

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**

**The HELP II Program**

**EXECUTIVE SUMMARY**

<b>Applicant:</b> Del Norte Clinics, Inc. ("DNC") 935B Market Street Yuba City, California 95991 Sutter County	<b>Amount Requested:</b> \$985,961 <b>Requested Loan Term:</b> 15 years <b>Date Requested:</b> July 26, 2007 <b>Resolution Number:</b> HII-197		
<b>Project Site:</b> 4941 Olivehurst Avenue, Olivehurst, CA 95961			
<b>Facility Type:</b> Community Clinic			
<b>Background:</b> DNC seeks to refund the 1994 STARTS Series B Bonds that were previously used to construct the Lindhurst Family Health Center. The Lindhurst Family Center provides quality, low-cost medical, dental, social and educational services to migrant farm workers, low-income families and indigent members of the Yuba Sutter area community.			
<b>Use of Loan Proceeds:</b> HELP II loan proceeds will be used to refund the 1994 STARTS Series B bonds the implementation of which has historically imposed on the borrower an ongoing shortfall in the debt service reserve fund. This financing also has the beneficial effect of reducing the debt service payments providing an annual debt service savings of approximately \$55,000.			
<b>Type of Issue:</b> HELP II Loan			
<b>Prior HELP II Borrower:</b> Yes			
<b>Payments Current:</b> Yes (as of June 2007, current loan balance was \$79,772).			
<b>Financial Overview:</b> DNC's income statement exhibits a positive trend in total revenues and increased unrestricted net assets over the review period. DNC's balance sheet is strong with good liquidity and a solid projected debt service coverage ratio of 2.43x.			
<b><u>Estimated Sources of Funds:</u></b>			
HELP II loan	\$985,961	<b><u>Estimated Uses of Funds:</u></b>	
Borrower funds	<u>15,040</u>	Refund 1994 STARTS bonds	\$985,961
Total Sources	<u>\$1,001,001</u>	Financing Costs	<u>15,040</u>
		Total Uses	<u>\$1,001,001</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 for Del Norte Clinics, Inc., in an amount not to exceed \$985,961 for a term of 15 years and financing terms acceptable to the Authority.			

**STAFF SUMMARY**  
**Del Norte Clinics, Inc.**  
**("DNC")**

**July 26, 2007**

**Resolution Number: HII-197**

- I. PURPOSE OF FINANCING:** HELP II Loan proceeds will be used to refund the 1994 STARTS Series B bonds, the implementation of which has historically imposed on the borrower an ongoing shortfall in the debt service reserve fund. This financing also has the beneficial effect of reducing the debt service payments providing an annual debt service savings of approximately \$55,000

***Refund Authority 1994 STARTS Series B Bonds.....\$985,961***

DNC seeks to refund the 1994 STARTS Series B Bonds that were previously used to construct the Lindhurst Family Health Center. The Lindhurst Family Center provides quality, low-cost medical services for migrant farm workers, low-income families and indigent members of the Yuba Sutter area community. DNC's management estimates the current value of the real estate securing the proposed HELP II loan at \$1.8 million, leading to a loan to value ratio of 55%.

***Financing Costs ..... 15,040***

Authority Closing Fee.....12,325

Title/escrow/Other fees.....2,715

***Total.....\$1,001,001***

**Financing structure and terms:**

- 15-year fully amortized loan in the amount of \$985,961.
- 180 equal monthly payments of approximately \$6,808 (total annual payments \$81,696).
- Total interest payments of approximately \$239,600.
- A first lien position on real property located at 4941 Olivehurst Avenue, Olivehurst, CA 95961.
- A first lien position on corporate gross revenues.

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## II. FINANCIAL STATEMENTS AND ANALYSIS:

### DEL NORTE CLINICS, INC. STATEMENTS OF ACTIVITIES (UNRESTRICTED)

	For the Year Ended June 30		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Revenue:</b>			
Net patient service revenues	\$ 21,516,900	\$ 21,329,300	\$ 18,193,200
Grants	5,029,000	5,144,600	5,026,600
Other	336,300	284,600	68,800
Total Revenues	<u>26,882,200</u>	<u>26,758,500</u>	<u>23,288,600</u>
<b>Expenses:</b>			
Salaries & benefits	19,935,000	19,926,500	17,027,500
Supplies	1,186,100	1,175,600	881,700
Contract services	1,441,000	1,200,100	1,272,000
Insurance	170,500	175,500	140,300
Bad debts	165,400	(70,000)	702,200
Other operating expenses	1,272,300	1,141,800	1,086,300
Depreciation	723,000	751,800	602,400
Interest	563,000	602,400	394,600
Travel	208,200	206,900	164,400
Space cost	263,300	218,400	461,700
Total expenses	<u>25,927,800</u>	<u>25,329,000</u>	<u>22,733,100</u>
<b>Change in unrestricted assets</b>	<b>954,400</b>	<b>1,429,500</b>	<b>555,500</b>
Unrestricted Net Assets Beginning of Year	<u>5,292,500</u>	<u>3,863,000</u>	<u>3,307,500</u>
Unrestricted Net Assets, End Of Year	<u>\$ 6,246,900</u>	<u>\$ 5,292,500</u>	<u>\$ 3,863,000</u>

