

**CHFFA HELP II PROGRAM
EXECUTIVE SUMMARY**

Applicant:	Southern Humboldt Community Healthcare District (SHCHD) dba Jerold Phelps Community Hospital 733 Cedar Street Garberville, California 95542 Humboldt County	Amount Requested:	\$569,000
		Requested Loan Term:	15 year fixed
		Authority Meeting Date:	July 29, 2010
		Resolution Number:	HII-250
Project Site:	Same as above		
Facility Type:	General Acute Care Hospital, Community Clinic, Skilled Nursing, Critical Care Access Hospital		
Prior HELP II Borrower:	No; however, a prior original HELP borrower		
Issues to Note: The security package for a typical HELP II loan usually includes a 1 st lien on corporate gross revenues. SHCHD is unable to provide a first position lien, but staff is satisfied real property security provided by SHCHD is satisfactory for this loan as described with more particularity on page two.			
Background: SHCHD operates a small acute care district hospital (Jerold Phelps Community Hospital) in southern Humboldt County which has been providing health care to the people of this community since 1949. The community hospital was formed in 1960, which eventually led to the formation of SHCHD in 1980.			
Uses of Loan Proceeds: Loan proceeds will be used to renovate SHCHD's existing facility to comply with seismic safety requirements set forth in Senate Bill 1953. The proposed project will divide the existing structure into two separate buildings and allow continued use of the hospital through 2029.			
Financing Structure:			
<ul style="list-style-type: none"> • Monthly payments of roughly \$3,930 (annual payments of \$47,160). • First (1st) lien position on real property located at 733 Cedar Street, Garberville, California 95542. • Loan to value ratio not to exceed 95%, with an estimated loan to value ratio of 18.9%. • Second position lien on gross revenues (subordinate to the United States Department of Agriculture (USDA) 1980 bonds). 			
Financial Overview: During the review period, SHCHD's statement of activities appears to exhibit improvements in total revenues and an increase in net assets. The proforma debt service coverage ratio appears to be a solid 5.05x, indicating SHCHD should likely be able to repay the proposed HELP II loan.			
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II Loan	\$569,000	Renovation	\$569,000
Borrower Funds	<u>9,113</u>	Financing Costs	<u>9,113</u>
Total Sources	<u>\$578,113</u>	Total Uses	<u>\$578,113</u>
Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through, Seismic Upgrades and Community Service Obligation documentation all of which satisfies the Authority's requirements.			
Parties of Interest: <i>(Included for the purpose of discerning conflicts of interest)</i> Fidelity National Title Company			
Staff Recommendation: Staff recommends approval of Resolution Number HII-250 for SHCHD in an amount not to exceed \$569,000 for a term not to exceed 15 years, contingent upon financing terms acceptable to the Authority, receipt of a United States Department of Agriculture (USDA) consent letter and staff's review and approval of SHCHD's interim financials for FY 2009/2010. Macias Gini & O'Connell, LLP., the Authority's financial analyst, concurs with the Authority's staff recommendation.			

I. DISCLOSURE:

SHCHD filed Chapter 9 Bankruptcy in 1998¹. Though SHCHD stopped making payments on then outstanding USDA 1980 bonds, SHCHD was allowed to re-amortize the bonds which they now continue to timely service. At the time of the bankruptcy, SHCHD also had an original HELP loan (originated in 1989 for \$29,000) which was not secured by anything other than SHCHD’s promise to pay. Ultimately, the meager sum of \$71.00 was written off by the Authority.

II. ISSUES TO NOTE:

The USDA requires and SHCHD has granted a first lien on gross revenues for the aforementioned bonds. Though the HELP II program typically requires a first lien position on gross revenues, staff is satisfied the real property to be pledged by SHCHD to secure the proposed HELP II loan is sufficiently valued (\$3 million) to provide ample security in the event of a default by SHCHD.

III. PURPOSE OF FINANCING:

Senate Bill 1953 mandated acute care hospitals to meet seismic safety requirements within certain time frames. With the proposed HELP II loan, SHCHD intends to renovate an existing structure to meet those seismic safety requirements.

Renovation..... \$ 569,000

SHCHD plans to renovate its existing facility. The project consists of a structural modification to separate the existing structure into two separate structures. This separation will enable the hospital to meet State seismic requirements through 2029. Loan proceeds will also be used to redesign the radiology department and the clinical laboratory as both will be affected by the seismic retrofit. The redesign will include renovating the restrooms to allow them to become accessible to persons with disabilities.

SHCHD purchased the facility and hospital operations in 1980 for \$1.35 million. The building is 48,000 square feet, consisting of five parcels located on approximately 1.1 acres. SHCHD is in the process of having the property appraised. According to SHCHD’s management, the value of the property is approximately \$3 million, leading to an approximate loan to value ratio of 18.9%. A property appraisal and a fully executed construction contract will be required before closing.

