

**CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY**

| | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Applicant: Mountain Communities Healthcare District dba Trinity Hospital 31 Easter Avenue Weaverville, CA 96093 Trinity County</p> <p>Project Site: Trinity Community Health Clinic, Weaverville, CA 96093</p> <p>Facility Type: Acute Care Hospital, Rural Health Clinic</p> <p>Eligibility: Government Code section 15432(d) (1), (13)</p> <p>Prior HELP II Borrower: Yes (1998, \$454,000, paid in full)</p> | <p>Amount Requested: \$1,500,000</p> <p>Requested Loan Term: 20-year fixed</p> <p>Authority Meeting Date: April 27, 2017</p> <p>Resolution Number: HII- 307</p> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Background: Mountain Communities Healthcare District dba Trinity Hospital is an acute care hospital located in Weaverville, CA in Trinity County and serves a population identified as a frontier community. In addition to the hospital's acute care and skilled nursing facility, Trinity Hospital owns and operates the adjacent Trinity Community Health Clinic. Trinity Community Health Clinic is the only facility in Trinity County that accepts Medi-Cal and generally serves very rural and underserved populations. Currently, the Trinity Community Health Clinic has eight exam rooms and three primary care providers as well as telemedicine providers. In FY 2016, the Trinity Community Health Clinic served 4,636 patients.

Use of Loan Proceeds: Loan proceeds will be used to finance the construction, renovation and remodeling of real property. Specifically, this financing will be used to construct an additional 18 exam rooms. This expansion will enable Trinity Community Health Clinic to increase capacity for primary care services as well as bring in specialists (e.g. cardiologists, neurologists, prenatal specialists and more).

- Financing Structure:**
- First lien on real property located at 31 Easter Ave., Weaverville, CA 96093
 - 20-year, two percent (2%) fixed rate loan
 - 240 equal monthly payments of approximately \$7,588 (annual payments of approximately \$91,000)
 - A current appraisal that is acceptable to the Authority staff
 - Corporate gross revenue pledge
 - Loan to value ratio not to exceed 95% (estimated loan to value ratio is approximately 59%)
 - Executed construction contract
 - Verification of borrower funds to close escrow

Financial Overview: Trinity Hospital's income statement appears to exhibit some improving operating revenue over the review period, and its balance sheet is positive with a pro-forma debt service coverage ratio of 7.74x.

| <u>Estimated Sources of Funds:</u> | | <u>Estimated Uses of Funds:</u> | |
|------------------------------------|---------------------|---------------------------------|---------------------|
| HELP II Loan | \$ 1,500,000 | Construct, renovate, remodel | \$ 2,000,000 |
| Borrower Funds | 520,750 | Financing Costs | 20,750 |
| Total Estimated Sources | \$ 2,020,750 | Total Estimated Uses | \$ 2,020,750 |

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: Trinity Title Company

Staff Recommendation: Staff recommends approval of Resolution Number HII-307 for Mountain Communities Healthcare District dba Trinity Hospital in an amount not to exceed \$1,500,000 for a term not to exceed 20 years, and contingent upon financing terms acceptable to the Authority. Macias Gini & O'Connell LLP, the Authority's financial analyst, concur with the Authority's staff recommendation.

I. PURPOSE OF FINANCING:

Trinity Hospital is requesting a HELP II loan to finance the expansion and renovation of its Trinity Community Health Clinic in order to accommodate the growing patient volumes in its region. Trinity Community Health Clinic serves a frontier region, very rural and underserved area in Trinity County. In the past year, Trinity Community Health Clinic had 950 new patients and its current facility has only eight exam rooms and three providers (as well as telemedicine) available to its clients.

Construction and Renovation \$2,000,000

Trinity Hospital plans to use loan proceeds to renovate its Trinity Community Health Clinic, by adding an Americans With Disabilities Act compliant (“ADA”) restroom and drinking fountain, as well as several other minor changes to the clinic. Additionally, Trinity Hospital plans to construct an additional 7,860 square foot building in order to expand the scope and scale of its service provision as its patient volumes grow. This new building will provide space for 18 additional exam rooms, which will enable Trinity Community Health Clinic to increase capacity for service providers and specialists. The proposed enhancements and construction would allow an expansion of primary care services and specialist services to its growing patient population. The construction contract will include prevailing wage provisions and Trinity Hospital anticipates providing \$500,000 of supplementary cash in order to complete the project. Trinity Hospital is currently in the process of evaluating construction bids and plans to award final bids in June, 2017. The scheduled completion date for the project is currently March 31, 2018.

