

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

<p>Applicant: Eastern Plumas Health Care District ("EPHCD") 500 First Ave. Portola, CA 96122 Plumas County</p> <p>Projects Sites: 500 First Ave., Portola, CA 96122</p> <p>Facilities Type: General Acute Care Hospital</p> <p>Prior CHFFA Borrower: Yes. Paid in full (Medi-Cal short-term loan)</p>	<p>Amount Requested: \$380,000</p> <p>Requested Loan Term: 5 years</p> <p>Date Requested: January 29, 2009</p> <p>Resolution Number: HII-233</p>
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Background: EPHCD is a licensed nonprofit general acute care hospital established in 1964. The mission of EPHCD is to provide quality medical services to those who reside in or visit the region. Currently, EPHCD operates two campuses and provides medical and dental services at four clinic locations to serve the needs of its community. Additionally, EPHCD is the primary provider of skilled nursing care for patients in Plumas county and surrounding areas.

Uses of Loan Proceeds: EPHCD intends to purchase Electronic Medical Records (EMR) equipment, which will enable them to move toward a paperless system and is also expected to help reduce data entry errors. Additionally, EPHCD intends to purchase an endoscope reprocessor.

Financing Structure

- 5-year loan.
- 60 equal monthly payments of approximately \$6,828 (yearly payments of approximately \$81,937).
- Gross revenue pledge.
- A UCC-1 lien on the equipment purchased.
- Loan to value ratio not to exceed 95%, estimated loan to value is 70%, based on purchase price.

Financial Overview: EPHCD's income statement appears to exhibit improving operating results during our review period. Their balance sheet appears to be solid with approximately \$3.2 million in total net assets. The proforma debt service coverage ratio for the proposed HELP II loan is a satisfactory 1.29x.

Sources of Funds

HELP II Loan	\$380,000
Borrower Funds	<u>164,750</u>
Total Sources	<u>\$544,750</u>

Uses of Funds

Equipment	\$540,000
Loan Fees	<u>4,750</u>
Total Uses	<u>\$544,750</u>

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

Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II loan for Eastern Plumas Health Care District in an amount not to exceed \$380,000 for a term not to exceed 5 years, and contingent upon financing terms acceptable to the Authority.

**STAFF SUMMARY AND RECOMMENDATION
THE HELP II PROGRAM**
January 29, 2009
Eastern Plumas Health Care District (“EPHCD”)
Resolution Number: HII- 233

I. PURPOSE OF FINANCING

<i>Electronic Medical Records Equipment</i>	\$ 500,000
The new EMR equipment will satisfy the need to provide a paperless system to reduce errors made using current procedures. This new system will also improve patient care and eliminate errors in medications administered to patients. The EMR system will allow EPHCD to become more efficient by saving time and will enhance patient care.	
<i>Endoscope Reprocessor</i>	\$ 40,000
The endoscope reprocessor will reduce the risk of contamination as well as save staff time used to sanitize endoscopes.	
In January 2008, EPHCD was awarded a private grant for \$150,000 from the Ziegler Foundation. Grant funds and borrower funds will be combined with HELP II funds to purchase the proposed equipment upgrades.	
<i>Financing Costs – Authority Loan Fee</i>	<u>4,750</u>
<i>Total Uses of Funds</i>	<u><u>\$544,750</u></u>

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II. FINANCIAL STATEMENTS AND ANALYSIS

Eastern Plumas Health Care Statement of Activities

	For the Year Ended June 30		
	2008	2007	2006
Revenue and support:			
Net patient service revenue	\$ 20,436,996	\$ 18,158,708	\$ 17,986,291
Contributions and grants	201,618	160,074	194,063
Property taxes	681,499	526,324	499,713
Other income	52,054	56,657	66,546
Total revenue and support	21,372,167	18,901,763	18,746,613
Expenses:			
Salaries and wages	8,862,778	8,461,958	8,535,211
Professional fees	2,982,310	2,883,754	2,796,687
Benefits	2,401,672	2,235,723	2,514,468
Supplies	1,891,942	1,920,246	1,810,145
Depreciation and amortization	863,210	905,243	932,601
Purchased services	1,380,406	849,919	844,444
Utilities and telephone	783,629	652,308	552,406
Repairs and maintenance	412,123	411,615	499,564
Other expenses	351,452	263,433	356,373
Insurance	553,257	417,788	317,402
Rent and lease expense	70,609	67,975	70,476
Interest expense	519,064	563,710	521,154
Total expenses	21,072,452	19,633,672	19,750,931
Change in net assets	299,715	(731,909)	(1,004,318)
Net assets, beginning of year	2,927,856	3,659,765	4,664,083
Net assets, end of year	\$ 3,227,571	\$ 2,927,856	\$ 3,659,765

