

# Guam Healthcare Task Force – Finance Subcommittee Meeting

May 6, 2021 | 3:30pm

## In attendance

<i>GMHA Administrator</i>	Lillian Perez-Posadas	<i>CDLO</i>	George Bamba
<i>GMHA Public Information Officer</i>	Mai Habib	<i>36<sup>th</sup> GU Legislature – Speaker's Office</i>	Andrea Pellacani
<i>GEDA CEO/Administrator</i>	Melanie Mendiola	<i>36<sup>th</sup> GU Legislature</i>	Senator Telo Taitague
<i>GEDA Public Finance Manager</i>	Christina Garcia	<i>Guam Recovery Office</i>	David Cruz
<i>GEDA RPD Project Manager</i>	Mike Cruz	<i>FEMA RIX IRC</i>	
<i>GEDA RPD Supervisor</i>	Mary Camacho		

## Guam Healthcare Finance Subcommittee Presentation (Tina Garcia)

- Responsible for developing the best financing structure for the new medical plaza
- Consider the debt ceiling as it will affect any direct loans or bonds that the government seeks
- Explore federal grant programs, low interest rate loan programs and matching bonds
- Work with bond underwriters on structuring bonds/leases

## Guam Healthcare Financing

- Guam Memorial Hospital Authority (GMHA)
  - Existing facility in great disrepair. 2019 ACOE Assessment recommendations:
    - Option A - \$743M: Construct a new multi-story hospital
    - Option B - \$761M: Repair the current facility infrastructure (312,351 SF)
- Department of Public Health and Social Service (DPHSS)
  - Mangilao main office no longer able to support existing operations
  - New CDC Level 2 and 3 labs: funds must be encumbered by September 2021
  - Annual rents for office space: \$1M, funded by federal and local sources – important as we start structuring the different payment sources to help fund the debt service
  - Environmental Health - \$3M grant from DOI (expiration Oct. 2024) – Tina to confirm
- Guam Behavioral Health and Wellness Center (GBHWC)
  - Main offices and key support services to be moved to Mangilao; existing building to remain for housing clients as needed.

## Governor's Commitment

- Guam needs a new centralized Healthcare Center of Excellence which will include GMHA, DPHSS and GBHWC. Preferred location in Mangilao
- Governor would like to reserve \$300 million of Guam's allocation through the American Rescue Plan Act (ARPA) of 2021 for the new facility – Subject to the US Treasury's guidance
- Navy approval of long-term license / lease – seeking input to secure a loan, bond, or lease

## Legislative Action: Bill 121-36

- Bill authorizes a long-term lease financing to include finance, design, build and maintenance of the facility for up to 30 years. RFP to be issued by GEDA
- Government will commit no more than \$35 million for the annual lease payment sourced from the general fund – a direct government liability
- CONCERN: Based on initial estimates, the funding amount will not be enough to fully fund the Healthcare Center

## General Estimate of Funding Needs

GMHA (assuming 10% escalation)	\$817,300,000
DPHSS	\$100,000,000
GBHWC	\$100,000,000
Infrastructure / other costs	\$50,000,000
<b>Total Cost</b>	<b>\$1,067,300,000</b>
Less: Govt. Contribution	\$300,000,000
<b>Total to be Financed</b>	<b>\$767,300,000</b>

### Annual Lease Payment Estimate (30 years @ 5%)

Rental Payment	\$48,786,276
Ins. & Maintenance / CIP Reserve	
Deposit (25% of annual rents)	\$12,196,569
<b>TOTAL Annual Lease Payment</b>	<b>\$60,982,845</b>

- 10% escalation based on recent prices for construction as it has increased in the past couple of years
- No real numbers for DPHSS and GBHWC, figure a base point
- Mangilao site: Infrastructure (sewer, water lines, road expansion, street lights, etc.) cost could be higher than \$50 million
- Even with \$300 million in government contribution, still need to finance \$767.3 million
- If lease, Public Private Partnership (PPP) is best option so that insurance, maintenance, and money in reserves are included
- Total Annual Base Lease Payment of \$60.9 million
- Will research grants and other options