The HELP II loan will be secured by a first (1st) lien position on the property located at 31 Easter Avenue, Weaverville, CA 96093. The value of the facility is currently estimated at \$2,520,000, leading to a loan-to-value ratio of approximately 59%. A current appraisal acceptable to the Authority will be completed prior to closing and must meet the loan to value of at least 95%.

| | | |
|-----------------------------------|----------|---------------------------|
| Financing Costs..... | | <u>20,750</u> |
| Authority Fees | \$18,750 | |
| Estimated Escrow/Title Fees | 2,000 | |
| Total Uses of Funds | | <u>\$2,020,750</u> |

II. FINANCIAL STATEMENTS AND ANALYSIS:

**Trinity Hospital
Statement of Activities
(Unrestricted)**

| | As of December 31, | | |
|-----------------------------------------------|----------------------------|----------------------------|----------------------------|
| | 2016 | 2015 | 2014 |
| Operating Revenues | | | |
| Net patient service revenue | \$ 15,392,279 | \$ 17,317,429 | \$ 11,684,463 |
| Prime grant revenue | 1,500,000 | - | - |
| Capitation revenue | 524,853 | 502,550 | 467,744 |
| Other operating revenue | 118,539 | 144,501 | 1,018,777 |
| Total operating revenues | <u>17,535,671</u> | <u>17,964,480</u> | <u>13,170,984</u> |
| Operating expenses | | | |
| Salaries & wages | 6,923,246 | 6,490,225 | 6,278,007 |
| Employee benefits | 1,759,700 | 1,679,500 | 1,481,037 |
| Professional fees | 3,244,579 | 2,529,794 | 2,128,896 |
| Purchased services | 590,199 | 635,513 | 887,836 |
| Supplies | 1,341,926 | 1,455,833 | 1,330,921 |
| Repairs & maintenance | 174,352 | 207,453 | 142,891 |
| Utilities | 245,645 | 242,307 | 322,416 |
| Rentals and leases | 81,047 | 102,521 | 75,274 |
| Depreciation & amortization | 541,517 | 1,116,112 | 1,170,846 |
| Insurance | 128,704 | 128,359 | 139,548 |
| Other operating expenses | 235,173 | 366,048 | 169,863 |
| Total operating expenses | <u>15,266,088</u> | <u>14,953,665</u> | <u>14,127,535</u> |
| Operating gain (loss) | 2,269,583 | 3,010,815 | (956,551) |
| Nonoperating revenues (expenses) | | | |
| District tax revenues | 877,131 | 850,905 | 862,367 |
| Grants and donations | 84,428 | 34,904 | 158,395 |
| Other non-operating revenue | 286,031 | 127,503 | - |
| Interest expense | (47,522) | (76,436) | (92,075) |
| Total nonoperating revenues (expenses) | 1,200,068 | 936,876 | 928,687 |
| Excess of revenues (expenses) | 3,469,651 | 3,947,691 | (27,864) |
| Inter-governmental transfers | (1,949,029) | (2,626,830) | - |
| Increase (decrease) in net position | 1,520,622 | 1,320,861 | (27,864) |
| Net assets at beginning of year | 4,758,172 | 3,437,311 | 3,465,175 |
| Net assets at end of year | <u><u>\$ 6,278,794</u></u> | <u><u>\$ 4,758,172</u></u> | <u><u>\$ 3,437,311</u></u> |

Net Patient Service Revenue for FYE December 31,

| <u>Payor Source</u> | <u>2016</u> | <u>2015</u> |
|--------------------------------------|----------------------|----------------------|
| Medicare | 25.45 | 21.21 |
| Medi-Cal | 2.42 | 2.75 |
| Partnership Health, Managed Medi-Cal | 50.83 | 55.89 |
| Third Party Payors | 18.96 | 17.65 |
| County Medical Service Program | 0.00 | 0.01 |
| Self Pay | 2.34 | 2.49 |
| Total | <u>100.00</u> | <u>100.00</u> |

