

CHFFA HELP II LOAN PROGRAM EXECUTIVE SUMMARY

<p>Applicant: Plumas District Hospital (“PDH”) 1065 Bucks Lake Road Quincy, CA 95971 Plumas County</p> <p>Project Site: 1065 Bucks Lake Road, Quincy, CA 95971</p> <p>Facility Type: Acute Care Hospital / Critical Access Hospital / Frontier Hospital</p> <p>Eligibility: Acute Care Hospital pursuant to Government Code section 15432(d) (1)</p> <p>Prior HELP II Borrower: No</p>	<p>Amount Requested: \$1,500,000</p> <p>Working Capital Term: 15 months fixed</p> <p>Authority Meeting Date: August 4, 2016</p> <p>Resolution Number: HII-303</p>																
<p>Policy Exception Request: PDH is requesting a policy exception to obtain working capital under the HELP II Loan Program. This request will be the first HELP II working capital loan since 2010, when CHFFA issued a working capital loan to Modoc Medical Center (MMC). Like MMC, PDH is a frontier hospital where population density is less than 11 persons per square mile which complicates efficiencies when providing health care services.</p>																	
<p>Background: PDH opened its doors in 1959 to provide high quality care to the residents in Plumas County (“the County”). PDH is a 25-bed general acute care hospital, which includes several hospital departments, two outpatient rural health clinics, a dental clinic, and telehealth services. PDH is a rural health clinic and defined by the Office of Statewide Health Planning and Development (“OSHPD”) as one of thirteen frontier hospitals in California. Frontier areas, like the County, are the most remote and sparsely populated places in the country, which makes the delivery of healthcare services challenging. The County stretches over 2,613 square miles and Quincy, the largest community in the County, has a population of approximately 1,800. PDH serves approximately 8,500 patients annually in a population of approximately 20,000 people. Over 55% of PDH’s patients are Medicare and Medi-Cal, and PDH accepts all individuals with or without health insurances.</p>																	
<p>Use of Working Capital Proceeds: Working capital funds will be used to pay for on-going operation expenses such as accounts payable and payroll. This request would allow PDH to use their permanent and ongoing fund sources to qualify for federal funds through the Intergovernmental Transfer Program.</p>																	
<p>Financing Structure:</p> <ul style="list-style-type: none"> • 15 months at two percent (2%) fixed rate • 15 equal monthly interest-only payments of approximately \$2,500 with a balloon payment of \$1,500,000 at the end of the term (total principal and interest payments not to exceed \$1,537,500) • Interception of property tax revenues in event of default (annual payments of \$250,000 and in coordination with Plumas County) • Working capital funds will be placed in a separate bank account and all disbursement of funds will be approved by CHFFA staff • CHFFA will take security interest on the bank account that will hold working capital funds 																	
<p>Financial Overview: PDH’s income statement appears to exhibit stable growth in net patient revenues from FY 2013 through FY 2015. PDH appears to exhibit a weak balance sheet and appears to have a pro-forma debt service coverage ratio of negative .14x</p>																	
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: left;"><u>Estimated Sources of Funds:</u></th> <th colspan="2" style="text-align: right;"><u>Estimated Uses of Funds:</u></th> </tr> </thead> <tbody> <tr> <td style="width: 33%;">HELP II Loan</td> <td style="width: 16.5%; text-align: right;">\$ 1,500,000</td> <td style="width: 33%;">Working Capital Loan</td> <td style="width: 16.5%; text-align: right;">\$ 1,500,000</td> </tr> <tr> <td>Borrower Funds</td> <td style="text-align: right;">18,750</td> <td>Financing Costs</td> <td style="text-align: right;">18,750</td> </tr> <tr> <td>Total Estimated Sources</td> <td style="text-align: right; border-top: 1px solid black;">\$ 1,518,750</td> <td>Total Estimated Uses</td> <td style="text-align: right; border-top: 1px solid black;">\$ 1,518,750</td> </tr> </tbody> </table>		<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>		HELP II Loan	\$ 1,500,000	Working Capital Loan	\$ 1,500,000	Borrower Funds	18,750	Financing Costs	18,750	Total Estimated Sources	\$ 1,518,750	Total Estimated Uses	\$ 1,518,750
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<p>Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, and Community Service Requirement documentation. All documentation satisfies the Authority’s requirements.</p>																	
<p>Staff Recommendation: Staff recommends approval of Resolution Number HI-303 for the Plumas District Hospital in an amount not to exceed \$1,500,000 for a term not to exceed 15 months, 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 recommendation.</p>																	

