

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
THE HELP II PROGRAM
EXECUTIVE SUMMARY**

Applicant:	Central City Community Health Center (CC) 5970 South Central Avenue Los Angeles, CA 90001	Amount Requested:	\$722,000
		Requested Loan Term:	15 years
		Date Requested:	January 31, 2008
		Resolution Number:	HII-213
Project Site:	Same as above.		
Facility Type:	Community Clinic – Federally Qualified Health Center Look-Alike entity		
Prior HELP II Borrower:	No		

Background: CC was founded in 1994 as a non-profit community health clinic to serve the poor and disenfranchised areas of South Los Angeles. CC is both a Medicare and Medi-Cal provider. Some of the services provided by CC include Primary/Internal Medicine, OB/GYN/Family Planning, Pediatrics, Mental Health, Homeless Program and Mobile Unit Clinic Services.

Uses of Loan Proceeds: A portion of loan proceeds will be used along with other funds to acquire an existing facility CC currently leases. Once CC obtains ownership of the clinic property, CC will use the remaining loan proceeds, along with additional funding to renovate and expand clinic capacity in order to address community needs and demand for additional services.

Financing structure

- 15-year loan.
- 180 equal monthly payments of approximately \$4,986 (annual payments of approximately \$59,832).
- First lien on corporate gross revenue pledge.
- First lien on the property located at 5970 South Central Avenue, Los Angeles, CA 90001.
- Actual loan to value ratio of 74%.

Financial Overview: CC’s income statement appears to reflect solid operating performance for fiscal years 2005 through 2007. Net income also has increased consistently over the last three reporting periods. CC has experienced significant growth in patient visits and revenues over our review period. CC appears to have significantly increased its net assets and demonstrated growth in financial resources over the last three fiscal years. CC’s proforma debt service coverage ratio is a solid 2.61x, which indicates CC should be able to make payments on the proposed HELP II loan.

<u>Sources of Funds</u>		<u>Uses of Funds</u>	
HELP II Loan	\$722,000	Purchase Real Property	\$1,000,000
Other Grant Funds*	850,000	Construction/Renovation	816,100
CHFFA Clinic Grant	250,000	Equipment	40,000
Borrower Funds	56,100	Title, Escrow, and Closing Fees	22,000
Total Sources	<u>\$1,878,100</u>	Total Uses	<u>\$1,878,100</u>

*CC has received \$500,000 from LA Care. Ahmanson Foundation grant of \$350,000 has been awarded, but not received.

Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.

Staff Recommendation: Staff recommends approval of a HELP II loan in an amount not to exceed \$722,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.

**STAFF SUMMARY AND RECOMMENDATION
THE HELP II PROGRAM**

I. PURPOSE OF FINANCING

Purchase real property..... **\$1,000,000**

CC seeks to purchase the facility it currently leases located at 5970 South Central Avenue in Los Angeles. The owner of the building approached CC indicating their desire to sell the building. CC performed an exhaustive search in the immediate area for other acceptable buildings available for lease or purchase, but could not find either. CC completed a cost benefit analysis of leasing or buying another facility compared to buying this facility and determined that it was advantageous to purchase this building. Included in this analysis was the estimated cost of moving to another facility of approximately \$200,000 per month in lost revenues, significant disruption of services to the existing clinic patients, new licensing time requirements, and extensive moving and set-up costs at a new facility. Given all of these factors, CC determined it was in its best interest to purchase this building. CC currently leases this building for \$5,700 per month, while the estimated monthly mortgage payment for the proposed HELP II loan will be \$4,986.

The one-story building housing the clinic facility has approximately 3,168 sq. ft. of indoor space located on .40 acres. The purchase is expected to close in February 2008. A portion of HELP II loan proceeds in the amount of \$400,000 will be used with other funding sources to purchase the facility. In March 2006, CC submitted an application to CHFFA's Community Clinic Grant Program and was awarded \$250,000 to be used for this purchase. Additionally, CC has recently been awarded a grant from the Ahmanson Foundation in the amount of \$350,000, which will also be applied to the remaining purchase price of the facility.

After the purchase is complete, CHFFA will take a 1st lien on the newly acquired property. According to a full appraisal dated December 4, 2007, the estimated value of this property is \$1,000,000 using the Income Approach of appraisal. The appraisal also indicated an estimated value of \$950,000 using the Sales Comparison Approach. Using the average of the two above approaches, the final appraised value shown in the appraisal is \$975,000, leading to a favorable combined loan to value ratio of 74%. The appraisal indicates that the property was constructed in 1983 and has a remaining useful life of 30 years and is in average/ good condition. OS intends to add over 1,200 square feet of space to this building (see below), which they anticipate will bring additional value to the property.

