CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY

Applicant:	Seneca Healthcare District ("Seneca") 130 Brentwood Drive Chester, CA 96020 Plumas County	**Amount Requested:** **Requested Loan Term:** **Authority Meeting Date:** **Resolution Number:**	$685,000 5-year fixed Dec. 4, 2014 HII-289

Project Sites: 130 Brentwood Drive and
199 Reynolds Road, Chester, CA 96020 (Plumas County)
Facility Type: General Acute Care Hospital
Eligibility: Government Code section 15432(d)(1)
Prior HELP II Borrower: Yes (2010), current on its payments, outstanding balance: $310,484.29 as of November 2014.

Background: Seneca Healthcare District ("Seneca") is a non-profit governmental entity formed in 1947 as an independent special district to meet the needs of the rural community. It provides healthcare services to the Chester and Lake Almanor Basin. The skilled nursing facility admitted its first patient in 1976. The hospital based rural health clinic was built in 1996. Seneca is a full service acute care facility with 10 medical surgical/swing beds, a 2-bed emergency room, and a 16-bed skilled nursing facility. The Lake Almanor Clinic has four provider offices, a walk-in clinic and a specialty clinic. In FY 2014, Seneca had approximately 21,000 client visits and served approximately 8,500 patients.

Use of Loan Proceeds: Loan proceeds along with internal funds will be used to refinance two private loans, which were used to finance an electronic health record ("EHR") system and information technology ("IT") upgrades. This loan will eliminate three balloon payments due on the EHR loan and should result in over $180,000 in total savings, in addition to savings due to a lower HELP II loan interest rate compared to interest rates on the two private loans.

Financing Structure:

- Second lien on the property located at 199 Reynolds Road, Chester, California 96020 behind CHFFA's existing first lien.
- 5-year fixed rate loan with 60 equal monthly payments of approximately $12,308 (annual payments of $147,702).
- A current appraisal that is acceptable to the Authority.
- Corporate gross revenue pledge.
- Combined loan to value ratio not to exceed 95% (estimated combined loan to value ratio is 31%).
- Verification of borrower funds to close escrow.

Financial Overview: Seneca's income statement appears to exhibit adequate results over the review period. Seneca's financial strength appears sound with a proforma debt service coverage ratio of 5.34x.

Estimated Sources of Funds:		**Estimated Uses of Funds:**	
HELP II loan	$ 685,000	Refinance EHR Loan	$1,630,000
Borrower funds*	1,306,563	Refinance IT loan	351,000
		Financing costs	10,563
Total Estimated Sources	$ 1,991,563	**Total Estimated Uses**	$ 1,991,563

* This amount to be paid from the $1.43 million shown under "Assets limited as to use" on Balance Sheet for FY 2014.

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: *(Included for the purpose of discerning conflicts of interest)*

Cal-Sierra Title Company	Computer Programs and Systems, Inc.
United Healthcare	Jules & Associates, Inc.

Staff Recommendation: Staff recommends approval of Resolution Number HII-289 for Seneca Healthcare District in an amount not to exceed $685,000 for a term not to exceed 5 years, and contingent upon financing terms acceptable to the Authority. Macias Gini & O'Connell LLP, the Authority's financial analyst, concurs with the Authority's staff recommendations.

I. PURPOSE OF FINANCING:

Seneca is requesting a HELP II loan to partially refinance two debt obligations. The refinancing will allow Seneca to avoid three large balloon payments on the United Healthcare loan, obtain $160,000 in rebate savings, and realize a $20,000 in interest savings resulting from the reduced interest costs related to the lower interest rated HELP II loan. The remaining balance of the two debt obligations will be paid off by using Seneca's internal funds.