I. POLICY EXCEPTION REQUEST:

The foundation of the HELP II Loan Program has been based on helping small and rural health facilities obtain financial assistance due to the difficulty in the conventional lending process. This ‘last-resort’ loan has been able to help numerous small and rural health facilities regain financial stability and/or expand services. Historically, the HELP II Loan Program has primarily issued capital loans. CHFFA’s statute authorizes CHFFA to also issue working capital loans with a term of up to 15 months. This proposed loan for PDH would be the second working capital loan through the HELP II Loan Program. In 2010, Modoc Medical Center (“MMC”) obtained working capital through the HELP II Loan Program in the amount of \$750,000 at a 3% interest rate. MMC repaid the loan in 17 months. Due to the working capital provided by the HELP II Loan Program, MMC was able to alleviate financial crisis and remains operational today.

II. PURPOSE OF FINANCING:

Plumas District Hospital (“PDH”) is requesting working capital in amount not to exceed \$1.5 million to pay for ongoing operating expenses such as accounts payable and payroll for a period not to exceed 15 months. Using working capital for operational expenses will allow PDH to use its permanent, ongoing internal funds to qualify for Intergovernmental Transfer (IGT) programs. IGT programs match federal dollars with hospital dollars which have been submitted to and held by the Department of Health Care Services. Once the IGT is approved, the hospital dollars together with the federal matching dollars are returned to the hospitals, typically within 3-5 months. Due to tight cash flow and contributing matching fund requirements, PDH is not able to participate in IGT programs. The new monies received from IGT will allow PDH to increase revenue stream, gain financial health, and provide the ability to expand and update the facility with new equipment.

Working Capital Loan	<i>\$1,500,000</i>
PDH seeks \$1,500,000 in working capital to finance ongoing operating expenses.	
Financing Costs	<u>18,750</u>
Authority Fees	\$18,750
Total Uses of Funds	<u>\$1,518,750</u>

III. FINANCIAL STATEMENTS AND ANALYSIS:

Plumas District Hospital Statement of Activities

	As of June 30,		
	2015	2014	2013
Revenue and Other Support			
Net patient service revenues*	\$ 18,267,781	\$18,539,850	\$ 15,483,534
Other operating revenue	574,900	2,410,960	254,427
Total unrestricted revenue and other support	18,842,681	20,950,810	15,737,961
Expenditures			
Salaries, wages, and benefits	11,468,267	11,427,959	11,178,417
Professional fees	3,242,276	3,503,085	3,144,745
Supplies	1,449,852	1,397,832	1,546,991
Purchased services	1,564,963	1,444,099	1,284,895
Depreciation and amortization	1,086,497	1,064,933	774,948
Repairs and maintenance	378,867	386,842	260,667
Rents and leases	48,632	65,029	86,214
Utilities	351,611	360,400	399,241
Insurance	239,410	164,228	230,743
Other	481,897	570,666	394,604
Total operating expenses	20,312,272	20,385,073	19,301,465
Operating income (loss)	(1,469,591)	565,737	(3,563,504)
Nonoperating Revenues (Expenses)			
District tax revenue	322,718	322,389	321,540
District tax revenue - general obligation bonds	191,414	187,911	198,632
Interest income	922	20,685	44,558
Interest expense	(72,208)	(126,961)	(273,288)
Interest expense-general obligation bonds	(13,309)	(17,900)	(26,449)
Grant income	9,121	12,240	353,855
Other nonoperating revenues (expenses)	82,497	30,830	(7,476)
Total nonoperating revenues (expenses)	521,155	429,194	611,372
Capital contribution	47,963	2,021	-
Change in net assets	(900,473)	996,952	(2,952,132)
Net assets at beginning of year	8,751,094	7,754,142	10,706,274
Net assets at end of year	\$ 7,850,621	\$ 8,751,094	\$ 7,754,142

***Net Patient Service Revenues for FYE June 30, 2015**

<u>Payor Source</u>	<u>Percent</u>
Medicare	36.7
Medi-Cal	20.8
Insurance and other third party payors	36.2
Private pay patients	6.3
ACA ^(a)	N/A
<hr/> Total	<hr/> 100 <hr/>

^(a) Plumas District Hospital currently does not track ACA patient data.

