

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

Applicant: Neighborhood Healthcare (Neighborhood) 425 North Date Street Escondido, CA 92025 San Diego County		Amount Requested: \$450,000 Requested Loan Term: 15 years Date Requested: May 31, 2007 Resolution Number: HII-195	
Project Site: 1001 E. Grand Avenue, Escondido, California, San Diego County Facility Type: Community Clinic			
Use of Loan Proceeds: Loan proceeds will be used to purchase a 3,958 square foot building to provide medical care.			
Type of Issue: HELP II Loan Prior HELP II Borrower: Yes Payments up to date: Yes (As of May 1, 2007, current loan balance is \$298,248)			
Financial Overview: Neighborhood's revenue has grown significantly as services have expanded, while increases in expenses have been contained. The balance sheet has improved with an increase of cash and cash equivalents and the acquisition of a facility. Neighborhood has the ability to manage the increased loan obligation.			
Sources of Revenue: (FYE 6-30-06)		<u>Amount</u>	<u>Percent</u>
Patient and third party revenue	\$19,900,142	77.4%	
Grant revenue	5,138,564	20.0%	
Contributions	515,648	2.0%	
Other	<u>160,459</u>	<u>0.6%</u>	
Total revenue and other support	<u>\$25,714,813</u>	<u>100%</u>	
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II Loan	\$450,000	Purchase Facility	\$910,000
Union Bank Loan	232,000	Financing Costs	12,000
Borrower's Funds	<u>240,000</u>		
Total Sources	<u>\$922,000</u>	Total Uses	<u>\$922,000</u>
Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.			
Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan for Neighborhood Healthcare in an amount not to exceed \$450,000 for a term of 15 years and financing terms acceptable to the Authority.			

STAFF SUMMARY AND RECOMMENDATION

**NEIGHBORHOOD HEALTHCARE
("NEIGHBORHOOD")**

May 31, 2007

Resolution Number: HII-195

I. PURPOSE OF FINANCING: In order to expand healthcare to the elderly, Neighborhood plans to devote a facility primarily dedicated to expand geriatric services. Loan proceeds will be used to purchase a health facility to replace a leased facility. Neighborhood will save approximately \$2,500 a month in rent payments.

***Purchase facility*..... \$910,000**

Neighborhood seeks to purchase a 3,958 square foot property in Escondido, California for \$910,000 using a HELP II loan, a commercial loan and borrower's funds. Neighborhood currently rents a 4,300 square foot facility for geriatric and medical services. The new facility is ideal for the elderly population since it is a one-story building with an adjacent parking lot.

The HELP II loan will be secured by a 2nd position lien on this property. Neighborhood is in the process of having the Escondido property appraised and management estimates the appraised value of the property at approximately \$910,000.

***Financing Costs* 12,000**

Authority Closing Fee \$5,625

Title/Escrow/Other 6,375

***Total*..... \$922,000**

Financing Structure and Terms:

HELP II Loan

- 15-year fully amortized loan term in the amount of \$450,000.
- 180 equal monthly payments of approximately \$3,108 (total annual payments of \$37,296).
- Total interest payments of approximately \$109,372.
- Liens the Authority deems appropriate.
- Corporate gross revenue pledge.
- A 2nd position lien in the amount of \$450,000 located at 1001 E. Grand Avenue, Escondido, California (subordinate to Union Bank). Combined loan to value of 75%.
- Receipt of loan by a funding source acceptable to the Authority.

Union Bank Loan

- 20-year fully amortized loan term in the amount of \$232,000.
- 240 equal monthly payments of approximately \$1,714 (total annual payments of \$20,568).
- Total interest payments of approximately \$179,211.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Neighborhood Healthcare Statement of Activities (Unrestricted)

	Fiscal Year Ended June 30,		
	2006	2005	2004
<u>REVENUE AND OTHER SUPPORT</u>			
Patient and third party revenue, net	\$ 19,900,142	\$ 14,157,698	\$ 12,751,077
Grant revenue	5,138,564	6,214,747	4,761,891
Contributions	515,648	504,974	496,639
Other	160,459	156,227	197,822
Total revenue and support	<u>25,714,813</u>	<u>21,033,646</u>	<u>18,207,429</u>
<u>EXPENSES</u>			
Salaries and wages	14,097,740	11,269,276	10,825,958
Employee benefits	2,389,198	1,645,315	1,884,159
Contractual services	1,763,767	1,712,082	1,610,883
Supplies	1,900,792	1,686,465	1,577,686
Communications	250,443	247,887	245,809
Travel, conferences and meetings	79,021	74,176	65,331
Equipment costs	387,274	301,698	288,671
Facilities	637,655	706,031	681,253
Insurance	101,867	120,469	144,784
Depreciation and amortization	259,376	262,796	266,663
Provision for bad debts	388,356	296,256	261,147
Interest	105,948	114,087	118,472
Other	369,964	307,400	229,025
Total expenses	<u>22,731,401</u>	<u>18,743,938</u>	<u>18,199,841</u>
<i>Change in unrestricted net assets</i>	<u>2,983,412</u>	<u>2,289,708</u>	<u>7,588</u>
Net assets, beginning of year	<u>7,535,640</u>	<u>5,245,932</u>	<u>5,238,344</u>
Net assets, end of year	<u><u>\$ 10,519,052</u></u>	<u><u>\$ 7,535,640</u></u>	<u><u>\$ 5,245,932</u></u>