Trinity Hospital
Statement of Financial Position
(Unrestricted)

| | As of December 31, | | |
|---------------------------------------------------|---------------------------|---------------------|---------------------|
| | 2016 | 2015 | 2014 |
| Assets | | | |
| <i>Current Assets</i> | | | |
| Cash and cash equivalents | \$ 585,037 | \$ 1,905,399 | \$ 426,795 |
| Patient accounts Receivable, net of allowances | 1,276,438 | 1,192,243 | 1,387,429 |
| Other receivables and physician advances | 3,026,111 | 645,419 | 829,287 |
| Due from third-party payors | 386,108 | - | 219,209 |
| Supplies | 157,323 | 149,106 | 151,434 |
| Prepaid expenses and deposits | 200,595 | 252,264 | 186,522 |
| Total Current Assets | 5,631,612 | 4,144,431 | 3,200,676 |
| Assets whose use is limited, less current portion | 18,797 | 24,818 | 35,072 |
| Capital assets, net of accumulated depreciation | 3,973,755 | 4,334,564 | 5,030,616 |
| Total Assets | \$ 9,624,164 | \$ 8,503,813 | \$ 8,266,364 |
| Liabilities and Net Assets | | | |
| <i>Current Liabilities</i> | | | |
| Line of credit | \$ - | \$ - | \$ 301,150 |
| Current portion of long-term debt | 247,752 | 224,606 | 689,430 |
| Accounts payable and accrued expenses | 879,550 | 687,371 | 1,704,836 |
| Accrued payroll and related liabilities | 685,742 | 655,861 | 580,094 |
| Third-party payor settlements | - | 445,323 | - |
| Total Current Liabilities | 1,813,044 | 2,013,161 | 3,275,510 |
| Long-term debt, less current portion | 747,890 | 929,643 | 724,135 |
| Total Liabilities | 2,560,934 | 2,942,804 | 3,999,645 |
| Deferred inflows of resources | 784,436 | 802,837 | 829,408 |
| Net position | | | |
| Invested in capital assets, net of related debt | 2,978,113 | 3,180,315 | 3,617,051 |
| Unrestricted | 3,300,681 | 1,577,857 | (179,740) |
| Total net position | 6,278,794 | 4,758,172 | 3,437,311 |
| Total liabilities and net position | \$ 9,624,164 | \$ 8,503,813 | \$ 8,266,364 |

| | Proforma | | | |
|-------------------------------------|------------------------------|-------------|-------------|-------------|
| | FYE December 31, 2016 | 2016 | 2015 | 2014 |
| Debt Service Coverage - Net | 7.74 | 10.33 | 5.39 | 0.24 |
| Debt to Unrestricted Net Assets (x) | 0.40 | 0.16 | 0.24 | 0.41 |
| Margin (%) | | 12.94 | 16.76 | (7.26) |
| Current Ratio (x) | | 3.11 | 2.06 | 0.98 |

Financial Discussion – Statement of Activities (Income Statement)

Trinity Hospital’s income statement appears to exhibit improving operating revenue over the review period from FY 2014 to FY 2016.

Overall, net assets appears to have grown from roughly \$3.4 million in FY 2014 to about \$6.2 million in FY 2015. Total revenues also appears to have experienced increases, moving from approximately \$13 million in FY 2014 to approximately \$17 million in FY 2016. As revenues increased, expenses increased at a lower rate moving from about \$14.1 million in FY 2014 to approximately \$15.2 million in FY 2016. According to Trinity Hospital’s management, overall income statement increases can be mostly attributed to patient volume.

At the beginning of 2015, Trinity Hospital’s board hired a new Chief Executive Officer (“CEO”). According to Trinity Hospital’s management, the new CEO shifted the focus of Trinity Hospital to increasing the number of patients served rather than cutting costs. Some of the changes implemented by the new management included: collaboration with acute care facilities outside of Trinity Hospital’s area of service in order to bring patients back into their own community for rehabilitation, establishing a physical therapy department, and recruiting more providers to increase facility capacity.

Particular Facts to Note:

- Inter-governmental Transfer program participation is listed in the Income Statement as an expense of roughly \$2 million in FY 2016. According to Trinity Hospital’s management, monies received through the program are included in net patient service revenues and subsequent payments to the program are listed as an expense. Expenses related with Inter-governmental transfers are due to participating partner hospitals and clinics receiving funds from Trinity Hospital as its operating results improved. Funds received from Inter-governmental transfers were included by the auditor under the net patient service revenue line.
- Net patient service revenues appear to have increased from roughly \$11 million in FY 2014 to approximately \$15 million in FY 2016, an increase of roughly 31.7%. According to Trinity Hospital’s management, this increase can be attributed to a new focus on access and expansion of services to the community.

Financial Discussion – Statement of Financial Position (Balance Sheet)

Trinity Hospital's balance sheet appears positive with a pro-forma debt service coverage ratio of 7.74x.