Eastern Plumas Health Care
Financial Position

	As of June 30,		
	2008	2007	2006
Assets:			
Current assets:			
Cash and cash equivalents	\$ 447,503	\$ 618,195	\$ 168,012
Patient accounts receivable	3,749,164	3,340,491	3,799,892
Estimated third-party payor settlements	280,000	127,979	537,000
Other receivables	751,654	759,211	864,258
Inventories	214,654	183,616	243,764
Prepaid expenses	72,215	124,465	157,526
Total Current Assets	<u>5,515,190</u>	<u>5,153,957</u>	<u>5,770,452</u>
Noncurrent Cash:			
Debt service fund	-	330,177	532,449
Capital improvement fund	-	23,135	36,810
Total Noncurrent Cash	<u>-</u>	<u>353,312</u>	<u>569,259</u>
Capital assets:			
Capital assets - net	8,740,861	9,325,865	9,895,358
Debt Issuance Costs - net	17,997	20,121	33,748
Total assets	<u>\$ 14,274,048</u>	<u>\$ 14,853,255</u>	<u>\$ 16,268,817</u>
Liabilities and net assets:			
Current liabilities:			
Bank overdraft	\$ 192,174	\$ 337,765	\$ 246,797
Accounts payable	1,802,644	956,451	1,070,616
Accrued expenses	1,043,884	850,933	871,852
Accrued interest	-	23,174	15,000
Estimated third party payor settlements	4,889	754,752	489,341
Current maturities of long-term obligations	703,744	1,052,944	922,486
Other current liabilities	290,654	155,118	206,810
Total current liabilities	<u>4,037,989</u>	<u>4,131,137</u>	<u>3,822,902</u>
Long-Term Obligations:			
Net of current maturities	7,008,488	7,794,262	8,786,150
Total liabilities	<u>\$ 11,046,477</u>	<u>\$ 11,925,399</u>	<u>\$ 12,609,052</u>
Net assets:			
Invested in capital assets, net of related debt	1,028,629	478,659	186,722
Restricted for debt service	-	330,177	532,449
Restricted for capital improvements	590,164	690,347	824,822
Unrestricted	1,608,778	1,428,673	2,115,772
Total net assets	<u>3,227,571</u>	<u>2,927,856</u>	<u>3,659,765</u>
Total liabilities and net assets	<u>\$ 14,274,048</u>	<u>\$ 14,853,255</u>	<u>\$ 16,268,817</u>

Financial Ratios:

Proforma (a)
FYE June, 2008

Debt service coverage (x)	1.29	1.07	0.50	0.36
Debt/Total Net Assets (x)	5.03	4.79	6.19	4.59
Margin (%)		1.40	(3.87)	(5.36)
Current Ratio (x)		1.37	1.25	1.51

(a) Recalculates 2008 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

EPHCD's income statement appears to exhibit improving operating results during our review period.

EPHCD posted positive operating income of \$299,000 in FY 2008.

Net patient revenues increased by (13%) from \$18.16 million in FY 2007 to \$20.44 million in FY 2008. EPHCD reports that this increase in patient revenue is largely attributed to the increased utilization of routine, ancillary and outpatient services. There was a (26%) increase in contributions and grants from \$160,000 in FY 2007 to \$201,000 in FY 2008.

Total operating expenses increased by (7%) from FY 2007 to FY 2008, less than the 13% increase in net patient revenues, thus improving operation performance. One of the largest dollar increases was in salaries and wages, which increased by \$400,000 (12%). This increase was due primarily to continued growth and expansion of services and additional staffing. Purchased services increased by \$530,000 (62%) in FY 2008 due to the use of non-staff traveling nurses, registry nurses and technicians. Effective January 31, 2009, EPHCD will staff departments with employees rather than utilizing these services.

