CHFFA HELP II PROGRAM
EXECUTIVE SUMMARY

Applicant:	Shingletown Medical Center ("SMC") 31292 Alpine Meadows Road Shingletown, CA 96088 Shasta County	**Amount Requested:** **Requested Loan Term:** **Authority Meeting Date:** **Resolution Number:**	$250,000 5 & 15-year fixed July 25, 2013 HII-278

Project Site: 31292 Alpine Meadows Road, Shingletown, CA (Shasta County)
Facility Type: Community Clinic
Eligibility: A community care facility pursuant to Government Code section 15432(d)(14)
Prior HELP II Borrower: Yes (Loan balance paid off in full effective July 17, 2013)

Background: SMC, a single site primary and behavioral health care center, was established as a not-for-profit 501(c)(3) organization in 1986 with the purpose of improving access to medical care for the rural areas of Shingletown, Viola, and Manton, CA. In 2001, SMC was designated as a Federally Qualified Health Center (FQHC) "look-alike" and received its first Federal Grant in 2003. SMC is located in a designated Professional Shortage Area for medical, dental, and mental health care providers. SMC is the service provider for a total population of approximately 12,117 persons, of which about 36% (4,362) are at or below 200% of the federal poverty level.

Uses of Loan Proceeds: The HELP II Loan proceeds will be used to purchase equipment and to finance various repairs and renovations of the existing facility owned and operated by SMC.

Financing Structure:

- 5-year fixed rate for equipment.
  - 60 equal monthly payments of approximately $356 (yearly payments of approximately $4,274).
- UCC-1 lien on equipment purchased.
- 15-year fixed rate for renovation.
  - 180 equal monthly payments of approximately $1,590 (yearly payments of approximately $19,075).
- Corporate gross revenue pledge.
- First (1st) lien position on the property located at 31292 Alpine Meadows Road, Shingletown, CA 96088.
- Loan to value ratio not to exceed 95% (estimated loan to value ratio of 19%).

Financial Overview: The income statement for SMC appears to exhibit positive operating results during the review period. SMC also appears to display a solid balance sheet with a proforma debt service coverage ratio of 2.19x and a proforma debt to unrestricted net assets ratio of 0.2x.

Estimated Sources of Funds:		**Estimated Uses of Funds:**	
HELP II Loan	$ 250,000	Renovation and remodel	$ 288,000
Shasta Regional Community Foundation/McConnell Grant*	50,000	Equipment	19,820
		Other	13,000
Borrower funds	25,945	Financing costs	5,125
Total Estimated Sources	$ 325,945	**Total Estimated Uses**	$ 325,945

*Borrower has received Grant funds

Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through and Community Service Requirement documentation. All documentation satisfies the Authority's requirements.

Parties of Interest: Fidelity National Title Company and Shufelberger Construction, Inc.

Staff Recommendation: Staff recommends approval of Resolution Number HII-278 for SMC in an amount not to exceed $250,000 for a term not to exceed 15 years (5 years for equipment; 15 years for renovation), contingent upon financing terms acceptable to the Authority. Macias Gini & O'Connell, LLP, the Authority's financial analyst, concurs with staff recommendations.

(BAL)

I. PURPOSE OF FINANCING:

SMC plans to renovate and repair their existing building to address safety and health concerns for their staff and patients. SMC's contractor for the new construction project has acknowledged they and their subcontractors will pay prevailing wage rates. SMC also plans to purchase equipment to replace much of the original furniture that is deteriorating and becoming unsafe or is simply not ergonomically safe.

Renovate existing facility ***$288,000***

The renovation and repair project will include

- Removal of cement tile on the roof and floor covering;
- Install metal roof;
- Repair eaves, fascia board and foundation board;
- Repair window sills;
- Install new floor coverings with either carpet or linoleum; and
- Paint interior and exterior building

The HELP II loan will be secured by a first (1^{st}) lien position on the property located at 31292 Alpine Meadows Road, Shingletown, CA, which is a building of approximately 5,216 square feet. According to management, the property has an estimated current market value of approximately $1.3 million, leading to an estimated loan to value ratio of 19%. A full appraisal on the property will be required prior to closing.

Purchase Equipment ***19,820***

Loan proceeds will be used to purchase equipment including, but not limited to tables, chairs and window blinds.