¹ A Chapter 9 Bankruptcy is a repayment plan between municipalities and creditors, which can include reducing the outstanding debt or interest rate, extending the term of loans and refinancing debts.

<i>Financing Costs</i>		<u>9,113</u>
Authority Fee	\$7,113	
Escrow and Title Fees	<u>2,000</u>	
<i>Estimated Uses of Funds</i>		<u>\$ 578,113</u>

IV. FINANCIAL STATEMENTS AND ANALYSIS

**Southern Humboldt Community
Healthcare District
Statement of Activities**

	For the Year Ended June 30,		
	2009	2008	2007
Revenue and Support:			
Net patient service revenue*	\$ 5,118,746	\$ 4,638,421	\$ 4,334,336
Tax revenue	1,302,863	1,293,145	1,084,062
Other operating revenue	140,987	169,771	94,729
Total revenue and support	6,562,596	6,101,337	5,513,127
Operating Expenses:			
Salaries and wages	2,350,659	2,246,822	1,966,422
Professional fees	1,207,328	1,275,077	1,174,640
Employee benefits	737,768	763,054	739,393
Purchased services	599,373	442,173	413,472
Supplies	464,261	512,160	479,524
Insurance	217,018	224,795	250,904
Other operating expenses	118,508	68,352	74,640
Utilities	100,019	103,522	89,861
Repairs and maintenance	95,530	119,209	67,625
Depreciation	73,499	57,232	58,261
Interest expenses	49,944	37,776	55,564
Rents and leases	35,068	32,600	23,059
Total operating expenses	6,048,975	5,882,772	5,393,365
Change in net assets	513,621	218,565	119,762
Net Assets:			
Beginning of Year	(64,655)	(283,220)	(402,982)
End of Year	\$ 448,966	\$ (64,655)	\$ (283,220)

*Net Patient Service Revenue for FYE June 30, 2009

Payor Source	Percent
Medicare	30.72%
Medi-Cal	29.10%
Self pay	17.49%
Commercial	15.20%
HMO/PPO	3.10%
Compensation	2.31%
Workers Comp	1.16%
Other Government	0.92%
	100.00%

**Southern Humboldt Community
Healthcare District
Financial Position**

	As of June 30,		
	2009	2008	2007
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 198,938	\$ 218,006	\$ 62,560
Patient accounts receivable, net of allowances	569,888	500,217	698,453
Other receivables	160,030	557,582	438,391
Inventories	28,602	37,956	32,338
Estimated third party payor settlements	448,327	-	-
Prepaid expenses	33,569	42,420	37,548
Total current assets	<u>1,439,354</u>	<u>1,356,181</u>	<u>1,269,290</u>
Capital assets, net of accumulated depreciation	494,089	427,176	403,110
Deposits	5,852	5,852	5,852
Total assets	<u>\$ 1,939,295</u>	<u>\$ 1,789,209</u>	<u>\$ 1,678,252</u>
LIABILITIES AND NET ASSETS:			
Current liabilities:			
Current maturities of long-term debt	\$ 66,939	\$ 41,628	\$ 44,384
Accounts payable	363,531	672,268	477,199
Patient balances payable	116,856	143,099	121,957
Accrued expenses	326,638	375,676	266,352
Estimated third party payor settlements	-	50,545	439,304
Total current liabilities	<u>873,964</u>	<u>1,283,216</u>	<u>1,349,196</u>
Long-term debt, net of current maturities	<u>616,365</u>	<u>570,648</u>	<u>612,276</u>
Total liabilities	<u>1,490,329</u>	<u>1,853,864</u>	<u>1,961,472</u>
Net assets:			
Invested in capital assets, net of related debt	(189,215)	(185,100)	(253,550)
Unrestricted	<u>638,181</u>	<u>120,445</u>	<u>(29,670)</u>
Total net assets	<u>448,966</u>	<u>(64,655)</u>	<u>(283,220)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,939,295</u>	<u>\$ 1,789,209</u>	<u>\$ 1,678,252</u>

Financial Ratios:	Proforma (a) <u>FYE June 30, 2009</u>			
		2009	2008	2007
Debt service coverage (x)	5.05	7.69	3.82	2.38
Debt/Unrestricted Net Assets (x)	2.94	2.04	9.82	(42.77)
Margin (%)		7.83	3.58	2.17
Current Ratio (x)		1.65	1.06	0.94

(a) Recalculates FY 2009 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

SHCHD's income statement appears to exhibit an improvement in operating results during the review period. The increase in net assets improved from approximately \$119,000 in FY 2007 to \$513,000 in FY 2009, with most of the improvement relating to higher net patient service revenue.