Particular Facts to Note

- EPHCD management has taken measures to reduce expenses by focusing on core services and eliminating services that are not cost effective. Upper management staff will further reduce total expenses by taking two unpaid day off per month. Management is also seeking support from each department, requiring a 10% reduction in expenses without affecting the quality of care given to patients.
- Total assets decreased approximately \$580,000 over FY 2007, primarily due to partially paying off Limited Tax Notes and the decrease in capital assets resulting from depreciation.

Financial Discussion – Statement of Financial Position (Balance Sheet)

EPHCD's balance sheet appears to be solid with approximately \$3.23 million in total net assets.

In 2008, EPHCD reported total unrestricted net assets of approximately \$1.6 million, a 13% increase from FY 2007. EPHCD appears to exhibit adequate liquidity with a 1.37x current ratio. EPHCD is significantly leveraged at 4.79x, as shown by long-term debt compared to unrestricted net assets. However, the existing debt service coverage appears acceptable at 1.07x. The proforma debt service coverage ratio remains solid at 1.29x, indicating that even though EPHCD is significantly leveraged, they should be able to make loan repayments for the proposed HELP II loan. The proforma debt service coverage improved to 1.29x from 1.07x during FY 2008, since EPHCD paid down capital leases subsequent to the end of FY 2008.

Particular Facts to Note

- Cash decreased to \$447,000 in FY 2008 from \$618,000 in FY 2007 as a result of using cash to pay off limited tax notes.
- Accounts payable increased from \$900,000 FY 2008 as a result of management withholding payments to vendors to preserve cash for payroll, payroll taxes, and loan and lease payments during the 2008 budget impasse.

III. UTILIZATION STATISTICS

**Clients Admitted / (Patient Visits)
Fiscal Year Ended June 30**

	2008	2007	2006
Totals	16,182 / (29,448)	15,778 / (30,031)	15,533 / (31,344)

IV. ORGANIZATION

Background

Eastern Plumas Health Care District (EPHCD) is a political subdivision of the state of California, organized under the Local Health Care District Law as set forth in the California Health and Safety Code. EPHCD owns and operates Eastern Plumas Hospital, located in Portola, California. It was formed in 1964 under the Local Healthcare District Law to provide health care services to the citizens of Plumas County. The hospital serves the surrounding community, as well as visitors in the area throughout the year, deriving a significant portion of revenue from third-party payors, including private insurance, Medicare, and Medi-Cal.

EPHCD operates a hospital campus in Portola and Loyalton. It also operates four rural community clinics which offer dental and medical services in Portola, Graeagle and Loyalton.

Licenses

EPHCD is licensed by the State Department of Public Health to operate and maintain a General Acute Care Hospital.

V. OUTSTANDING DEBT

<u>Date Issue:</u>	<u>Original Amount</u>	<u>Amount Outstanding* as of 6/30/2008</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing Long-term Debt:			
USDA, 2001	\$ 500,000	\$ 440,519	\$ 440,519
USDA, 2001	4,100,000	3,612,246	3,612,246
USDA, 2003	450,000	259,966	259,966
USDA, 2003	575,000	543,567	543,567
Portola Glenn LLC, 2003	552,000	447,368	447,368
USDA, 2004	800,000	527,597	527,597
USDA, 2005	1,500,000	1,087,697	1,087,697
Capital Lease Obligations	2,224,156	793,272	793,272
Proposed:			
CHFFA HELP II, 2009			380,000
Total		<u>\$ 7,712,232</u>	<u>\$ 8,092,232</u>

* Includes current portion of long-term debt.

VI. DUE DILIGENCE:

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

- Savings Pass Through: EPHCD has provided a description of its savings pass through in **Exhibit A**.
- Section 15459.1 of the Act (Community Service Requirement): EPHCD 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 the Authority approve a resolution for a HELP II loan for Eastern Plumas Health Care District in an amount not to exceed \$380,000 for a term not to exceed 5 years, and contingent upon financing terms acceptable to the Authority.