

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**

**The HELP II Program**

**EXECUTIVE SUMMARY**

<b>Applicant:</b> Ojai Valley Community Hospital Foundation (OVCHF) 1306 Maricopa Highway Ojai, CA 93023 Ventura County		<b>Amount Requested:</b> \$400,000 <b>Requested Loan Term:</b> 5 years <b>Date Requested:</b> October 30, 2003 <b>Resolution Number:</b> HII-156	
<b>Project Site:</b> 1306 Maricopa Highway, Ojai, California			
<b>Facility Type:</b> Acute Care Hospital and Skilled Nursing Facility			
<b>Policy Issue:</b> Under the HELP II Loan Program guidelines, three years of audited financials are required. Staff recommends approval of an exception to this guideline.			
<b>Use of Loan Proceeds:</b> Loan proceeds will be used to purchase a variety of medical and office equipment to replace outdated existing equipment.			
<b>Type of Issue:</b>		HELP II Loan	
<b>Prior HELP II Borrower:</b>		No	
<b>Financial Overview:</b> Even during a difficult operating environment experienced by most California Hospitals, OVCHF has managed to successfully operate at close to break-even net income during our review period (last three fiscal years). In addition, on a cash flow basis, OVCHF has improved its liquidity and has managed to generate large positive cash flows over our review period. OVCHF has also controlled its long-debt exposure during this period. While OVCHF has minimal equity, their cash flow appears to be sufficient.			
<b>Sources of Revenue:</b> (FYE 9-30-02)		<u>Amount</u>	<u>Percent</u>
Patient revenue, net		\$16,005,710	97.45%
Unrestricted donations		347,137	2.11%
Other revenue		<u>71,243</u>	<u>0.44%</u>
Total revenue		<u>\$16,424,090</u>	<u>100.00%</u>
<b><u>Estimated Sources of Funds:</u></b>		<b><u>Estimated Uses of Funds:</u></b>	
HELP II loan	\$400,000	Purchase Equipment	\$450,000
Borrower's contribution	<u>55,000</u>	Financing costs	<u>5,000</u>
Total Sources	<u>\$455,000</u>	Total Uses	<u>\$455,000</u>
<b>Legal Review:</b> No information was disclosed to question the financial viability or legal integrity of the Applicant.			
<b>Staff Recommendation:</b> Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$400,000 for a term not to exceed 5 years for Ojai Valley Community Hospital Foundation, subject to the standard HELP II loan provisions.			

**STAFF SUMMARY AND RECOMMENDATION**

**Ojai Valley Community Hospital Foundation  
(OVCHF)**

**October 30, 2003**

**Resolution Number: HII-156**

**Policy Issue:** Under the HELP II Loan Program guidelines, staff generally reviews three years of audited financial statements to determine an organization’s ability to repay the loan. Since OVCHF assumed ownership in 2000, three years of audited financials are not available. Staff recommends an exception to this policy based on the longevity of the organization and satisfactory operating results over our review period.

**I. PURPOSE OF FINANCING:** Loan proceeds would be used to purchase and update equipment that is needed to improve staff efficiency and patient safety.

*Information Systems Applications .....\$120,000*

OVCHF currently has two outdated, stand-alone computer systems. One is for the clinical Laboratory and one is for the pharmacy. Neither system is integrated with OVCHF’s main system, which means duplicate data entries are necessary. The new system will improve patient safety through automated tracking of patient medication allergies through a computer generated medication administration record.

*Phone System .....150,000*

OVCHF’s current phone system is outdated (purchased in 1987) and the vendor no longer supports the software for the main control unit. The control unit has reached its full capacity and no additional lines can be added. Since the vendor cannot guarantee continued operation of the system, OVCHF must replace the current system.

*Fracture Table .....75,000*

OVCHF currently has an outdated fracture table that is not functional and difficult to position patients for surgery. The new table will allow the surgeon to place the patient in the optimum position for the type of surgery that is being performed.

*Zeiss Contravas Microscope.....45,000*

OVCHF’s current microscope used for back surgeries is not adequate to perform the various types of surgeries now required. The Zeiss Contravas

microscope will provide greater capacity and efficiency and increase the number of surgeries performed. OVCHF estimates that this could increase net revenue by as much as \$100,000 to \$110,000 annually.