**Plumas District Hospital
Statement of Financial Position**

	As of June 30,		
	2015	2014	2013
Assets			
Current assets			
Cash and cash equivalents	\$ 745,825	\$ 2,601,973	\$ 1,948,908
Patient accounts receivable	4,895,410	4,091,809	3,512,584
Other receivables	53,335	148,323	66,687
Estimated third-party payor settlements	222,904	233,823	304,423
Inventories	382,115	321,471	413,361
Prepaid expenses	335,486	233,554	345,366
Total current assets	<u>6,635,075</u>	<u>7,630,953</u>	<u>6,591,329</u>
Investments	203,621	411,287	1,013,166
Assets limited as to use	475,273	404,451	302,103
Capital assets - net	5,155,229	5,680,148	6,662,661
Total assets	<u>\$ 12,469,198</u>	<u>\$ 14,126,839</u>	<u>\$ 14,569,259</u>
Liabilities and Net Assets			
Current liabilities			
Current maturities of long-term debt	\$ 747,654	\$ 662,615	\$ 1,119,975
Accounts payable	1,825,326	1,372,039	1,597,735
Accrued payroll liabilities	1,090,624	1,232,775	1,107,938
Accrued interest	6,730	36,927	82,969
Estimated third-party payor settlements	82,892	397,880	570,375
Total current liabilities	<u>3,753,226</u>	<u>3,702,236</u>	<u>4,478,992</u>
Long-term liabilities net of current maturities	865,351	1,673,509	2,336,125
Total liabilities	<u>4,618,577</u>	<u>5,375,745</u>	<u>6,815,117</u>
Net Assets			
Net investment in capital assets	3,767,497	3,559,683	3,425,695
Restricted	81,389	40,000	-
Unrestricted	4,001,735	5,151,411	4,328,447
Total net assets	<u>7,850,621</u>	<u>8,751,094</u>	<u>7,754,142</u>
Total liabilities and net assets	<u>\$ 12,469,198</u>	<u>\$ 14,126,839</u>	<u>\$ 14,569,259</u>

	Proforma ^(a)			
	FYE June 30, 2015	2015	2014	2013
Debt Service Coverage - Net (x) ^(b)	(0.14)	(0.51)	1.61	(6.02)
Debt to Unrestricted Net Assets (x) ^(b)	0.69	0.26	0.35	0.64
Margin (%)		(7.80)	2.70	(22.64)
Current Ratio (x)		1.77	2.06	1.47

^(a) Recalculates FY 2015 audited results to include the impact of this proposed financing.

^(b) Calculations do not include GO Bonds.

Financial Discussion – Statement of Activities (Income Statement)

PDH's income statement appears to exhibit stable growth in net patient revenues from FY 2013 through FY 2015.

PDH's net patient revenues increased approximately 20% from approximately \$15.5 million in FY 2013 to approximately \$18.5 million in FY 2014. Overall, PDH has seen an increase in the patient's financial responsibility portion of co-pays, co-insurance and deductibles with the implementation of the Affordable Care Act ("ACA"). However, net patient revenues decreased minimally in FY 2015 to approximately \$18.2 million due to an increase in uncollectible accounts, even though gross revenues had increased that same year. PDH struggled with uncollectible accounts; therefore, PDH contracted with an outside agency to resolve outstanding accounts and the collection of bad debt as well as management of all patient responsibility balances. According to PDH's management, a third party contractor has been able to decrease revenue deductions and uncollectible accounts in FY 2014 but had less success in FY 2015.