Construction/Renovation 816,000

The planned expansion and renovation project would add 1,291 square feet of expanded space to the existing 3,168 square foot building, including three (3) additional exam rooms, a treatment room and a multipurpose educational room where health education classes will be provided. In addition to the proposed HELP II loan, CC has secured a grant from Los Angeles Care Health Plans in the amount of \$500,000 for the renovation/expansion of the new facility. Once complete and at full capacity, the building would allow for an additional 12,000 medical encounters annually (an estimated increase of 56%), with an increase in the provider capacity to a total of four (4) full-time medical providers.

Purchase Equipment 40,000

CC will purchase an X-ray machine, medical equipment and office supplies for 6 exam rooms and a treatment room.

Title, Escrow, & Authority Fee 22,000

Authority Fee \$ 9,025

Title/Escrow/Other 12,975

Total Uses of Funds \$1,878,100

II. FINANCIAL STATEMENTS AND ANALYSIS

Central City Community Health Center Statement of Activities (Unrestricted)

	For the year ended June 30		
	2007	2006	2005
REVENUE & SUPPORT			
Fees for service	\$ 2,667,992	\$ 1,364,502	\$ 1,263,080
Grants	821,472	853,240	-
Other revenues	16,107	11,333	49,688
Total support and revenue	<u>3,505,571</u>	<u>2,229,075</u>	<u>1,312,768</u>
EXPENSES			
Salaries and Benefits	1,254,904	998,530	506,870
Contract labor - physicians	1,043,094	328,289	232,998
Rent	156,509	110,715	74,668
Billing services	153,501	89,714	37,699
Office expense	122,376	113,814	26,073
Medical supplies	97,426	98,500	117,473
Outside services/consultants	84,917	39,088	37,778
Marketing and advertising	80,891	92,340	-
Professional fees	76,927	46,555	38,356
Telephone and Utilities	55,151	53,728	30,615
Insurance	44,472	17,483	30,126
Laboratory fees	40,864	41,027	47,187
Auto Expense	33,087	23,117	25,267
Other expenses	22,828	13,425	2,648
Repairs and maintenance	16,680	12,529	4,895
Equipment rentals	11,031	4,126	-
Depreciation	10,641	11,008	8,574
Interest expense	2,121	3,805	2,854
Contract labor - admin	-	3,040	5,915
Total expenses	<u>3,307,420</u>	<u>2,100,833</u>	<u>1,229,996</u>
Change in unrestricted net assets	198,151	128,242	82,772
Prior year correction - payroll taxes -old	(78,845)	(54,778)	-
Unrestricted net assets at beginning of year	127,210	53,746	(29,026)
Unrestricted net assets end of year	<u>\$ 246,516</u>	<u>\$ 127,210</u>	<u>\$ 53,746</u>

**Central City Community Health Center
Statement of Financial Position**

	As of June 30		
	2007	2006	2005
<u>Assets</u>			
Current Assets:			
Cash and cash equivalent	\$ 135,130	\$ 138,732	\$ 104,837
Accounts receivable	522,018	219,247	93,863
Total Current Assets	<u>657,148</u>	<u>357,979</u>	<u>198,700</u>
Fixed Assets, net	81,127	81,327	92,335
Other assets ^(a)	223,676	13,000	-
Total Assets	<u>\$ 961,951</u>	<u>\$ 452,306</u>	<u>\$ 291,035</u>
<u>Liabilities & Net Assets</u>			
Current Liabilities:			
Accounts payable	\$ 354,662	\$ 107,523	\$ 30,356
Accrued medical services	75,802	-	-
Accrued vacation	33,898	-	-
Current portion - long term debt	19,307	18,999	13,892
Accrued salaries and payroll taxes	64,469	-	20,326
Current portion -payroll taxes payable old ^(b)	72,000	145,000	98,666
Total Current Liabilities	<u>620,138</u>	<u>271,522</u>	<u>163,240</u>
Long term debt, less current portion	34,297	53,574	74,049
Payroll taxes payable -old ^(b)	61,000	-	-
Total Long term liabilities	<u>95,297</u>	<u>53,574</u>	<u>74,049</u>
Total Liabilities	715,435	325,096	237,289
Net Assets:			
Unrestricted Net Assets	246,516	127,210	53,746
Total Liabilities & Net Assets	<u>\$ 961,951</u>	<u>\$ 452,306</u>	<u>\$ 291,035</u>

Financial Ratios:

	<u>Proforma (c)</u>			
Debt Service Coverage (x)	2.61	9.99	8.08	33.01
Debt/Unrestricted Net Assets (x)	3.15	0.22	0.57	1.64
Margin (%)		5.65%	5.75%	6.31%
Current Ratio (x)		1.06	1.32	1.22

(a) One Clinic Asset Acquisition reported in FY 2006 & FY 2007, and a FY 2007 Escrow Deposit on the proposed project.