***Patient Monitoring System .....40,000***

OVCHF's current ICU monitoring system has become increasingly difficult to maintain. Due to the age of the system, parts and components are no longer available. The new system would provide a safer and more stable environment for patients.

***Gastroscope .....20,000***

OVCHF currently has outdated scopes. The new scopes will provide state-of-the-art scopes to patients.

***Financing Costs (HELP II loan application @ 1.25% of loan amount)..... 5,000***

***Total.....\$455,000***

**Financing structure:**

- 5-year fully amortized loan in the amount of \$400,000.
- 60 equal monthly payments of approximately \$7,187 (total annual payments of \$86,250).
- Total interest payments of approximately \$31,248.
- 1<sup>st</sup> lien position on new equipment, UCC-1.
- 1<sup>st</sup> lien position on corporate gross revenues.

## II. FINANCIAL STATEMENTS AND ANALYSIS:

### OJAI VALLEY COMMUNITY HOSPITAL FOUNDATION

#### Statement of Activities

	11 months ending		
	August 31	Fiscal Year Ended September 30,	
	2003	2002	2001
	(unaudited)		(Reviewed)
<b>Unrestricted revenues and support:</b>			
Patient revenue, net	\$ 15,424,343	\$ 16,005,710	\$ 15,739,918
Charity care	(327,111)	(108,049)	(131,142)
Prior year contractual adjustments	157,142	1,030	-
Other revenue	86,499	88,262	36,199
Grants	40,000	90,000	35,000
Unrestricted donations	320,637	347,137	190,641
Total revenue	<u>\$ 15,701,510</u>	<u>\$ 16,424,090</u>	<u>\$ 15,870,616</u>
<b>Expenses:</b>			
Salaries & benefits	8,747,174	8,664,388	8,136,578
Services and supplies	3,694,521	4,004,426	3,646,564
Insurance	630,723	523,671	463,482
Contract labor and physicians fees	655,152	646,114	909,174
Facility costs	872,607	970,995	857,912
Depreciation & amortization	544,765	604,670	698,966
Provision for bad debt	170,083	259,484	656,319
Interest expense	137,772	185,636	276,739
Other	297,495	326,170	273,020
Total expenses	<u>15,750,292</u>	<u>16,185,554</u>	<u>15,918,754</u>
<b>Revenue in excess of (less than) expenses</b>	<b>(48,782)</b>	<b>238,536</b>	<b>(48,138)</b>
Unrestricted net assets at beginning of year	3,374,955	3,135,419	16,095
Oct. 1, 2000 write-up of purchased assets			3,167,462 *
Assets released from restriction	-	1,000	-
Unrestricted net assets at end of year	<u>\$ 3,326,173</u>	<u>\$ 3,374,955</u>	<u>\$ 3,135,419</u>

\*An adjustment was made to restate property, plant and equipment from its book value to its estimated current market value at the date of the acquisition of those assets

OJAI VALLEY COMMUNITY HOSPITAL FOUNDATION  
Statement of Financial Position

	As of		As of September 30,	
	August 31 2003 (Unaudited)		2002	2001 (Reviewed)
<b>ASSETS:</b>				
Current assets				
Cash and cash equivalents	\$ 567,716		\$ 540,453	\$ 1,989
Accounts receivable, net	1,740,108		1,748,556	2,338,453
Inventory	345,271		341,098	381,303
Prepaid Expenses	166,161		140,394	101,534
Other current assets	100,944		2,635	2,178
Pledges receivable	3,000		2,852	19,060
Total current assets	<u>2,923,200</u>		<u>2,775,988</u>	<u>2,844,517</u>
<b>Assets limited as to use</b>				
Cash for capital acquisition	374,239		267,798	114,173
Property and equipment	4,085,720		4,275,147	4,070,731
Other assets	7,767		14,634	26,415
Total assets	<u><u>7,390,926</u></u>		<u><u>7,333,567</u></u>	<u><u>7,055,836</u></u>
<b>LIABILITIES AND NET ASSETS:</b>				
Current liabilities				
Cash overdraft	\$ -		\$ -	\$ 84,081
Accounts payable	577,957		464,820	567,528
Accrued salaries and related taxes	450,237		405,442	346,676
Accrued vacation	363,168		343,581	334,085
Accrued interest expense	15,000		15,000	21,875
Other accrued expenses	16,781		10,395	9,797
Current portion long-term debt	184,796		174,874	42,716
Other current liabilities	197,941		152,723	86,990
Deferred income			7,434	-
Total current liabilities	<u>1,805,880</u>		<u>1,574,269</u>	<u>1,493,748</u>
Long-term debt, net of current portion	<u>2,213,486</u>		<u>2,384,343</u>	<u>2,425,669</u>
Total liabilities	<u><u>4,019,366</u></u>		<u><u>3,958,612</u></u>	<u><u>3,919,417</u></u>
<b>NET ASSETS</b>				
<b>Unrestricted</b>				
Write-up of assets to appraised value	3,167,462		3,167,462	3,167,462
Other unrestricted	158,711		207,493	(32,043)
<b>Temporarily restricted</b>	<u>45,387</u>		<u>-</u>	<u>1,000</u>
Net assets	<u><u>3,371,560</u></u>		<u><u>3,374,955</u></u>	<u><u>3,136,419</u></u>
Total liabilities and net assets	<u><u>\$ 7,390,926</u></u>		<u><u>\$ 7,333,567</u></u>	<u><u>\$ 7,055,836</u></u>