## GovGuam Debt Ceiling Calculation as of 3/31/2021

<b>Debt Limit (Ceiling) - 10% of Assessed Value<sup>1</sup></b>	<b>\$1,353,534,832</b>
<b>General Obligation Debt</b>	
Guam Legislature Building	\$3,593,742
GO Bonds, Series 2019	\$25,360,000
<b>Sub-Total General Obligation Debt</b>	<b>\$28,953,742</b>
<b>Limited Obligation Debt</b>	
UOG 2003 Loan (funded by TEFF)	10,398,360
HOT Revenue Refunding Bonds, Series 2021A	\$58,865,000
BPT Bonds Series 2011A	\$210,100,000
BPT Bonds Series 2012B-1 & 2012B-2	\$96,390,000
BPT Bonds Series 2015D	\$388,775,000
Limited Obligation (Section 30) Bonds, Series 2016 A	\$206,950,000
<b>Sub-Total General Obligation Debt</b>	<b>\$971,478,360</b>
<b>Total GOG Debt Subject to 10% Assessed Value Limitation (Ceiling)</b>	<b>\$1,000,432,102</b>
<b>Total Available for Future Debt Obligation</b>	<b>\$353,102,730</b>

- Debt ceiling indicates how much the government of Guam can borrow
  - As of 03/31/2021, debt ceiling at \$1.4 billion

- **Total available for future debt obligation at \$353 million** – not enough to finance Medical Center so leasing is an option
- (George Bamba) Section in Bill No. 121-36 that stated that debt incurred will not be considered a General Obligation (GO) debt affected by the debt ceiling, examined by Bond counsel if GO or Limited Obligation (LO)
- (Tina Garcia) That's if we go to Bond market with a lease financing. Federal government known for lower rates, USDA, GHURA, or HUD programs become a direct obligation with the limit set by government of Guam's debt ceiling.
- (Melanie Mendiola) For it not to apply to the debt ceiling, it would have to be a Revenue Bond which can't be done as this juncture. There could be a chance if appropriations are specific to the hospital but appropriations to DPHSS and GBHWC are partially grant funded. In current state, a Revenue Bond is not an option. Debt ceiling will always be an issue.
- (Tina) Many government buildings built in 60s and 70s and will need to plan for new debt - needs to be considered moving forward. Government refunding certain bonds for additional savings in order to lower obligation.

### Financing Options

- Federal Programs
- Bond Financing
- Public Private Partnership – Lease financing

