Although financial information is extremely limited on MPHS, it does

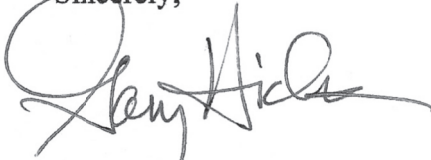
Ms. Cheryl Fama and Ms. Vickie Yee
Peninsula Health Care District

April 20, 2021
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appear as if it continues to perform well when compared with other members of Sutter's Obligated Group. As such, I believe the greatest risks that Sutter will face in the next three to five years will originate from external forces (post-pandemic economic environment and governmental oversight). Sutter is still one of the strongest healthcare systems in California if not nationally; it is well positioned in its chosen markets and well managed. I believe Sutter is positioned to weather the storm that healthcare operators will likely endure over the next three to five years. As such, I believe that Sutter and the Hospital Corporation/MPHS will comply with the Ground Lease, assuming there is no catastrophic economic event that would change the delivery of healthcare in California as we know it today.

I would be pleased to answer any questions that you or any of the District's Board members may have concerning this assessment of Sutter Health and Mills-Peninsula Health Services and I look forward to presenting my findings at your Board meeting on May 11, 2021.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary Hicks". The signature is written in a cursive, flowing style with a large initial "G".

Gary Hicks
President

SUTTER HEALTH
SUMMARY OF AUDITED FINANCIAL STATEMENTS
(Dollars in Millions)

	2016	2017	2018			2019			2020			3-Year Average	Median Ratios - 2019				
			2018	2019	2020	2018	2019	2020	2018	2019	2020		Moody's A3 (38)	Fitch A- (25)	S&P A- (8)		
Patient Service Revenues	\$ 10,290	\$ 10,828	\$ 10,957	\$ 11,407	\$ 10,532	\$ 10,965											
Premium Revenues	1,160	1,220	1,383	1,509	1,525	1,472											
Contributions	9	9	6	29	821	285											
Other	414	387	351	359	342	351											
Total Operating Revenues	\$ 11,873	\$ 12,444	\$ 12,697	\$ 13,304	\$ 13,220	\$ 13,074											
Total Operating Expenses	\$ 11,496	\$ 12,118	\$ 12,496	\$ 13,852	\$ 13,541	\$ 13,296											
Income (Loss) from Operations	\$ 377	\$ 326	\$ 201	\$ (548)	\$ (321)	\$ (223)											
Non-Operating Revenues (Expenses):																	
Investment Income	23	336	187	246	205	\$ 213											
Change in Net Unrealized Gains & (Losses)	229	315	(454)	491	440	159											
Loss on Extinguishment of Debt	(7)	(19)	(54)	-	(202)	(85)											
Net Periodic Postretirement Cost	-	-	-	-	78	26											
Net Income (Loss) Before Noncontrolling Interests	\$ 622	\$ 958	\$ (120)	\$ 189	\$ 200	\$ 90											
Add Depreciation & Amortization Expense	676	655	681	738	747	722											
Add Interest Expense	138	105	115	157	158	143											
Total Available for Debt Service (EBIDA)	\$ 1,436	\$ 1,718	\$ 676	\$ 1,084	\$ 1,105	\$ 955											
Maximum Annual Debt Service	304	304	304	304	304	304											
Debt Service Coverage Ratio	4.72	5.65	2.22	3.57	3.63	3.14	4.10	3.10	3.40								
Operating Margin	3.18%	2.62%	1.58%	-4.12%	-2.43%	-1.70%	1.80%	0.90%	1.70%								
Excess Margin/Net Income Margin/Total Margin	5.13%	7.32%	-0.97%	1.35%	1.43%	0.67%	4.60%	3.20%	3.90%								
Operating Cash Flow Margin/EBIDA Margin	11.84%	13.12%	5.44%	7.72%	7.93%	7.09%	8.00%	9.10%	9.30%								
Net Return on Total Assets	3.97%	5.61%	-0.69%	1.02%	0.98%	N/A	N/A	N/A	N/A								
Patient Revenue Margin	-0.40%	-0.58%	-1.26%	-7.25%	-12.31%	-6.90%	N/A	N/A	N/A								
Long-term Debt Obligations	\$ 4,138	\$ 3,972	\$ 4,626	\$ 4,520	\$ 4,601												
Unrestricted (Controlling) Net Assets	\$ 7,946	\$ 8,965	\$ 8,530	\$ 8,705	\$ 8,741												
Total Capital	\$ 12,084	\$ 12,937	\$ 13,156	\$ 13,225	\$ 13,342												
L-T Debt to Capital	34%	31%	35%	34%	34%		36%	45%	47%								
L-T Debt to Equity	49%	42%	51%	48%	49%		N/A	N/A	N/A								
Net Property, Plant & Equipment and CIP	\$ 7,735	\$ 7,954	\$ 8,193	\$ 8,345	\$ 8,043												
Licensed Beds	4,188	4,188	4,188	4,188	4,188												
Net PP&E per Licensed Bed	\$ 1.85	\$ 1.90	\$ 1.96	\$ 1.99	\$ 1.92		N/A	N/A	N/A								
L-T Debt to Net PP&E	53%	50%	56%	54%	57%		N/A	N/A	N/A								
Total Net Assets	\$ 8,498	\$ 9,558	\$ 9,111	\$ 9,340	\$ 9,422												
Total Assets	\$ 15,674	\$ 17,081	\$ 17,303	\$ 18,527	\$ 20,441												
Equity to Total Assets	54%	56%	53%	50%	46%		N/A	N/A	N/A								
Total Current Assets	\$ 6,844	\$ 7,920	\$ 7,726	\$ 8,186	\$ 10,256												
Total Current Liabilities	\$ 1,952	\$ 2,457	\$ 2,276	\$ 2,894	\$ 4,065												
Current Ratio	3.51	3.22	3.39	2.83	2.52		1.70	N/A	N/A								
Cash and Cash Equivalents	\$ 426	\$ 395	\$ 362	\$ 505	\$ 1,169												
Investments*	\$ 4,870	\$ 5,811	\$ 5,969	\$ 6,845	\$ 6,798												
Total Cash, Cash Equivalents and Investments	\$ 5,296	\$ 6,206	\$ 6,331	\$ 7,350	\$ 7,967												
Daily Cash Requirements	\$ 30	\$ 31	\$ 32	\$ 36	\$ 35												
Days Cash on Hand	179	198	196	205	227		179	175	138								
Cash to L-T Debt	128%	156%	137%	163%	173%		102%	120%	101%								
Patient Accounts Receivable	\$ 1,264	\$ 1,277	\$ 1,223	\$ 1,244	\$ 1,205												
Days in Accounts Receivable	40	39	36	35	36		46	45	41								