Operating gains and losses fluctuated from approximately negative \$3.6 million in FY 2013 to \$566,000 in FY 2014, to approximately negative \$1.5 million in FY 2015. Although PDH has kept its growth in expenses to a minimum while net patient service revenues have been increasing, other operating revenues have caused fluctuating operating income. According to PDH's management, other operating income increased in FY 2014 by approximately \$2.4 million, primarily due to the receipt of more than \$2 million in Electronic Health Records ("EHR") one-time incentive payments, an ACA provision.

Particular Facts to Note:

- In an effort to increase patient revenues, PDH conducted patient satisfaction surveys in FY 2015, which reported improved patient experience satisfaction ratings as a result of the enhanced aesthetics of the facilities. To continue this effort, PDH renovated three patient rooms, refurbished one suite with digital mammography and new endoscopic equipment, and increased the utilization and revenues of these services.
- In FY 2013, grant income reflects a one-time \$300,000 E-Health Equipment Grant from UC Davis to provide telehealth services to the population served by PDH.
- In FY 2012, PDH implemented the EHR system, which negatively impacted operations and productively from FY 2012 to FY 2015. According to PDH's management, the EHR had dysfunctional software support, poor vendor support, and each upgrade led to more problems during the implementation process. PDH's management took steps to hire a new EHR vendor. As a result, PDH saw improvement in technical support responsiveness. PDH continues to improve efficiencies and patient centered practices.

Financial Discussion – Statement of Financial Position (Balance Sheet)

PDH appears to exhibit a weak balance sheet and appears to have a pro-forma debt service coverage ratio of negative .14x

PDH's patient accounts receivable increased approximately 40% from approximately \$3.5 million in FY 2013, to approximately \$4.9 million as in FY 2015. This increase is attributed to the growth in patients served from 7,961 in FY 2013 to 8,268 in FY 2015. Total net assets decreased roughly 14% from \$14.6 million in FY 2013 to \$12.5 million in FY 2015. According to PDH's management, the decrease in net assets is primarily due to operating losses in FY 2013 and FY 2015, and the use of cash reserves towards operations.

PDH's total liabilities have decreased approximately 32% from FY 2013 to FY 2015 from approximately \$6.8 million to approximately \$4.6 million, respectively. According to PDH's management, PDH is on track to redeem in full, 2008 GO Bonds on August 1, 2016. In July 2016, PDH issued GO Bonds in the amount of \$1.2 million to be repaid using ad valorem taxes¹.

Particular Facts to Note:

- Cash and cash equivalents increased from approximately \$2 million in FY 2013 to \$2.6 million in FY 2014, then decreased to approximately \$750,000 in FY 2015, fluctuating on an annual basis. According to PDH's management, FY 2014 saw the receipt of \$2 million in EHR Incentive payments from CMS, which helped cover the decrease in patient receivable collections that same year. FY 2014 and FY 2015 both saw a decline in patient receivable collections resulting in a decrease in cash, as well as an increase in uncollectable accounts.
- Investments decreased approximately 80% from approximately \$1.1 million as of FY 2013 to approximately \$204,000, as of FY 2015. Due to a decline in operations and in the collection of patient receivables in FY 2014 and FY 2015, investment funds were used to supplement operating revenues. PDH has since engaged a second agency to focus on patient collection follow up for governmental agencies (Medicare and Medi-Cal).
- Restricted income in FY 2014 and FY 2015 increased from approximately \$40,000 to approximately \$81,000, respectively. According to PDH's management, the restricted income is a result of fundraising efforts primarily for the Adopt-A-Room program.

¹ Ad valorem taxes are a percentage of the assessed property tax value collected by the Plumas County on PDH's behalf, strictly for debt service. This tax was passed in 2008 under Measure A- Plumas District Hospital bond proposition. Total taxes collected by Plumas County on PDH's behalf is limited to \$50 per every \$100,000.