### Federal Capital Programs to assist hospitals (Note: Borrowing subject to debt limit)

PROGRAM	DEPARTMENT	OFFICE	FOCUS	TYPE OF FINANCING	SIZE LIMITS	ELIGIBILITY
Community Facilities Program	Agriculture (USDA)	Rural Development	Develop essential community facilities in rural areas	Grants, direct loans, and guaranteed loans through USDA-approved lenders. Up to 90% loan guarantee. Direct loans typically \$1-3 million. Max Term 40 years	None	Public entities and not-for-profit corporations in rural areas and towns up to 20,000 in population. Includes health care, public safety, education, other community needs. Direct loans and grants are competitive within state regions. Security requirements: bonds, pledge of tax receipts, assessments, revenues, or real estate mortgage
Business & Industry (B&I) Guaranteed Loan Program	Agriculture (USDA)	Rural Development	Business development and job creation in rural areas	Guaranteed loans through USDA-approved lenders. Guarantee amount varies from 80% for loans under \$5 million to 60% for loans exceeding \$10 million. Max term 30 years	\$10 million, exceptions up to \$25 million	Public, not-for-profit, or private entities in rural areas and towns up to 50,000 in population. Security requirements: acceptable collateral
EDA Investment Programs	Commerce	Economic Development Administration	Economic development and job creation	Competitive grants	Varies	Districts Organizations, units of State and local government, Indian Tribes, institutions of higher education, public or private nonprofit organizations
Section 242 Mortgage Insurance	Housing and Urban Development (HUD)	Office of Healthcare Programs	Construction, rehabilitation of acute care hospitals	Federal mortgage insurance on fixed-rate loan from HUD approved private lender 99% loan guarantee. Max term 25 years	None	Acute care hospitals (public, not-for-profit, or private). Security requirements: first mortgage of building and equipment
504 Loan Program	Small Business Administration (SBA)	504 Program Branch, Office of Financial Assistance	Economic Development and job creation / retention	Certified Development Company (CDC) funded with SBA-guaranteed debenture provides up to 40% of project cost. A participating lender contributes up to 50% of project cost. Max term 20 years	Up to \$5 million	Business must operate for profit and fall within SBA size standards (net worth less than \$15 million). Finance fixed assets including land, buildings, and equipment. Security requirements: lien on project assets, personal guaranties from owners of 20% or more
New Markets Tax Credit (NMTC) Program	Treasury	Community Development Financial Institutions Fund	Business and real estate investment in low-income communities	Debt or equity investments through Community Development Entities (CDE). Interest rate and term set by the CDE	None	Must be located in a qualified Low-Income Community (greater than 20% poverty or less than 80% Area Median Income) or serve a Targeted Population (Low-Income). Security requirements: determined by the CDE

- USDA can go up to 40 years, limit usually \$25 million
- Secure debt with federal backing, more than likely taxable with impact to the interest rate

- Recommends talking to each agency (GMH, DPHSS, GBHWC) about their grants specific to their areas and discuss with their federal counterparts

### **Bond Financing**

- Two Types, depending on payment source
  - General Obligation Bond
  - Limited Obligation (Special Tax) Bond
- Subject to Debt Ceiling Limitation
  - Current capacity under the debt ceiling as of March 31, 2021 is \$353 million
- Term is up to 30 years, usually at a fixed rate. Rates are low and COVID-19 recovery will keep US Treasury from increasing rates too much
- GovGuam debt is triple tax exempt, unique characteristic of territorial bonds to and very attractive to investors

### **Lease Financing**

- The Lease Obligation will not be considered an “indebtedness or liability” under the debt limit
- The obligation to pay rent is contingent upon the public agency having beneficial use and occupancy of the leased premises for the rental period.
- If use and occupancy by the public agency is not available, there is abatement of rent during the period the use and occupancy is not available.
- If the public agency lessee fails to pay rent when due, there can be no acceleration of future rent due.

### **Financing Options Discussion**

(George Bamba) As the financial managers for the government of Guam, what financing option is recommended?

(Melanie Mendiola) Highest propensity to be federal funded and keep those off the table. Robust finances such as the Maternity Ward, then use financing. Slow paying or at risk, go with federal funding such as USDA - \$25 million or below with longest process. Bond financing where timing is an issue and comfortable enough with debt ceiling being affected where a specific amount pledged to the hospital. PPP or Lease lease-back model for hospital and grants from HUD, USDA, and grant financing.

(Christina Garcia) With the initial RFI in 2016, research shows that companies are willing to participate in PPP. General facility lease with lowest risk of management operations. Task items with Matrix for financial structure that will work.

(Senator Telo Taitague) What is Matrix’s responsibility?

(Christina Garcia) Task Order still being fine-tuned. Matrix focusing on services analysis and property analysis with financing as the third part to help research and seek grants and depends on how much is expended at the front end.

(Melanie Mendiola) The 2012 study did not include funding analysis. What will the budget accommodate? If funds are expended with the Medical Services and property analysis, the financing portion may be limited in terms of Matrix’s role as we have the capability of providing those services. GMH, DPHSS, and GBHWC have Grant teams.

(Senator Telo Taitague) Leased own or PPP outside of the United States such as Taiwan or Japan. Are there restrictions?