Other ***13,000***

Moving/storage	$9,000	
Appraisal	4,000	

Financing Costs ***5,125***

Authority Fees	$3,125	
Title and Escrow Fees	2,000	

Total Uses of Funds **$325,945**

II. SMC - FINANCIAL STATEMENTS AND ANALYSIS

Shingletown Medical Center
Statement of Activities
(Unrestricted)

	For the year ended June 30,		
	2012	**2011**	**2010**
Revenues and other support:			
Patient service revenue, net*	$ 1,141,217	$ 1,510,894	$ 1,356,903
Grant revenue	643,443	496,132	578,203
Net assets released from restrictions-programs	25,764	31,500	
Other	64,829	126,159	129,024
Total revenues and other support	1,875,253	2,164,685	2,064,130
Expenses:			
Salaries	856,556	847,552	862,509
Employee benefits	248,229	235,175	225,267
Professional fees	228,421	197,595	204,084
Contractual services	175,808	349,282	153,295
Supplies	65,824	174,183	102,023
Maintenance & Repairs	2,654	2,914	1,206
Facility expenses	52,414	51,206	45,851
Telephone & communications	39,817	21,595	27,291
Insurance	8,402	11,262	12,046
Interest	2,233	2,669	165
Depreciation and amortization	67,420	56,493	44,301
Provision for uncollectible accounts			39,476
Other operating expenses	67,396	110,434	179,957
Total expenses	1,815,174	2,060,360	1,897,471
Increase in Unrestricted Net Assets:	60,079	104,325	166,659
Net Assets:			
Unrestricted Net assets, beginning of year	1,445,663	1,341,338	1,174,679
Unrestricted Net assets, end of year	$ 1,505,742	$ 1,445,663	$ 1,341,338

***Net Patient Revenue for FYE June 30, 2012**

Payor Source	Percent
Medicare	20
Medi-Cal	8
Other third parties	72
Total	100

Shingletown Medical Center
Statement of Financial Position

Assets	As of June 30, 2012	2011	2010
Current assets:			
Cash and cash equivalents	$ 181,988	$ 158,609	$ 181,397
Patients accounts reveivable, net	136,783	182,082	201,407
Grants and other receivables	153,386	32,461	4,688
Estimated third-party settlements	105,461	177,556	110,587
Prepaid items and inventories	33,330	36,217	34,250
Total current assets	610,948	586,925	532,329
Property and Equipment, net	1,135,393	1,055,197	978,657
Total assets	$ 1,746,341	$ 1,642,122	$ 1,510,986
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$ 81,677	$ 47,986	$ 18,675
Accrued payroll and other expenses	74,339	60,183	64,043
Deferred revenue			10,670
Long-term debt, current portion	44,028	33,667	23,965
Total current liabilities	200,044	141,836	117,353
Long term debt, net of current portion	37,225	45,529	52,295
Total liabilities	237,269	187,365	169,648
Net assets:			
Unrestricted	1,505,742	1,445,663	1,341,338
Temporarily Restricted	3,330	9,094	
Total liabilities & net assets	$ 1,746,341	$ 1,642,122	$ 1,510,986

Financial Ratios:

	Proforma (a) FYE June 30, 2012	2012	2011	2010
Debt Service Coverage (x)	**2.19**	**3.61**	**6.14**	**8.60**
Debt/Unrestricted Net Assets (x)	**0.20**	**0.05**	**0.05**	**0.06**
Margin (%)		**3.20**	**4.82**	**8.07**
Current Ratio (x)		**3.05**	**4.14**	**4.54**

(a) Recalculates FY2012 audited results to include the impact of this proposed financing

Financial Discussion – Statement of Activities (Income Statement)

SMC's income statement appears to exhibit positive operating results during the review period.

SMC's income statement exhibits positive operating results. The increase in unrestricted net assets have steadily declined – from approximately $167,000 in FY 2010 to approximately $104,000 and approximately $60,000 in FY 2011 and FY 2012, respectively. According to management, a dwindling population as well as the implementation of an electronic health records system in FY 2011 have put an overall strain on total revenues. Implementation of the electronic health records system, however, has allowed SMC to obtain an increase in its Prospective Payment System (PPS) in future years, which is a method of determining insurance reimbursements.

Particular Facts to Note:

- Patient service revenue increased by approximately 11% in FY 2011, but then fell by approximately 25% in FY 2012 as a result of a decreasing number of patient visits. In calendar years 2010, 2011, and 2012, patient visits were 2,580, 2,418 and 2,149, respectively. According to management, a large part of the decline in patient visits and revenue resulted from implementing an upgrade to their electronic health record system as SMC's Medical Director suspended clinic time in order to work with the IT consultant. SMC expects to increase its level of services provided as the electronic record system upgrade is now complete, and due to the anticipated expansion of Rural Managed Medi-Cal under the Affordable Care Act (ACA).