EXHIBIT 1

UTILIZATION STATISTICS

Clients Served / (Patient Visits)

**Plumas District Hospital
Fiscal Year Ended June 30,**

	2015	2014	2013
Totals	8,268 / (47,141)	8,014 / (45,803)	7,961 / (43,037)

EXHIBIT 2
OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding ^(a) As of June 30, 2015</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
-EXISTING LONG-TERM DEBT:			
General Obligation Bonds Election 2008 Series A ^(b)	\$ 3,200,000	\$ 525,000	\$ 525,000
Home Land Purchase (2006)	375,000	300,509	300,509
United Health Group (2012)	1,500,000	750,000	750,000
General Obligation Bonds Election 2008 Series B 2016 ^(c)	\$1,200,000	1,200,000	1,200,000
- PROPOSED NEW DEBT:			
<i>CHFFA HELP II Loan (2016)</i>		-	1,500,000
- TOTAL DEBT		\$ 2,775,509	\$ 4,275,509

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

^(b) General Obligation Bonds Series A will be paid off in FY 2016 by ad valorem taxes.

^(c) General Obligation Bonds Series B will be paid off by ad valorem taxes.

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

PDH opened its doors in 1959 in the centrally located area of the County's largest community of Quincy. PDH is a Rural Health Clinic and one of thirteen frontier hospitals in California, which provides primary medical care, dental care, and behavioral health services to the residents of Quincy, the County and the surrounding areas.

The Office of Statewide Health Planning and Development ("OSHPD") defines PDH as a frontier hospital, due to the population density of less than eleven persons per square mile. According to OSHPD, only 3% of all hospitals in State of California ("the State") are considered frontier, and there are only thirteen frontier hospitals throughout the State. Frontier areas are the most remote and sparsely populated places in the country, which makes access to health and human services challenging. Plumas County stretches over 2613 square miles and Quincy comprises of 4.2 square miles. For residences of frontier areas, like Plumas County, attaining services require long trips and oftentimes public transportation options are limited or unavailable, making access to get healthcare services difficult for low-income households, the elderly, and people with disabilities. Eastern Plumas Hospital is the next closest acute care hospital to Quincy, which is 34 miles east of PDH and 40 minutes away. Seneca Healthcare District is the second closest acute care hospital, which is 45 miles west of PDH and an hour away.

PDH is a general acute care 25-bed hospital, which has expanded its capacity and upgrades to include several hospital departments, two outpatient rural health clinics, and a dental clinic. Due to the rural environment, PDH offers telehealth services, which connect patients from a distance to the medical services locally and reduce travel time. PDH serves approximately 8,500 patients annually in a population over 20,000 people. PDH provides health care services to patients with private insurance, Medi-Cal, Medicare, and individuals who are not covered by health insurance.

PDH works alongside Quincy and Plumas County community to promote healing, health and wellness. PDH collaborates with community leaders, agencies, friends and neighbors of the County in responding to the ever changing health care needs.

Licensure, Certification and Accreditation

PDH is licensed by the State of California Department of Public Health to operate and maintain general acute care hospital. The license also approves other services and certifiable parts. PDH's other approved services include the following: mobile unit – MRI, outpatient clinics – dental care clinic, outpatient clinics – primary care clinic at Rural Health Clinic ("RHC") at Indian Valley, outpatient clinics-primary care clinic – RHC at North Fork Family Medicine, outpatient clinics-primary care clinic – RHC at Quincy Family Medicine, respiratory care services, and standby emergency medical services. PDH's other certifiable parts which includes two rural health clinics: Indian Valley Medical Clinic in Greenville, CA and Plumas Rural Health Clinic in Quincy, CA.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-303

**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, **Plumas District Hospital** (the “Borrower”), a local health care district 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 **\$1,500,000** for a term not to exceed **15 months** for the purpose of construction as 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. 15 months at two percent (2%) fixed rate.
2. 15 equal monthly interest-only payments of approximately \$2,500 with a balloon payment of \$1,500,000 at the end of the term (total principal and interest not to exceed \$1,537,500).
3. Interception of property tax revenues in event of default (annual payments of \$250,000 and in coordination with Plumas County).
4. Loan proceeds will be placed in a separate bank account and all disbursement of funds will be approved by CHFFA staff.
5. CHFFA will take security interest on the bank account that will hold loan funds.

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 working capital, and to approve any changes in the described use in the application submitted to the Authority, as said officer shall deem appropriate and authorized under the Act (provided that the amount requested 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 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 fifteen months from the date of approval.

Date of Approval: _____