(b) Federal payroll taxes in arrears incurred prior to Sept. 2003. Settled with the IRS for \$145,000 and monthly payments are being made.

(c) Recalculates 2007 audited results to include the impact of this proposed financing.

Financial Discussion – Income Statement

CC's income statement appears to reflect solid operating performance for fiscal years 2005 through 2007. Net income also has increased consistently over the last three reporting periods. CC has reported significant growth in patient visits and revenues over our review period.

CC has been providing a wide range of health services to the community of South Los Angeles since 1994. CC appears to have had consistent operating results for the last three fiscal years, as shown by increases in unrestricted net assets, which CC reports is due mostly to growth and expansion of their services. Fees for services revenue has increased by 111% over the reporting period. This increase in revenue can likely be attributed to the 110% increase in patient visits over the last three reporting periods.

Pertinent Facts to Note:

- The growth over the reporting period of FY 2005 through FY 2007 is due to two major changes CC made to expand its business base. In September 2005, CC purchased an existing practice site in Anaheim that averages 1,300 to 1,400 patient encounters per month. CC also launched a mental health program in January 2006 that provides up to 1000 encounters per month at CC's Adult Residential Care facilities. As a result of the new mental health program, in FY 2007, contracted physician expenses went up by 218%.
- In FY 2007, CC reported an increase in unrestricted net assets of \$198,000. Total revenue has grown from \$2.2 million in FY 2006 to slightly over \$3.5 million. Their revenues and expenses have both increased by approximately 60%.
- During FY 2006, total support and revenue increased 70% over FY 2005, while posting an increase in unrestricted net assets of \$128,000
- Although CC reported negative net assets at the start of FY 2005, their improved operating results gave them positive net assets at year-end.

Financial Discussion – Balance Sheet

CC appears to have significantly increased its net assets and demonstrated growth in financial resources over the last three fiscal years.

In FY 2007 and FY 2006, CC reported significant increases in total unrestricted net assets of \$119,000 and \$73,000 respectively. CC exhibits a current ratio of 1.06x, supported by significant cash/cash equivalents of \$135,000. Due to the expansion of services mentioned above, the accounts payable and accounts receivable also increased in FY 2006 and FY 2007.

CC has reduced its long-term debt over the last three years, reflecting a 2007 FY debt to unrestricted net assets ratio of .22x and debt service coverage ratio of 9.99x. With the proposed financing, CC will increase its debt to unrestricted net assets ratio substantially to 3.15x, which is highly leveraged. However, CC will have a proforma debt service coverage ratio of 2.61x, which indicates CC appears to be able make payments on the proposed HELP II loan.

III. UTILIZATION STATISTICS

**Clients Served / (Patient Visits)
Period Ended January 31 (2007 data not available)**

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Totals	4,458 / (21,172)	2,930 / (12,348)	2,127 / (9,602)

IV. ORGANIZATION

Background

CC was founded in 1994 as a non-profit community health clinic to serve the poor and disenfranchised areas of South Los Angeles. In 2004, CC received designation as a Federally Qualified Health Center Look-Alike entity. CC has been a partner with the Los Angeles Department of Health Service Public/Private Partnership Program since its inception. CC is both a Medicare and Medi-Cal provider. Some of the services provided onsite include:

- Primary care and Internal Medicine
- OB/GYN and Family Planning
- STD/HIV and Drug Testing
- Pediatrics and Immunizations
- Chiropractic
- Mental Health
- Podiatry
- Hearing Screening
- Physical Therapy
- Health Education and Community Outreach
- Homeless Program and Mobile Unit Clinic Services

Licenses

CC is licensed by the State Department of Health Services as a Community Clinic.

V. OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding* As of June 30, 2007</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
Existing Long-Term Debt:			
CPCA Ventures, 2004	97,000	53,604	53,604
Proposed			
CHFFA HELP II, 2008		N/A	722,000
TOTAL DEBT		\$53,604	\$775,604

*Includes current portion of long-term debt.

VI. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- Section 15438.5 of the Act (Savings Pass Through) Central City Community Health Center has provided a description of its pass through in **Exhibit A**.
- Section 15459.1 of the Act (Community Service Requirement): Central City Community Health Center has executed this certification indicating that Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **Exhibit B**.
- Religious Due Diligence
- Legal Review

VII. STAFF RECOMMENDATION

Staff recommends approval of a HELP II loan for Central City Community Health Center in an amount not to exceed \$722,000 for a term not to exceed 15 years, subject to the standard HELP II loan provisions.