

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
The HELP II Program
EXECUTIVE SUMMARY

<p>Applicant: Tehachapi Valley Healthcare District (TVHD) 115 West "E" Street Tehachapi, CA 93561 Kern County</p>	<p>Amount Requested: \$275,500 Requested Loan Term: 5 years Date Requested: February 28, 2002 Resolution Number: HII-116</p>																											
<p>Project Site: Same as above Facility Type: General Acute Care Hospital</p>																												
<p>Use of Loan Proceeds: Loan proceeds will be used to purchase a CT scanner.</p>																												
<p>Type of Issue: HELP II Loan. Prior HELP II Borrower: No</p>																												
<p>Financial Overview: TVHD has experienced financial difficulties over the past two fiscal years but is well positioned to achieve positive financial results with its recent designation as a Critical Access Hospital.</p>																												
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<p>Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																												
<p>Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II loan for Tehachapi Valley Healthcare District in an amount not to exceed \$275,500 for a term of five years, subject to standard HELP II loan provisions.</p>																												

STAFF SUMMARY AND RECOMMENDATION

Tehachapi Valley Healthcare District (TVHD)

February 28, 2002
Resolution Number: HII-116

I. PURPOSE OF FINANCING: Loan proceeds will be used by TVHD to purchase a new CT Scanner.

Equipment Purchase.....**\$290,000**

TVHD proposes to replace its existing outdated leased CT scanner with a Picker PQ5000 and CT Modular Building System. The current CT scanner is leased and the lessor charges on a “fee per scan” basis. TVHD has experienced maintenance problems with the machine since the original installation in 1999. After repeated breakdowns during the past six months in particular, management has determined that the leased scanner is no longer worth repairing.

The proposed \$275,500 HELP II loan will enable TVHD to purchase the new equipment. The remainder of funds required for the purchase will be obtained with a donation from the Tehachapi Hospital Guild.

Financing Costs **5,000**

Authority Closing Fee.....\$3,444

Other Financing Costs.....1,556

Total.....**\$295,000**

Financing structure: The TVHD financing will be structured as follows:

- Five-year loan term.
- Sixty equal monthly payments of \$4,951 (total annual payments of \$59,412).
- Total interest payments of approximately \$21,523.
- First lien on Corporate Gross Revenue pledge.
- First lien on financed CT scanner.

II. FINANCIAL STATEMENTS AND ANALYSIS:

TEHACHAPI VALLEY HEALTHCARE DISTRICT

STATEMENTS OF ACTIVITIES

UNRESTRICTED

	Six Month			
	Period Ended			
	Dec. 31	For the Year Ended June 30		
	2001	2001	2000	1999
	(Unaudited)			
Revenue:				
Net patient service	\$ 3,954,700	\$ 6,228,958	\$ 5,521,460	\$ 6,262,539
District taxes	169,999	367,709	705,524	756,687
Donations & miscellaneous	22,551	61,443	15,515	121,538
Interest Income	662	1,356	3,834	18,789
Rental Income	-	-	300	5,355
Other	16,377	42,099	13,802	19,050
Total Revenues	<u>4,164,289</u>	<u>6,701,565</u>	<u>6,260,435</u>	<u>7,183,958</u>
Expenses:				
Salaries & Wages	1,414,237	2,723,391	2,868,219	2,746,880
Employee Benefits	434,643	919,059	808,035	940,004
Professional fees	657,560	1,349,020	1,194,429	1,155,733
Supplies	366,371	628,829	707,115	637,079
Purchased services	253,310	366,494	334,000	432,786
Building & Equipment rent	34,702	45,348	54,172	42,961
Utilities	137,931	107,693	100,405	83,178
Insurance	58,063	69,808	82,828	61,831
Interest	34,267	98,722	84,157	52,115
Depreciation & amortization	134,532	312,677	297,506	270,528
Provision for bad debts	427,173	371,613	375,094	396,336
Other	82,856	260,233	275,888	214,434
Total expenses	<u>4,035,645</u>	<u>7,252,887</u>	<u>7,181,848</u>	<u>7,033,865</u>
Change in unrestricted net assets	128,644	(551,322)	(921,413)	150,093
Prior period adjustments	-	-	-	(198,280)
Net Assets Beginning of Year	<u>250,282</u>	<u>801,604</u>	<u>1,723,017</u>	<u>1,771,204</u>
Net Assets, End Of Year	<u>\$ 378,926</u>	<u>\$ 250,282</u>	<u>\$ 801,604</u>	<u>\$ 1,723,017</u>