Refinance EHR Loan	***$1,630,000***

In November 2011, Seneca installed and financed an Electronic Health Record (EHR) system throughout its hospital and clinics. Seneca financed the system with United Healthcare for $1.6 million at a 3.75% interest rate, which matures in 2017. This financing requires three significant balloon payments of $514,000, $533,000, and $533,000 respectively, over the next three years. If Seneca pays off the loan in full by February 2015, it will receive a 10% or $160,000 rebate. By paying the loan off in full with internal funds along with CHFFA funds, this refinancing will provide a $160,000 in savings to Seneca.

Refinance IT Loan	***351,000***

In May 2013, Seneca upgraded its Information Technology system in order to fully implement the EHR system, financed with a loan from Jules & Associates at interest rate of 5.8%. Seneca plans to partially refinance this loan with a HELP II loan, with the remaining balance of the loan paid off with their internal funds. This refinancing will result in an estimated interest expense savings of $20,000 over the life of the HELP II loan.

The proposed HELP II loan will be secured by a second lien on the property located at 199 Reynolds Road, Chester, California 96020, subordinate to CHFFA's existing first lien with a current loan balance of approximately $310,000. This facility is an 18,600 square foot, two-story medical office building, constructed in 1996. An appraisal acceptable to the Authority will be completed before closing. According to Seneca's management, the estimated value of the properties is $3.2 million, leading to combined loan to value ratio of 31%.

Financing Costs		***10,563***
Authority Fees	$8,563	
Title and Escrow Fees	2,000	
Total Uses of Funds		**$1,991,563**

II. FINANCIAL STATEMENTS AND ANALYSIS

Seneca Healthcare District
Statement of Activities
(Unrestricted)

	For the year ended June 30,		
	2014	**2013**	**2012**
Operating revenues			
Net patient service revenue*	$ 12,698,586	$ 12,645,922	$ 12,834,451
Other operating revenue	1,008,247	672,770	42,441
Total operating revenues	13,706,833	13,318,692	12,876,892
Operating expenses			
Salaries and wages	5,037,026	4,964,812	4,485,305
Employee benefits	1,419,175	1,296,931	1,174,607
Professional fees	3,907,709	4,268,884	3,770,249
Purchased services	1,040,828	1,024,539	1,154,017
Supplies	712,594	928,501	885,171
Repairs and maintenance	288,683	238,043	241,116
Utilities and telephone	409,234	335,859	297,917
Rentals and leases	142,937	184,576	149,750
Insurance	85,967	97,370	11,651
Depreciation and amortization	1,330,924	689,508	309,744
Other operating expenses	235,670	268,599	181,790
Total operating expenses	14,610,747	14,297,622	12,661,317
Operating income (loss)	(903,914)	(978,930)	215,575
Nonoperating revenues (expenses)			
District tax revenues	425,987	472,746	446,913
Non-capital grants and contributions	252,821	45,830	37,717
Investment income	13,935	29,148	4,701
Interest expense	(103,669)	(106,972)	(47,088)
Total non-operating revenues (expenses)	589,074	440,752	442,243
Excess of revenues (expenses)	(314,840)	(538,178)	657,818
Inter-governmental transfers	-	-	(158,731)
Capital grants and contributions	-	-	24,041
Net change in net position	(314,840)	(538,178)	523,128
Net position at beginning of the year	3,580,598	4,118,776	3,595,648
Net position at end of the year	$ 3,265,758	$ 3,580,598	$ 4,118,776

***Net patient service revenue**	**Percent**
Third part Contract Payors	44.46%
Medicare	39.08%
Medi-Cal	13.26%
Self pay	3.20%
Total	100%