- According to management, in an effort to reverse the declining patient revenues, SMC is refocusing its energy from fundraising towards marketing, as well as performing more community outreach. SMC has recently received federal funding in the amount of $62,000 from the U.S. Department of Health and Human Services, Health Resources and Services Administration for an Outreach/Educator position to assist low income families enroll in various health plans through the Health Insurance Exchange portion of the ACA. SMC estimates that there are approximately 800 individuals, who have not been to SMC, ready to utilize the services available.

- SMC has been able to keep salaries, their greatest expense, relatively constant. In FY 2010, salaries stood at approximately $863,000 and declined to approximately $857,000 in FY 2012. According to management, the cost savings is attributed to four staff members leaving SMC in FY 2011 and their job duties being reassigned.

- Other Revenue and Supplies Expense each experienced a sharp drop in FY 2012, approximately 49% and approximately 62%, respectively, and according to management, the numbers reflected in FY 2012 are a return to normal levels. In June 2011, SMC received a large donation from a family trust, which inflated Other Revenue in FY 2011. The change in Supplies Expense was due to a change in the accounting treatment of expenses associated with SMC's 340B program (a federal drug pricing program that lowers outpatient prescription costs for eligible health care organizations). In FY 2011, the expenses were stated separately from revenue, but in FY 2012, SMC's new auditor netted the program expenses against the program revenues.

- SMC had a provision for uncollectable accounts of approximately $39,000 in FY 2010, but the line item no longer exists for FY 2011 and FY 2012. According to management, in FY 2010, the amount was not netted against patient service revenue, which resulted in overstatements of both revenues and expenses. The provision for uncollectable accounts was netted against patient service revenue in FY 2012, and FY 2011 was restated to also reflect this change.

Financial Discussion – Statement of Financial Position (Balance Sheet)

SMC appears to exhibit a solid balance sheet with a proforma debt service coverage ratio of 2.19x and a debt to unrestricted net assets ratio of 0.2x.

SMC maintained a low reliance on debt throughout the review period with a debt to unrestricted net assets ratio of 0.06x in FY 2010 and 0.05x in FY 2012. SMC's unrestricted net assets grew about 12.3%, from approximately $1.3 million in FY 2010 to approximately $1.5 million in FY 2012. Although SMC's debt service coverage ratio has declined from 8.60x in FY 2010 to 3.61x in FY 2012, their proforma debt service coverage ratio of 2.19x appears to demonstrate they should remain in a solid position to repay the added debt.

Particular Facts to Note:

- SMC decreased its accounts receivable by about 32.1%, which management attributes in large part to their consistent performance. Accounts receivable stood at approximately $201,000 in FY 2010 and fell to approximately $137,000 in FY 2012.

- Grants and other receivables significantly increased each year of the review, from approximately $5,000 in FY 2010 to approximately $32,000 in FY 2011 and then to approximately $153,000 in FY 2012. According to management, this increase was primarily due to an accumulating receivable due from the State of California for an increase in the FQHC rate per encounter.

- According to management, the growth in estimated third-party settlements from approximately $111,000 in FY 2010 to approximately $178,000 in FY 2011 represents the receivable due from the Department of Health Care Services for the increase in the PPS rate due to the implementation of the electronic health record system. The account then returned to approximately $105,000 in FY 2012.

- As of June 2013, SMC had one remaining payment on their previous HELP II Loan, and this new HELP II Loan request would represent SMC's only long-term debt.

EXHIBIT 1

UTILIZATION STATISTICS

Clients Served/ (Patient Visits)

Shingletown Medical Center
Calendar Year Ended December 31,

	2010	2011	2012
Totals	2,580 / (12,016)	2,418 / (9,843)	2,149 / (10,215)

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EXHIBIT 2

OUTSTANDING DEBT

Date Issued	Original Amount	Amount Outstanding[a] As of June 30, 2012	Estimated Amount Outstanding after Proposed Financing
-EXISTING LONG-TERM DEBT:			
CHFFA HELP II Loan June 24, 1999	$ 406,000	$ 27,602	$ -
U.S. Bank, Capital Lease	29,012	17,927	17,927
Toshiba Lease Capital Lease	35,724	35,724	35,724
-PROPOSED NEW DEBT:			
CHFFA HELP II Loan			250,000
-TOTAL DEBT		**$ 81,253**	**$ 303,651**