TEHACHAPI VALLEY HEALTHCARE DISTRICT

STATEMENT OF FINANCIAL POSITION

	<u>As of Dec. 31</u>	<u>As of June 30</u>		
	<u>2001</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
ASSETS	(Unaudited)			
Current Assets:				
Cash & cash equivalents	\$ 21,200	\$ 22,399	\$ 18,081	\$ 237,556
Patients accounts receivables, net	1,316,043	1,230,463	1,222,541	897,662
Other receivables	42,314	20,151	2,815	16,732
Estimated third party settlements	-	-	-	229,297
Inventories	218,830	218,830	134,987	172,500
Other	43,137	10,063	5,331	71,729
Total Current Assets	<u>1,641,524</u>	<u>1,501,906</u>	<u>1,383,755</u>	<u>1,625,476</u>
Assets limited to use	49,982	37,377	36,008	130,973
Furniture & equipment, net	811,660	968,223	1,189,362	1,240,999
Land held for future use	112,000	112,000	112,000	112,000
TOTAL ASSETS	<u><u>\$ 2,615,166</u></u>	<u><u>\$ 2,619,506</u></u>	<u><u>\$ 2,721,125</u></u>	<u><u>\$ 3,109,448</u></u>
LIABILITIES				
Current Liabilities:				
Bank overdraft	\$ -	\$ 78,718	\$ 22,126	\$ -
Bank line of credit	-	239,150	199,150	390,000
Bank loan	-	280,496	344,336	-
Accounts payables & accrued expenses	1,306,472	1,081,128	825,825	614,321
Accrued payroll	209,497	200,270	155,637	239,311
Estimated third party liabilities	55,951	46,627	91,057	-
Current portion of long term debt	121,717	225,252	119,899	36,874
Total Current Liabilities	<u>1,693,637</u>	<u>2,151,641</u>	<u>1,758,030</u>	<u>1,280,506</u>
Long Term Debt:	542,603	217,583	161,491	105,925
TOTAL LIABILITIES	2,236,240	2,369,224	1,919,521	1,386,431
NET ASSETS				
Unrestricted	<u>378,926</u>	<u>250,282</u>	<u>801,604</u>	<u>1,723,017</u>
TOTAL LIABILITIES & NET ASSETS	<u><u>\$ 2,615,166</u></u>	<u><u>\$ 2,619,506</u></u>	<u><u>\$ 2,721,125</u></u>	<u><u>\$ 3,109,448</u></u>

Financial Ratios:

	Proforma (a)			
	FYE 2002			
Debt Service Coverage (x)	1.68	(0.54)	(2.36)	1.51
L.T. Debt/Unrestricted Net Assets (x)	0.97	0.87	0.40	0.15
Margin (%)		(8.23%)	(14.72%)	2.09%
Current Ratio (x)		0.70	0.79	1.27

(a) Proforma calculations are based upon annualized projections of the six month period ending December 31, 2001.

Financial Discussion:

TVHD has experienced financial difficulties over the past two fiscal years due to a large contractual adjustment and a loss of property tax revenue.

TVHD has struggled financially the last two years, with net assets declining from \$1.7M in 1999 to just over \$250,000 in 2001. TVHD's income statement showed a loss in fiscal year 2000 primarily as a result of a \$600,000 contractual adjustment. TVHD implemented changes to correct this deficiency by converting all business office functions from an outsourced department to an in-house department.

The loss in fiscal year 2001 mostly results from a \$338,000 reduction in property tax revenue. A parcel tax of \$20 per year expired and TVHD lost two ballot measures to replace this tax in May and November of 2001. TVHD is planning on revisiting this tax initiative in the near future to further stabilize revenues. With other cost-effective changes implemented by management and conversion to a CAH, TVHD is well positioned to maintain positive results.

TVHD's finances are showing improvement and designation as a Critical Access Hospital will further strengthen its financial position.

Created by Congress in 1997, the special designation of Critical Access Hospital ("CAH") allows hospitals to receive full cost-based reimbursement from Medicare and Medicaid (in California, Medi-Cal) for inpatient and outpatient services, improving their bottom line dramatically. It also gives hospitals relief from stringent staffing requirements, allowing them to tailor their staffing to better fit community needs.

TVHD has benefited from receiving the special designation of CAH effective April 1, 2001. However, the new funding was delayed until July 21, 2001, providing TVHD an additional \$400,000 in net revenue. As a result of this designation, TVHD has exhibited positive operating results for the six-month interim period ending December 31, 2001, and management is budgeting for an increase in unrestricted net assets of \$240,000 for the current fiscal year.