	11 months ending			Reviewed 2001
	Proforma (a) 2003	August 31 2003	2002	
Debt Service Coverage Ratios (x)	1.55	1.96	2.86	2.90
Debt/Unrestricted Net Assets (x) (b)	18.87	16.35	12.38	(81.16)
Margin (%)		(0.31)	1.45	(0.30)
Current Ratio (x)		1.62	1.76	1.90

(a) Based on adding projected new debt to the 11 months ending Aug. 31, 2003 financial results.

(b) Calculated without the write-up of assets to appraised value.

## **Financial Discussion:**

**Even during a difficult operating environment experienced by most California Hospitals, OVCHF has managed to successfully operate at close to break-even net income during our review period (last three fiscal years).**

Like most non-profit hospitals, OVCHF operates on narrow margins. During our review period (last three fiscal years), OVCHF has experienced small operating deficits in 2 years, while experiencing a sizeable gain in fiscal year 2002 of \$238,000. Net patient revenues have remained stable during our review period. Approximately 60% of patient revenues come from contracts with HMO/PPO providers. OVCHF is also dependent upon charitable donations as an additional revenue source.

The hospital is experiencing an upward pressure on wages, particularly for RN's, LVN's, and for certain other professional groups. Also increased costs of insurance coverage, particularly worker's compensation insurance, have resulted in increased costs. Recently, the hospital has taken a number of steps to offset these cost increases as follows:

In May of 2003, the hospital assessed the employee benefits package and made several changes. These changes should reduce costs by \$141,000 annually.

The hospital contracts with a mobile MRI unit for its services. The hospital negotiated a new contract with a competing vendor, which will result in an estimated annual savings of \$70,000. The Lab services contract has been switched to another vendor, which shall save an additional \$30,000 annually.

On a positive note, OVCHF's has successfully operated on a positive cash flow basis over the last three fiscal years of \$676,000, \$844,000, and \$707,000, for FY 2001 through FY 2003 respectively. This relates mostly to the large non-cash item of depreciation.

**OVCHF has improved its liquidity and has managed to generate large positive cash flows over our review period. OVCHF has also controlled its long-term debt exposure during this period.**

OVCHF's liquidity has improved, with cash and cash equivalents increasing over \$500,000. This relates mostly to significant reductions in accounts receivable and the sizeable net income recognized during fiscal year 2002. OVCHF will be highly leveraged at 18.87x but the proforma debt service coverage is 1.55x, indicating that OVCHF should be able to manage the additional debt service associated with the proposed equipment purchase.

During October 2000, Ojai Valley Community Hospital Foundation purchased most of the hospital assets and liabilities of the previous owner Province Healthcare, Inc. for approximately \$2.5 million. The purchase price was allocated to the current assets and current liabilities at face value (approximately \$1.2 million net current assets) with the remaining purchase price allocated to

property, plant and equipment. Based on appraisal of the fixed assets as of the acquisition date, OVCHF wrote-up these assets by \$3.167 million above the cost basis of the Foundation.