Trinity Hospital displayed year-over-year increases in total assets, growing from approximately \$8.2 million in FY 2014 to roughly \$9.6 million in FY 2016. Additionally, total liabilities decreased each year as well, from about \$829,408 in FY 2014 to approximately \$784,436 in FY 2016. Trinity Hospital appears to be able to service its debt obligations with an improving debt service coverage ratio that increased from roughly 0.24x in FY 2014 to about 10.33x in FY 2016. With the proposed funding from the HELP II loan, Trinity Hospital's pro-forma debt service coverage appears to be 7.74x.

According to Trinity Hospital's management, net position has increased over the past three fiscal years due to a leadership change and a shift in organizational priorities from cost-cutting to maximizing patient volumes. Additionally, cash asset drivers include patient revenues and Inter-governmental Transfer program participation.

Particular Facts to Note:

- In FY 2016 and FY 2014, third-party payor dues are listed as an asset, while in FY 2015 this item is listed as a liability. According to Trinity Hospital's management, payor dues are listed as an asset due to reconciliation related to Medi-Cal utilization. Most years this item will be considered a receivable (asset), and FY 2015 can be considered an outlier.
- In FY 2014, Trinity Hospital paid off its line of credit; therefore, it is listed as zero in FY 2015 and FY 2016.
- Accounts payable and accrued expenses decreased from roughly \$1.7 million in FY 2014 to about \$879,550 in FY 2016. According to Trinity Hospital's management, this decrease is due to accrued expenses decreasing as Trinity Hospital's cash position increased—meaning that Trinity Hospital was able to pay its vendors before accruing expenses.

EXHIBIT 1

UTILIZATION STATISTICS

**Clients Served / (Patients Visits)
For Fiscal Year Ended December 31,**

| | 2016 | 2015 | 2014 |
|--------|----------------|----------------|---------------|
| Totals | 4,636/(12,053) | 3,953/(10,277) | 4,168/(9,644) |

EXHIBIT 2
OUTSTANDING DEBT

| <u>Date Issued</u> | <u>Original Amount</u> | <u>Amount Outstanding ^(a) As of December 31, 2015</u> | <u>Estimated Amount Outstanding after Proposed Financing</u> |
|-----------------------------------------|----------------------------|--------------------------------------------------------------------------|----------------------------------------------------------------------|
| <i>-EXISTING LONG-TERM DEBT:</i> | | | |
| Optum Bank Loan | \$ 1,209,500 | \$ 912,116 | \$ 912,116 |
| G.E. Equipment Loan | 72,811 | 65,020 | 65,020 |
| <i>PROPOSED NEW DEBT</i> | | | |
| <i>CHFFA HELP II Loan (2017)</i> | | - | 1,500,000 |
| <i>TOTAL DEBT</i> | | <u>\$ 977,136</u> | <u>\$ 2,477,136</u> |

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

Trinity Hospital, a frontier hospital, owns and operates an acute-care hospital in Weaverville, California. Trinity Hospital also operates two full service rural health walk-in clinics - the Trinity Community Health Clinic and the Hayfork Community Health Clinic.

Trinity Hospital was formed in 2007. Previously, hospital operations had been under the authority of the Trinity County Board of Supervisors and had experienced significant problems in the management, finances, and public perception of hospital operations. After formation of the Mountain Communities Healthcare District, Trinity County voters approved the establishment of an annual parcel tax on property owners within the District's boundaries.

Trinity Hospital is located in Weaverville, CA has 25 acute care beds, 25 skilled nursing beds, a 24 hour emergency room and operating room that provides many services including general surgical procedures, endoscopies, colonoscopies, laboratory work, diagnostic imaging, CT scanning, ultrasound, physical therapy, telemedicine and home health.

Licensure, Certification and Accreditation

Trinity Hospital is licensed as a general acute care hospital by the California Department of Public Health.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-307

**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, **Mountain Communities Healthcare District dba Trinity Hospital** (the “Borrower”), a California 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 **20 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. 20-year, two percent (2%) fixed rate loan;
2. First lien position on real property located at 31 Easter Avenue, Weaverville, California 96093
3. A current appraisal that is acceptable to Authority staff;
4. Corporate gross revenue pledge;
5. Loan to value ratio not to exceed 95%;
6. Executed construction contract; and
7. Verification of Borrower’s funds to close escrow.

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 12 months from the date of approval.

Date of Approval: _____