Seneca Healthcare District
Statement of Financial Position

	As of June 30,		
	2014	**2013**	**2012**
Assets			
Current assets:			
Cash and cash equivalents	$ 229,222	$ 63,885	$ 614,057
Patient accounts receivable, net of allowances	1,632,595	1,919,377	1,514,010
Other receivables	26,821	1,311,089	101,234
Assets limited as to use	1,432,752	397,611	1,134,192
Estimated third party payor settlements	45,522	929,084	113,500
Supplies	315,639	263,900	262,826
Prepaid expenses and deposits	225,597	30,259	2,750
Total current assets	3,908,148	4,915,205	3,742,569
Assets limited as to use	504,815	672,045	669,701
Capital assets, net of accumulated depreciation	1,926,761	3,133,278	2,737,915
Total assets	6,339,724	8,720,528	7,150,185
Deferred outflows of resources	8,939	9,712	10,483
	$ 6,348,663	$ 8,730,240	$ 7,160,668
Liabilities and Net Position			
Current liabilities:			
Current maturities of long-term debt	$ 669,302	$ 152,056	$ 67,379
Accounts payable and accrued expenses	456,976	1,388,668	481,909
Accrued payroll and related liabilities	475,489	463,151	378,954
Total current liabilities	1,601,767	2,003,875	928,242
Long-term debt, net of current maturities	1,481,138	2,376,484	2,113,650
Total long term liabilities	3,082,905	4,380,359	3,041,892
Deferred inflows of resources	-	769,283	-
Net position:			
Invested in capital assets, net of related debt	(223,679)	604,738	556,886
Unrestricted	3,489,437	2,975,860	3,561,890
Total net position	3,265,758	3,580,598	4,118,776
Total liabilities and net assets	$ 6,348,663	$ 8,730,240	$ 7,160,668

Financial Ratios:

	Proforma [1] FYE June 30, 2014	2014	2013	2012
Debt Service Coverage (x)	5.34	4.38	1.48	5.70
Debt/Unrestricted Net Assets (x)	0.40	0.62	0.85	0.61
Margin (%)		(6.59)	(7.35)	1.67
Current Ratio (x)		2.44	2.45	4.03

[1] Recalculates FY 2014 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities

Seneca's income statement appears to exhibit adequate results over the review period.

During the review period, Seneca's operating performance appears to be adequate. The increase in net position declined from approximately $523,000 in FY 2012 to approximately a negative $314,000 in FY 2014 with operating margins ranging from 1.67% in FY 2012 to a negative 6.59% in FY 2014. According to Seneca, this decline was a result of a one-time high depreciation expense of the new EHR system.. Depreciation expense increased by approximately $1 million between FY 2012 and FY 2014.

Particular Facts to Note:

- According to Seneca, other operating revenue fluctuates from approximately $42,441 in FY 2012 to $1.08 million in FY 2014, due to the recording of Meaningful Use[1] payments from Medicare for the implementation of the EHR system.

- Depreciation and amortization increased significantly from $309,744 in FY 2012 to $1,330,924 in FY 2014 mainly due to the installation of the EHR system and the recording of Meaningful Use payments from Medicare being matched up to the depreciation expense on the EHR system.

- Salaries and wages increased from approximately $4.49 million in FY 2012 to $5.04 million in FY 2014, which is primarily the result of annual pay increases at approximately 3% per year, coupled with the need to hire new staff to operate the EHR system, including four new staff members in the Information Technology Department, according to Seneca.

- Seneca's non-capital grants and contributions revenues increased significantly from approximately $38,000 in FY 2012 to approximately $253,000 in FY 2014. According to Seneca, this increase is mainly due to a change in accounting methodology where a grant received was previously being recorded against the expense and the method is now currently being accounted for appropriately as separate revenues.

[1] Achieving Meaningful Use means using certified EHR technology to improve quality, safety, efficiency, and reduce health disparities. It is intended to improve care coordination, and population and public health. The successful installation of a system like this is now a national requirement for hospitals and physicians.

Financial Discussion – Statement of Financial Position

Seneca's financial strength appears solid with a proforma debt service coverage ratio of 5.34x.

Seneca's total unrestricted net assets appears to remain steady. Seneca's proforma debt-to-unrestricted net assets ratio is .40x indicating low leverage. The proforma debt service coverage ratio is a solid 5.34x with this proposed financing, indicating Seneca should likely be able to repay the HELP II loan.