TVHD has met the following requirements to qualify as a CAH:

- Non-profit or public hospital that is open and operating.
- Located 35 miles from another hospital (15 miles in mountainous terrain or areas with only secondary roads) or certified by the state as being a necessary provider.
- Bed size limit of 15 except in swing-bed facilities, which may have up to 25 beds inpatient beds that can be used interchangeably, provided not more than 15 acute care beds are used at any one time.
- Maximum length of stay of 96 hours unless there is inclement weather, another emergency, or approval for extended stays is granted by the state.
- Make available 24-hour emergency services and nursing services but need not meet all the staffing and service requirements that apply to a full service hospital.
- Participate in a rural health network, which is defined as an organization consisting of at least one CAH and at least one full-service hospital where participants have entered into

specific agreements regarding patient referral and transfer, communication and patient transportation.

- Inpatient care may be provided by a mid-level practitioner (physician assistant or nurse practitioner) under remote supervision of a physician.
- Reimbursed on a reasonable cost basis for inpatient and outpatient services provided to Medicare beneficiaries.

III. UTILIZATION STATISTICS:

Tehachapi Valley Healthcare District

	Six			
	Months Ended		Fiscal Year End June 30	
	December 31	2001	2000	1999
Acute				
Licensed beds	9	9	9	9
In Service beds	5	5	5	5
Occupancy percentage	10%	7%	8%	6%
Admissions	50	117	109	114
Average days stay	3.0	3.0	2.8	2.2
Skilled Nursing				
Licensed beds	19	19	16	16
In Service beds	19	19	16	16
Occupancy percentage	88%	105%	101%	103%
Outpatient data				
Emergency/Urgent care visits	4,765	8,431	7,612	8,152
Outpatient visits	21,337	44,854	40,630	39,127
Outpatient surgery visits	15	39	76	45
Lab tests	22,258	45,998	43,811	30,003
Radiology exams	3,816	8,206	7,976	7,814

IV. ORGANIZATION:

Background: TVHD is a 28 bed fully licensed acute care hospital. It is owned by the Tehachapi Valley Healthcare District, a governmental non-profit organization and it has been providing services to the population of greater Tehachapi and its surrounding areas for over 50 years. TVHD is a full service community hospital with over 50 physicians with medical staff privileges covering all major medical and surgical specialties. In addition to acute medical and surgical care services, it offers transitional care, clinical laboratory, cardio-pulmonary services, physical therapy, diagnostic radiology, ultrasound, ambulatory surgery and a 24 hour physician staffed emergency department. The emergency department of TVHD cares for over 9,000 patients each year. TVHD also provides ambulatory care services through its network of general medical rural health care clinics. The clinics are located in the cities of Tehachapi and Mojave. TVHD provides primary care and a number of specialist clinics, including orthopedics, podiatry and psychology.

Licenses: TVHD is licensed by the State Department of Health Services to operate as a general acute care hospital with 28 beds. TVHD participates in Medicare, Medi-Cal and managed care programs. The current license expires on August 31, 2002.

Competition: TVHD is the only acute care facility within approximately 45 miles in any direction. The nearest acute care hospitals are in the urban centers of Bakersfield to the northwest, and Lancaster to the southeast.

V. OUTSTANDING DEBT:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 12/31/01 (Unaudited)</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
<u>Existing:</u>			
Note payable to Ed and Larry Jones	\$93,525	\$26,953	\$26,953
Bank Loan: Bank of the Sierra	599,150	479,646	479,646
Brim Healthcare	60,086	36,004	36,004
<u>Proposed:</u>			
CHFFA HELP II Loan	275,500	<u>N/A</u>	<u>275,500</u>
Total Debt		<u>\$542,603</u>	<u>\$818,103</u>

VI. SECTION 15438.5 OF THE ACT:

The savings realized by this low interest loan will be utilized to enhance and assist in providing staffing to existing services offered.

VII. SECTION 15459.1 (b) OF THE ACT

TVHD has not submitted its physicians' list as required by Section 15459.1(b) of the Act, however it will be provided prior to the closing of the proposed HELP II loan.

VIII. COMPLIANCE WITH SEISMIC REGULATIONS:

SB 1953 (Chapter 740, 1994) requires that all acute care hospitals in California meet specific seismic safety standards by 2008 and 2030. All general acute care hospital owners must have performed seismic evaluations on each hospital building by January 1, 2001, and submit a plan for achieving compliance if the buildings do not meet SB 1953 seismic standards to the Office of Statewide Health Planning and Development (OSHPD) for review by January 1, 2002.

To date, TVHD has submitted a Seismic Evaluation and Compliance Plan to the State of California in accordance with the January 1, 2001 deadline and is year 2008 compliant. Management of the hospital is currently evaluating financing options and costs associated with 2030 seismic compliance upgrades.

IX. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

X. STAFF RECOMMENDATION

Staff recommends the Authority approve a resolution for a HELP II loan for Tehachapi Valley Healthcare District in an amount not to exceed \$275,500, for a term of five years, subject to standard HELP II loan provisions.