N/A: Not available.

* Excludes \$999M in advance Medicare payments, \$575M in a legal settlement, \$209M in deferred payroll taxes and \$400M in outstanding S-T LOC.

**MILLS-PENINSULA HEALTH SERVICES
SUMMARY OF FINANCIAL STATEMENTS
(Dollars in Thousands)**

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Exhibit B

				3-Year Average	Median Ratios - 2019			Sutter Health	
	2018	2019	2020		Moody's A3	Fitch A-	S&P A-	2020	3-Year Average
Total Operating Revenues	\$ 643,339	\$ 676,812	\$ 643,181	\$ 654,444					
Total Operating Expenses	\$ 624,604	\$ 649,771	\$ 634,000	\$ 636,125					
Income from Operations	\$ 18,735	\$ 27,041	\$ 9,181	\$ 18,319					
Investment Income & Other Nonoperating Revenues	11,070	1,282	9,593	\$ 7,315					
Net Income	\$ 29,805	\$ 28,323	\$ 18,774	\$ 25,634					
Add Depreciation & Amortization Expense	47,440	45,814	43,638	45,631					
Add Interest Expense	11,141	10,594	10,551	10,762					
Total Available for Debt Service (EBIDA)	\$ 88,386	\$ 84,731	\$ 72,963	\$ 82,027					
Maximum Annual Debt Service	N/A	N/A	N/A	N/A					
Debt Service Coverage Ratio	#VALUE!	#VALUE!	#VALUE!	#VALUE!	4.10	3.10	3.40	3.63	3.14
Operating Margin (line 11 / line 8)	2.91%	4.00%	1.43%	2.80%	1.80%	0.90%	1.70%	-12.31%	-6.90%
Excess Margin (line 14 / (line 8 + line 12))	4.55%	4.18%	2.88%	3.87%	4.60%	3.20%	3.90%	1.43%	0.67%
EBIDA Margin (line 18 / (line 8 + line 12))	13.51%	12.50%	11.18%	12.40%	8.00%	9.10%	9.30%	-2.43%	-1.70%