### III. UTILIZATION STATISTICS:

	11 months	September 30,		
	FYTD			
<b>Accute Care</b>	August-03	2002	2001	2000
Licensed (staffed) beds	38 (27)	44 (27)	44 (27)	44 (27)
Occupancy rate-based on staffed beds	33%	37%	36%	33%
Admissions	1,107	1,209	1,202	1,181
Average length of stay	2.96	3.03	2.94	2.73
<b>Skilled Nursing Facility</b>				
Licensed beds	66	66	66	66
Occupancy rate	86%	96%	93%	90%
Admissions	212	278	283	260
Average length of stay	97.73	82.97	79.46	83.43
<b>Outpatient Visits:</b>				
ER	6,236	6,875	6,776	6,215
Lab-drop-offs	13,444	15,207	15,297	14,799
OP, Referred	10,362	11,391	10,947	9,711
OP, Surgical	881	955	953	943
Rural Health Clinic Recurring patients	6,122	6,008	5,623	3,946
Recurring patients	1,922	2,161	2,084	1,968
Total	38,967	42,597	41,680	37,582

#### IV. ORGANIZATION:

**Background:** The OVCHF was formed in 1974 to purchase the hospital from a for profit entity. OVCHF was unsuccessful and was relatively inactive until 2000 when it purchased the hospital. OVCHF operates a 37-bed acute care hospital and a 66 bed skilled nursing facility. OVCHF provides inpatient, outpatient and emergency care services. Admitting physicians are practitioners in the local area.

In addition, OVCHF operates a rural healthcare clinic under the dba Oakview Family Practice, which also operates in the Ojai Valley.

**Licenses:** OVCHF is licensed by the Department of Health Services to operate a General Acute Care Hospital and a Skilled Nursing Facility.

**Contracts:** OVCHF has contracts with approximately 30 PPO's and HMO's. OVCHF also contracts with MediCal and Medicare.

**Service Area and Competition:** OVCHF and the Community Memorial Hospital (CMH) provide approximately three quarters of the hospitalization in the community. OVCHF has approximately 45% of the total number of hospital admissions with an emphasis on the less complex patients. CMH has approximately 28% of the hospitalizations and admits about two thirds of the most complex patients. CMH is 18 miles away from OVCHF. OVCHF also provides a large percentage of the outpatient services required by the community's population.

#### V. OUTSTANDING DEBT:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 8/31/03 (unaudited)</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
<b>Existing:</b>			
Heritage Oaks Bank, Hospital purchase, October 2000	\$2,500,000	\$2,187,284	\$2,187,284
Santa Clara Bank, Clinic purchase, October 2002	215,358	210,999	210,999
<b>Proposed:</b>			
CHFFA HELP II Loan, 2003		N/A	400,000
<b>TOTAL DEBT</b>		<b><u>\$2,398,283</u></b>	<b><u>\$2,798,283</u></b>



**VI. SECTION 15438.5 OF THE ACT (Savings Pass Through):**

It is the intent of the Legislature in enacting this part to provide financing only to health facilities that can demonstrate the financial feasibility of their projects. It is further the intent of the Legislature that all or part of any savings experienced by a participating health institution, as a result of that tax-exempt revenue bond funding, be passed on to the consuming public through lower charges or containment of the rate of increase in hospital rates.

OVCHF has provided a description of its savings pass through in **Exhibit A**.

**VII. SECTION 15459.1 (b) OF THE ACT (Community Service Requirement):**

As a condition of the issuance of revenue bonds, whether by the Authority or any local agency, each borrower shall give reasonable assurance to the Authority that the services of the health facility will be made available to all persons residing or employed in the area served by the facility. As part of this assurance, borrowers shall agree to a number of actions, including (a) To advise each person seeking services at the borrower's facility as to the person's potential eligibility for Medi-Cal and Medicare benefits or benefits from other governmental third-party payers, and (b) and To post notices in appropriate areas within the facility regarding services being available to all in the service area. This agreement is a standard "Certification and Agreement Regarding Community Service Obligation".

OVCHF has executed this certification and has provided information they currently have on the physicians. Prior to closing, OVCHF will be required to provide an updated list with languages and whether Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **Exhibit B**.

**VIII. COMPLIANCE WITH SB 1953 SEISMIC RETROFIT REQUIREMENTS**

SB 1953 (Chapter 740, 1994) requires that all acute care hospitals in California meet specific seismic safety standards by 2008 and 2030.

OVCHF has provided a description of its seismic requirements. **See Exhibit C**.

**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 in an amount not to exceed \$400,000 for a term not to exceed 5 years for Ojai Valley Community Hospital Foundation subject to the standard HELP II loan provisions.