Particular Facts to Note:

- Cash and cash equivalents declined from $614,057 in FY 2012 to $229,222 in FY 2014 mainly due to higher patient accounts receivable and estimated third party settlements. According to Seneca management, while cash reserves remain tight on a monthly basis (six days cash on hand), the hospital's cash flow has stabilized. Seneca remains current on its bills.

- "Assets limited as to use" are comprised of cash and cash equivalents designated by Seneca's board for specific purposes, which totaled approximately $1.43 million in FY 2014 and includes the $1.2 million in Meaningful Use money that Seneca has saved by successfully achieving Meaningful Use of the EHR system per Medicare guidelines in each of the first two years of operation of the EHR system. These funds will be used to pay down the United Healthcare loan.

- Current maturities of long-term debt increased from $67,379 in FY 2012 to $669,302 in FY 2014, which portrays a balloon payment due in FY 2015 for the EHR system being financed by the HELP II loan and internal funds Upon completion of the this transaction, Seneca's only long-term debt will be the HELP II loans in the amount of approximately $1 million.

EXHIBIT 1

UTILIZATION STATISTICS

Patients Visits for Fiscal Year Ended June 30,

	2014	2013	2012
Totals	**21,268**	**21,520**	**24,076**

EXHIBIT 2

OUTSTANDING DEBT

Date Issued	Original Amount	Amount Outstanding [(a)] As of June 30, 2014	Estimated Amount Outstanding after Proposed Financing
-EXISTING LONG-TERM DEBT:			
United Healthcare - November 2011	$ 1,600,000	$ 1,600,000	$ -
CHFFA HELP II Loan - December 2010	586,433	319,258	319,258
Jules and Associates - May 2013	500,081	358,910	-
Hewlett Packard Capital Lease - August 2012	17,979	5,494	5,494
- PROPOSED NEW DEBT:			
CHFFA, HELP II Loan			***685,000***
- TOTAL DEBT		**$ 2,283,662**	**$ 1,009,752**

(a) Includes current portion of long-term debt.

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

Seneca Healthcare District ("Seneca") is a non-profit governmental entity formed in 1947 as an independent special district to meet the needs of the rural community. The Seneca hospital opened its doors to patients in 1954. The skilled nursing facility admitted its first patient in 1976. The hospital based rural health clinic was established in 1996. Seneca hospital is a full service acute care facility with ten medical surgical/swing beds, a 2-bed emergency room, and a 16-bed skilled nursing facility. The Lake Almanor Clinic has four provider offices, a walk-in clinic and a specialty clinic. The goal of its district is to serve its patients with compassion, dignity, and respect.

Seneca's mission is "to deliver high quality comprehensive services with excellence, compassion and competence, meeting or exceeding the expectations of the community we serve." The services Seneca provides are inpatient acute care, swing beds, skilled nursing, emergency services, observation, surgical services, same day surgery, imaging, mobile MRI, laboratory, respiratory therapy, physical therapy, Lake Almanor Clinic, family practices, walk-in clinic, specialty clinic, and telemedicine.

The agency is governed by a volunteer Board of Directors comprised of five members, each of whom shall be a registered voter residing in the District and employs a staff of 126 individuals to administer and provide the hospital's general acute care and skilled nursing services.

Licensure, Certification and Accreditation

Seneca is licensed by the California Department of Public Health to operate and maintain a general acute care hospital, which is located at 130 Brentwood Drive, Chester, CA 96020.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-289

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, **Seneca Healthcare District** (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 **$685,000** for a term not to exceed **5 years** 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 loan;
2. Second lien position on the property located at 199 Reynolds Road, Chester, California 96020;
3. Corporate gross revenue pledge;
4. Verification of Borrower's funds to close escrow;
5. A current appraisal that is acceptable to Authority staff; and
6. Combined loan to value ratio not to exceed 95%.

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 loans may not be increased above the amount approved by the Authority and provided further that the loans continue 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 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: ____________________________