SUTTER HEALTH
SUMMARY OF AUDITED FINANCIAL STATEMENTS - DEFINED TERMS

Exhibit C

Days in Accounts Receivable (days)	(Net patient accounts receivable x 365) / Net patient service revenue
Debt Service Coverage Ratio (x)	Total available for debt service / Actual debt service
Average Age of Plant (years)	Accumulated depreciation / Depreciation expense
Cash on Hand (days)	(Unrestricted cash & investments x 365) / (Total operating expenses - depreciation and amortization expense)
Current Ratio	Total current assets / Total current liabilities
Excess Margin	(Total operating revenue - total operating expenses + nonoperating income) / (Total operating revenue + nonoperating income)
Total Available for Debt Service	Total operating revenue - total operating expenses + nonoperating income + depreciation & amortization expenses + interest expense
Operating Cash Flow Margin	(Total operating revenue - total operating expenses + nonoperating income + depreciation & amortization expenses) / Total operating revenue
Operating Margin	(Total operating revenue - total operating expenses) / Total operating revenue
Long-term Debt-to-Capitalization	Long-term debt / (Long-term debt + unrestricted (controlling) net assets)
Unrestricted Cash and Investments	Unrestricted cash + short-term investments + board designated cash & investments
Cash and Investments to Debt	Unrestricted cash & investments / Long-term debt

Peninsula Health Care District Assessment of Sutter Health & Mills-Peninsula Health Services

G.L. Hicks Financial
Gary Hicks, President

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Background/Purpose – Master Agreement & Land Lease

- Master Agreement and Land Lease entered into on October 17, 2005
- 50-year term w/ 25-year renewal option upon MPHS request and PHCD consent
- MPHS provides core clinical services (Sec. 3.02)
 - ✓ MPHS may request financial support for services
 - ✓ Termination of services – economic infeasibility
- MPHS default and paramount default (Sec. 5.01)

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General Overview of Sutter

- Operates 30 Acute Care Hospitals
 - ✓ 4,200 licensed acute care beds
- MTI and Obligated Group Structure
 - ✓ Revenue Fund pledge w/ joint & several obligation
- All 30 Acute Facilities meet SB 1953 Requirements
- Current ratings are A1 & A+ by M, S&P and F

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Sutter's Key Financial Indicators

- Financial Position (as of 12/31/20)
 - ✓ Total Cash & Investments = \$8.0 Billion - adjusted
 - ✓ Total Outstanding L-T Debt = \$4.6 Billion
 - ✓ Day's Cash on Hand = 227 days
 - ✓ Debt to Capital Ratio = 34%
- Operating Performance (2020 and 3-yr. average)
 - ✓ Operating Margin = (2.43%) & (1.70%)
 - ✓ Excess Margin = 1.43% & 0.67%
 - ✓ EBIDA Margin = 7.93% & 7.09%
 - ✓ Debt Service Coverage = 3.63x & 3.14x

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MPHS Key Operating Indicators

- Revenues declined for first time in recent history
- Positive operating margins 2018, 2019 & 2020
- Operating Performance for 2020 & 3-Yr. Average
 - ✓ Operating Margin: 1.43% & 2.80%
 - ✓ Excess Margin: 2.88% & 3.87%
 - ✓ EBIDA Margin: 11.18% & 12.40%
 - ✓ Depreciation Expense: \$43.6M & \$45.6M

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MPHS Comparison w/ Sutter 3-Year Average

- Total Operating Revenues: 5.0%
- Net Income: \$90M vs. \$26M 28.9%
- Total Available (EBIDA): \$955M vs. \$82M 8.6%
- Operating Performance MPHS vs. Sutter 3-Yr. Ave.
 - ✓ Operating Margin: 2.80% vs. (1.70%)
 - ✓ Excess Margin: 3.87% vs. 0.67%
 - ✓ EBIDA Margin: 12.40% vs. 7.09%

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Sutter: 2007 Versus 2020

- Declining:
 - ✓ Bond Ratings: Aa3, AA- vs. A1, A+ & A+
- Improving:
 - ✓ Total Cash & Investments: \$3.3B vs. \$8.0B
 - ✓ Total L-T Debt Outstanding: \$2.6B vs. \$4.6B
 - ✓ Day's Cash on Hand: 173 days vs. 227 days
 - ✓ Debt to Capital Ratio: 40% vs. 34%
 - ✓ Cash to Debt Ratio: 123% vs. 173%

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Future Risks

- External Factors (uncontrollable):
 - ✓ Economic Climate caused by COVID-19 & similar calamities (droughts, earthquakes, fires, etc.)
 - ✓ Unfunded State Mandates
 - ✓ Strong Competition in Service Areas
- Internal Factors (controllable):
 - ✓ Staffing Difficulties & Labor Disputes
 - ✓ Ongoing Litigation & Contracting Oversight
 - ✓ Continuation of Investment Returns

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Conclusion

- Strong Liquidity and Low Leverage
- Conservative Capital Structure (no derivatives or variable rate debt)
- Strong Market Share in Market Service Areas
- Successfully Integrated Physician Network
- Strong Contracting Leverage due to Size
- One of the Best Positioned Healthcare Systems in California