Particular Facts to Note:

- SHCHD's management indicates the increase in net patient service revenue (notwithstanding a decline in patient visits) can likely be attributed to their hiring of an accounting firm specializing in Critical Access Hospital Medicare and Medi-Cal Cost Reports. SHCHD's management team reports they have endeavored to (1) maximize cost-based reimbursement from primary insurance payors Medicare and Medi-Cal, (2) improve charge capture and billing of services provided to patients and (3) improve third-party reimbursement rates through contract review and negotiation.
- According to SHCHD, tax revenues are projected to remain consistent. The tax structure is based on a fixed amount per parcel and is not affected by declines in property valuations.
- SHCHD's expenses appear to have increased approximately 3% from FY 2008 to FY 2009 which also appears to have kept in line with revenues.

Financial Discussion – Statement of Financial Position (Balance Sheet)

SHCHD's balance sheet appears to have been improving and to have a solid proforma debt service coverage ratio of 5.05x suggesting that SHCHD should likely be able to repay the proposed HELP II loan.

Particular Facts to Note:

- Throughout the entire three year review period, the audited financial statements have included "Going Concern"² language; however, SHCHD's appears to have improved its operations by implementing new strategies. For example, SHCHD now operates with total net assets of \$448,000 for FY 2009 compared to (\$283,000) for FY 2007. Staff has requested and will review 2010 interim unaudited financials prior to closing the proposed HELP II loan for the purpose of confirming operations appear to be moving in a positive direction. To the extent interim numbers reveal negative material differences when compared to SHCHD's audited financials, staff will require SHCHD to return to the board for reconsideration.

² Going Concern – The going concern opinion relates to generally accepted auditing standards with respect to evaluating whether there is "substantial" doubt about the entity's ability to continue. Continuation of an entity as a going concern is assumed in financial reporting in the absence of significant information to the contrary.

- Estimated third party settlements of \$448,000 moved from a liability to an asset in FY 2009. According to SHCHD, this occurred primarily because of their improved cost accounting measures which, as mentioned above, resulted in larger receivables from both Medicare and Medi-Cal.
- Cash and Cash Equivalent is approximately \$198,000 for FY 2009, which is only 12 days cash on hand, well below the recommended target of 30 days. SHCHD reports that it utilized cash reserves to pay down its accounts payables which has given SHCHD more negotiation leverage with district vendors and which has helped SHCHD to avoid unnecessary past due penalties and interest. Though SHCHD has plans to increase cash reserves through stricter financial management, SHCHD secured a line of credit in October 2009 for up to \$250,000 to serve as a backup reserve account in the event of any cash flow shortage. Though the current balance on this line of credit is \$0, SHCHD reports that it has periodically had to rely on this line of credit since October 2009 primarily due to delays in receiving 3rd party settlement receivables and county tax payments.

EXHIBIT 1

UTILIZATION STATISTICS

**Patient Visits for Fiscal Year Ended June 30,
Clients Served / (Patient Visits)**

	2009	2008	2007
Totals	5,746 / (18,265)	5,877 / (19,023)	5,779 / (19,149)

EXHIBIT 2

OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding* As of June 30, 2009</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
Existing Long-Term Debt:			
USDA Revenue Bonds, 1980 (United States Department of Agriculture)	\$751,125	\$570,647	\$570,647
Capital Lease Obligations	129,162	112,657	112,657
Proposed CHFFA HELP II, 2010		N/A	569,000
TOTAL DEBT		<u>\$683,304</u>	<u>\$1,252,304</u>

* Includes current portion of long-term debt.

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

SHCHD operates a small acute care district hospital (Jerold Phelps Community Hospital), in southern Humboldt County. Healthcare has been offered to the people of the community at this location since 1949. The community hospital was formed in 1960, which eventually led to the formation of the Healthcare District in 1980. In March 2009, SHCHD obtained its Critical Care Access Hospital status.

SHCHD is a political subdivision of the State of California, organized under Local Health Care District Law, as set forth in the Health and Safety Code of the State of California. SHCHD operates a community hospital servicing the residents of the surrounding communities and visitors to the area. SHCHD derives a significant portion of revenue from third-party payors, including Medicare, Medi-Cal, and commercial insurance organizations. SHCHD maintains its financial records on the accrual basis of accounting in conformity with guidelines set for the by the Local Health Care District Law and the Office of Statewide Health Planning and Development of the State of California.

Licensure, Certification and Accreditation

Southern Humboldt Community Healthcare District is licensed by the California Department of Public Health to operate and maintain a general acute care hospital, which is located at 733 Cedar Street, Garberville, CA 95542.