

Options for the Completion of the Tulare Hospital Tower

The Tower construction stopped when the funds from the \$85 million raised from a general obligation bond issue and additional donations provided for its development were depleted. The building shell is complete and many of the items for the interior, including some construction materials and a number of fixtures, are on hand.

Estimates for the completion of the Tower have ranged between \$50 and \$80 million, the variation of which depends largely on issues related to redesign and phasing of the Tower's occupancy. The Tower is owned by and the responsibility of the Tulare Local Healthcare District (the "District") but is not treated as rentable space under the lease presently in place between the District and Adventist Health for certain land and improvements (the "Premises"), also owned by the District. Per its terms, once the Tower is determined to be ready for occupancy, a combined fair market rent valuation will be conducted by a third-party valuation consultant on the Tower and the Premises, the result of which will be used to calculate an increase in the base rent being applied under the lease.

Because some areas of the existing hospital may not meet current California-mandated seismic standards scheduled to take effect in 2030, the Tower was originally planned, in part, as a replacement for those non-compliant facilities. Notwithstanding the foregoing, the 2030 deadline for seismic compliance has been delayed by the state in the past and may be delayed in future. There is also some question as to whether the presently delineated state seismic standards are applicable to the District's facilities, as Tulare is located in a geographic area characterized by relatively low seismic activity. It is therefore unclear at this time whether the state may relax its seismic standards with respect to the District's real property interests.

Because no immediate action is required to ensure that the hospital's existing buildings meet state seismic standards, the District endeavors to complete the Tower project in time to allow for transition of many of the hospital services out of the existing buildings, and to ensure the Tulare community's realization of the benefit of its initial \$85 million investment.

OPTIONS/CONSIDERATIONS

1. **New Bond Issue.** The District may seek the benefit of a new bond issue in order to wholly finance completion of the Tower. The success of this effort is uncertain, however, given that the electorate is already paying for the Tower, such an issue would require a 2/3-majority "yes" vote, and the last bond issue, an effort undertaken by HCCA in 2016, only garnered 35%.
2. **Funds From Other Sources.** Other options the District will consider include grant funds, donations, negotiations with Adventist Health, and the use of financing to which the District has access or may be given access in the future.
3. **Phased Construction/Occupancy.** The entire Tower is not needed to sustain the hospital's current operational tempo. Therefore, regardless of where funding is secured, a phased approach in the construction and occupancy of the Tower would allow for a

degree of flexibility with respect to financing options. To this end, the District intends to explore phased utilization of the Tower in order to provide near-term functionality at a fraction of total cost of completion.

4. Hybrid Funding. A smaller bond issue, when combined with funds described in option 2 above, might be more palatable to the District's electorate. There is evidence of a general sense of support for the District's current efforts. For instance, the current Board for the District, through five ballot measures, has been supported by voters with 62–88% majorities, and the most recent three members ran unopposed. The recent refinancing of the general obligation bonds resulted in savings to the taxpayers within the District of over \$54 million and potentially ameliorated some of the taxpayers' lingering concerns with the initial Tower financing.

There does not seem to be any doubt that the Tower should be completed and occupied in the next decade. It is expected that a firm plan to redesign, fund and finish construction will be in place by 2023, and likely well before then. A completed Tower will modernize the hospital, give utility to an expensive taxpayer investment, and resolve seismic issues before the 2030 deadline. The District's partner, Adventist Health, shares the interest in developing this plan, and is currently reviewing the original design of the Tower in order to provide feedback on the completion of this project.