(a) Includes current portion of long-term debt

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EXHIBIT 3

BACKGROUND AND LICENSURE

Background

SMC, a single site primary and behavioral health care center, was established as a not-for-profit 501(c)(3) organization in 1986 with the purpose of improving access to medical care for the rural areas of Shingletown, Viola, and Manton, CA. In 2001, SMC was designated as a Federally Qualified Health Center “look-alike” and received its first Federal Grant in 2003. SMC is located in designated Professional Shortage Areas for medical, dental, and mental health care providers. SMC is the service provider for a total population of approximately 12,117 persons, of which about 36% (4,362) are at or below 200% of the federal poverty level. In FY 2012, SMC provided health care services to 2,149 patients. Eighty percent of these patients were at or below 200% of the federal poverty level, and approximately 27% of SMC’s patients are over the age of 65. SMC is part of the California Rural Expansion of Managed Medi-Cal, and, along with other Shasta County health centers, has signed contracts with Partnership Health Plan of California to facilitate managed care in the region.

SMC’s mission is to meet the current and evolving community needs by providing primary and behavioral health care and related services to the residents and visitors of Shingletown and surrounding rural communities including the underserved.

Licensure, Certification and Accreditation

Shingletown Medical Center is licensed as a community clinic by the State of California Department of Public Health.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-278

RESOLUTION APPROVING EXECUTION AND DELIVERY OF HELP II LOAN PROGRAM AGREEMENTS WITH CERTAIN PARTICIPATING HEALTH INSTITUTIONS

WHEREAS, the California Health Facilities Financing Authority (the "Authority"), a public instrumentality of the State of California, is authorized by the provisions of the California Health Facilities Financing Authority Act (the "Act") to provide secured or unsecured loans to participating health institutions to refinance existing debt and finance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing, or equipping of a health facility;

WHEREAS, the Authority established the HELP II Loan Program (the "Program") to provide loans to participating health institutions as authorized by the Act;

WHEREAS, **Shingletown Medical Center** (the "Borrower"), a California nonprofit corporation and participating health institution, has applied to the Authority for a loan through the Program, and the application has been reviewed by the staff of the Authority; and

WHEREAS, approval of the loan by the Authority is now sought;

NOW THEREFORE BE IT RESOLVED by the California Health Facilities Financing Authority, as follows:

Section 1. Pursuant to the Act, the Authority approves a loan to the Borrower in an amount not to exceed **$250,000** for a term not to exceed **15 years (5 years for equipment; 15 years for renovation)** for the purpose described in the application filed with the Authority (the "Project"), but solely to the extent there are available proceeds of the Program, as determined pursuant and subject to Section 2 hereof. This approval is further contingent upon the following conditions:

1. 5-year fixed rate for equipment;
2. 15-year fixed rate for renovation;
3. First (1st) lien position on property located at 31292 Alpine Meadows Road, Shingletown, CA 96088;
4. Subordination of the Financing Statement on the property located at 31292 Alpine Meadows Road, Shingletown, CA 96088 by North Valley Bank;
5. UCC-1 lien on equipment purchased;
6. Loan to value ratio not to exceed 95%;
7. Corporate gross revenue pledge;
8. Verification of Borrower's funds to close escrow; and
9. Completed appraisal acceptable by Authority staff.

Section 2. The Executive Director is hereby authorized, for and on behalf of the Authority, to determine the final amount, terms and conditions of the loan, and to approve any changes in the Project described in the application submitted to the Authority, as said officer shall deem appropriate and authorized under the Act (provided that the amount of the loan may not be increased above the amount approved by the Authority and provided further that the loan continues to meet the Authority's guidelines for HELP II loans). Nothing in this resolution shall be construed to require the Authority to obtain any additional funding, even if more loans are approved than there is available funding. Any notice to the Borrower shall indicate that the Authority shall not be liable to the Borrower in any manner whatsoever should such funding not be completed for any reason whatsoever.

Section 3. The Executive Director is hereby authorized and directed, for and on behalf of the Authority, to draw money from the Program fund not to exceed those amounts approved by the Authority for the Borrower. The equipment purchase will be funded in one full disbursement and the renovation costs will be funded in two equal disbursements. The Executive Director is further authorized and directed, for and on behalf of the Authority, to execute and deliver to the Borrower any and all documents necessary to complete the transfer of funds.

Section 4. The Executive Director of the Authority is hereby authorized and directed to do any and all things and to execute and deliver any and all documents which the Executive Director deems necessary or advisable in order to effectuate the purposes of this resolution and the transactions contemplated hereby, and which have heretofore been approved as to form by the Authority.

Section 5. This resolution expires six months from the date of approval.

Date of Approval: __________________________