(Melanie Mendiola) Largely depends on stream of payments into the system to be paid to a system located on US soil but not necessarily a US domiciled corporation wise. Usually, hospitals that provide public service, you look for not for profit that narrows the field.

(Christina Garcia) Also looking into working with the University of Guam (UOG) with nursing grants. Some US universities working with hospitals by sponsoring a wing and incorporating an education component to run their programs by making it an educational institute to help with the cost.

(Melanie Mendiola) That could be a Revenue Bond.

(Lillian Perez-Posadas) That is a great idea to explore as UOG students perform their practicum at GMH and use resources at no charge.

(Melanie Mendiola) Non acute care such as behavioral health, counseling services, social work can be explored.

(Senator Telo Taitague) With regard to Residency, will we be able to provide if doctors can seek Residency here on Guam? UOG is not a medical university but can reach out to other medical universities to provide that support.

(Christina Garcia) In recent Trade Missions, the Governor has spoken to hospitals and they have expressed interest in funding research centers at GMH. As portfolio is created, will have to be creative and manage moving pieces.

(Lillian Perez-Posadas) As far as Research Centers, we are building our people to become researchers and assistants and become knowledgeable in Science which is beneficial.

(Christina Garcia) As GEDA starts Trade Missions, it can be part of the agenda.

(Melanie Mendiola) Have a Committee member look into the education piece. Workforce Development monies out of Department of Labor for medical positions. How to approach assign as a Special Project to further delve into this – with knowledge on grants, healthcare, and the university. Create a subcommittee with Mel, Tina, Lillian, Senator Taitague, and Dr. Hattori.

(Senator Telo Taitague) Seek additional funding from Department of Interior (DOI) and/or countries – FSM, Chuuk, Palau to contribute to the hospital regularly.

(Lillian Perez-Posadas) Governor had mentioned a Veteran's wing.

(Melanie Mendiola) Three categories:

- Education – Meeting the healthcare shortages of the region
- Inter-regional – Outer island relations
- Veterans – Serving the veteran population

(Senator Telo Taitague) Recommended to explore and incorporate possibilities for the private sector to reduce the government's cost of the Medical Campus by operating certain sections.

(Melanie Mendiola) With discussion of previous Task Force, has there been any discussion regarding a third-party foundation or an umbrella corporation to seek debt as an autonomous agency where GMH is subsidiary of it?

(Tina Garcia) Will ask bond counsel about structures that they may be aware of.

(Melanie Mendiola) Had discussion with DPHSS regarding privatization that occurs on the Public Health level and they weren't aware of any. Common for a non-profit (NPO) to run a hospital but not common for NPO to run a Public Health clinic, a typical government function. Recommended to inquire with bond counsel with regard to inpatient facilities dealing with behavioral health.

(Tina Garcia) Will ask bond counsel regarding potential privatization of those fields.

### **Next Steps**

- Seek funding for a Financial Advisor who specializes in healthcare financing. Key tasks include:
  - Review and research any and all federal grant opportunities available for Healthcare Facilities
  - Determine if any Federal Tax Credit programs (New Market Tax Credits, Opportunity Zones, etc.) can help in reducing the total cost
- Work with Healthcare Agencies and other professionals on project cost estimates
- Work with bond counsel on appropriate language for financing

### **Homework:**

- Education – Tina Garcia and Mel Mendiola to discuss with Dr. Hattori
- Inter-regional – Wil Castro
- Veterans – David Cruz will discuss with Tim Aguon | Mel Mendiola will discuss with Therese Arriola

### **Feedback**

- Send any feedback to:
  - Melanie Mendiola ([mel.mendiola@investguam.com](mailto:mel.mendiola@investguam.com)) or
  - Christina Garcia ([cgarcia@uinvestguam.com](mailto:cgarcia@uinvestguam.com))

### **Next Meeting**

- May 19, 2021 at 2:00 PM