**Neighborhood Healthcare
Statement of Financial Position**

	As of June 30,		
	2006	2005	2004
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalent	\$ 1,809,332	\$ 430,476	\$ 504,055
Patient accounts receivable, net	2,724,958	1,929,081	1,927,892
Grants, contracts and other receivable, net	396,330	354,773	317,420
Estimated third-party payor settlements	1,264,875	546,300	-
Inventory	150,727	139,722	144,532
Prepaid assets	225,734	163,065	156,244
Total current assets	<u>6,571,956</u>	<u>3,563,417</u>	<u>3,050,143</u>
Property and equipment, net	7,310,191	7,488,990	5,508,039
Board designated endowment	439,703	393,521	333,488
Total assets	<u>\$14,321,850</u>	<u>\$ 11,445,928</u>	<u>\$ 8,891,670</u>
<u>LIABILITIES AND NET ASSETS</u>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 455,154	\$ 545,242	\$ 429,422
Accrued compensation	1,156,898	1,050,184	948,312
Estimated third-party settlements	-	-	35,560
Deferred revenue	474,868	220,102	575,027
Line of credit	166,610	450,000	-
Long-term debt, current portion	105,867	102,278	92,491
Total current liabilities	<u>2,359,397</u>	<u>2,367,806</u>	<u>2,080,812</u>
Long-term debt	1,443,401	1,542,482	1,564,926
Total liabilities	<u>3,802,798</u>	<u>3,910,288</u>	<u>3,645,738</u>
Net assets:			
Unrestricted	10,519,052	7,535,640	5,245,932
Total net assets	<u>10,519,052</u>	<u>7,535,640</u>	<u>5,245,932</u>
Total liabilities and net assets	<u>\$14,321,850</u>	<u>\$ 11,445,928</u>	<u>\$ 8,891,670</u>

Financial Ratios:

	<u>Proforma (a)</u>			
Debt Service Coverage (x)	7.10	8.85	4.00	1.86
Debt/Unrestricted Net Assets (x)	0.29	0.16	0.24	0.40
Margin (%)		11.60	10.89	0.04
Current Ratio (x)		2.79	1.50	1.47

(a) Recalculates 2006 audited results to include the impact of this proposed financing and additional long term debt incurred after FY 2006.

Financial Discussion:

Neighborhood's revenue has grown significantly as services have expanded, while increases in expenses have been contained.

From FY 2004 to FY 2006, Neighborhood's revenues increased by 41% while expenses increased approximately 25%, primarily from expansion of its Hospitalist Program. The Hospitalist Program involves taking unassigned patients that arrive in the emergency room at Palomar Medical Center and Pomerado Hospital. Neighborhood's doctors are present at the hospital 24 hours a day, 7 days a week. Neighborhood bills and retains the collections. These patients include uninsured, Medi-Cal, Medicare and private insurance. As part of the patient's follow-up care, Neighborhood offers services at its outpatient clinic.

The balance sheet has improved with an increase of cash and cash equivalents and the acquisition of a facility. Neighborhood has the ability to manage the increased loan obligation.

Neighborhood's current balance sheet has strengthened to a solid net asset position with minimal debt. Cash and cash equivalents increased from \$504,000 in FY 2004 to \$1.8 million in FY 2006 as a result of cash receipt generated from Medi-Cal scope-of-services changes. Net property and equipment increased by nearly 30% (from \$5.5 million in FY 2004 to \$7.3 million in FY 2006) reflecting a purchase of a facility with a grant from the First 5 Commission of San Diego. A proforma debt service coverage ratio of 7.10x indicates that Neighborhood can manage the additional debt.

III. ORGANIZATION:

Background:

Neighborhood is a nonprofit organization that operates healthcare facilities at eight sites in San Diego and Riverside counties. Neighborhood provides a variety of medical, dental, mental health and health education services. Neighborhood provides a low-cost, high quality, comprehensive primary care services to residents of San Diego and Riverside counties. Neighborhood's Hospitalist Program began in FY 2000.

Licenses:

Neighborhood facilities are licensed as community clinics by the Department of Health Services.

IV. UTILIZATION STATISTICS:

Neighborhood Healthcare
Clients Served / (Patient Visits)*

	<u>Fiscal Year Ended June 30,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Totals	63,290 / (199,945)	54,228 / (166,163)	49,569 / (156,987)

*Includes Hospitalist Program

V. OUTSTANDING DEBT:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 6/30/06*</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
HELP II Loan CHFFA, 2002	\$400,000	\$318,140	\$318,140
Note Payable Wells Fargo Bank, 2003	423,000	261,431	261,431
Note Payable Union Bank, 2004	500,000	466,442	466,442
Note Payable** Private Party, 2002	600,000	503,255	-0-
Note Payable** NCB Capital Impact, 2007	1,015,000		1,015,000
Proposed:			
HELP II Loan CHFFA, 2007			450,000
TOTAL DEBT		<u><u>\$1,549,268</u></u>	<u><u>\$2,511,013</u></u>

*Does not include current portion.

**In April 2007, Neighborhood obtained a loan in the amount of \$1,015,000 for 25 years at 6% interest with NCB Capital Impact, in part to refinance a 2002 note. This loan was obtained subsequent to the FY 2006 financial audit.

VI. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- Section 15438.5 of the Act (Savings Pass Through): Neighborhood provided a description of its savings pass through in Exhibit A.
- Section 15459.1 of the Act (Community Service Requirement): Neighborhood executed this certification indicating that Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as Exhibit B.
- Religious Due Diligence.
- Legal Review.

VII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan for Neighborhood Healthcare in an amount not to exceed \$450,000 for a term of 15 years and financing terms acceptable to the Authority.