**DEL NORTE CLINICS, INC**

**STATEMENT OF FINANCIAL POSITION**

	<b>For the Year Ended June 30,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b><u>ASSETS</u></b>			
Current Assets:			
Cash and cash equivalents	\$ 3,281,500	\$ 2,278,500	\$ 1,025,400
Current portion of limited use cash	235,000	230,000	239,200
Accounts receivables, net	1,529,200	1,330,600	1,079,800
Estimated third-party payor settlements	-	4,400	247,500
Grants receivables	392,400	389,300	491,300
Inventory	293,900	318,900	395,000
Prepaid expenses	184,500	281,300	169,200
Total Current Assets	<u>5,916,500</u>	<u>4,833,000</u>	<u>3,647,400</u>
Cash whose use is limited	2,118,600	2,858,500	2,987,200
Property & equipment, net	11,187,100	10,269,900	10,264,500
Bond issuance costs	715,500	747,200	778,900
<b>TOTAL ASSETS</b>	<b><u>\$ 19,937,700</u></b>	<b><u>\$ 18,708,600</u></b>	<b><u>\$ 17,678,000</u></b>
<b><u>LIABILITIES</u></b>			
Current Liabilities:			
Accounts payable	300,200	239,400	320,600
Accrued expenses and other payables	2,061,400	1,851,200	1,639,000
Deferred revenue	475,900	70,500	131,000
Current portion of long-term debt	415,700	397,000	475,100
Current capital lease obligations	-	4,700	8,620
Total Current Liabilities	<u>3,253,200</u>	<u>2,562,800</u>	<u>2,574,320</u>
Long Term Liabilities	10,437,600	10,853,300	11,236,000
Obligations under Capital Leases, net			<u>4,680</u>
<b>TOTAL LIABILITIES</b>	<b>13,690,800</b>	<b>13,416,100</b>	<b>13,815,000</b>
<b>NET ASSETS</b>			
Unrestricted net assets	<u>6,246,900</u>	<u>5,292,500</u>	<u>3,863,000</u>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b><u>\$ 19,937,700</u></b>	<b><u>\$ 18,708,600</u></b>	<b><u>\$ 17,678,000</u></b>

**Financial Ratios:**

	<b>Proforma (1)</b>			
	<b>FYE 2006</b>			
Debt Service Coverage (x)	2.43	2.29	2.79	1.79
Debt/Unrestricted Net Assets (x)	1.73	1.74	2.13	3.01
Margin (%)		3.55	5.34	2.38
Current Ratio (x)		1.82	1.89	1.42

(1) Recalculates June 2006 audited results to include the impact of this financing.

## **Financial Discussion:**

**DNC's income statement exhibits a positive trend in total revenues and increased unrestricted net assets over the review period.**

DNC has posted an increase in unrestricted net assets for fiscal years 2004-2006 of \$555,000, \$1.42 million, and \$954,000 respectively, with good operating margins. Revenue for the same period increased by nearly \$3.6 million, due primarily to a 9% increase in patient encounters. The continued increase in patient encounters demonstrates the demand for low-cost, quality healthcare for low-income families, migrant farm workers, and indigent members of the community within Sutter County.

**DNC's balance sheet is strong with good liquidity and a solid projected debt service coverage ratio of 2.43x.**

DNC's balance sheet is strong with good liquidity and significant net assets. DNC's strong liquidity is exhibited by its \$3.28 million cash position in fiscal year 2006. Net assets increased from \$3.8 million in 2004 to \$6.2 million in 2006. Debt-to-unrestricted net assets ratio declined to 1.74x, while debt service coverage remains solid at 2.29x. With the proposed HELP II loan, the proforma debt service coverage will improve to 2.43x. This indicates that DNC will comfortably be able to meet future debt service payments of the proposed HELP II loan.

**III. UTILIZATION STATISTICS:**

Type of Services	Encounters and (Number of Patient Visits)					
	Year Ended June 30					
	2006		2005		2004	
Totals	56,471	(273,754)	53,681	(262,893)	51,612	(250,444)

**IV. ORGANIZATION:**

**Background:** DNC originated in 1964 in the form of a medical care project for migrant farm workers under the State Farm Workers Health Service and Migrant Health Act Fund. At that time it was called the Sutter-Yuba Farm Workers Health Project, and the County of Sutter was grantee for the funds. It was operated as a night clinic in the Sutter County General Hospital. In 1973, the name was changed to Northern Sacramento Valley Rural Health Project and in 1993 the corporate name was changed to Del Norte Clinics, Inc. DNC strives to provide high quality medical, dental, social and educational health services that meet the unique needs of all patients, especially those who are medically underserved including farm workers and others without financial resources.

**Licenses:** DNC is licensed by the State Department of Health Services as a community clinic.

**V. OUTSTANDING DEBT:**

Description	Original Amount	Amount Outstanding As of 6/30/06*	Estimated Amount Outstanding After Proposed Financing
<b>Existing:</b>			
U.S Department of Agriculture	\$840,850	\$588,007	\$588,007
CSCD	8,795,000	8,178,100	8,178,100
CSCD	1,105,000	925,000	925,000
CHFFA STARTS, Series 1994B	1,285,000	1,005,000	0
CHFFA HELP II Loan, 2003	376,000	157,200	157,200
<b>Proposed:</b>			
CHFFA HELP II Loan, 2007		N/A	<b>985,961</b>
<b>TOTAL DEBT</b>		<b>\$10,853,307</b>	<b>\$10,834,268</b>

\*Amount Outstanding as of 6/30/06 includes the current portion of long-term debt.

**VI. DUE DILIGENCE:**

- Section 15438.5 of the Act (Savings Pass Through): DNC has provided a description of its savings pass through in Exhibit A.
- Section 15459.1 of the Act (Community Service Requirement): DNC has 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 Del Norte Clinics, Inc., in an amount not to exceed \$985,961 for a term of 15 years and financing terms acceptable to the Authority.

# CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

## The HELP II Program

### Resolution Number HII-197

#### 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 make secured or unsecured loans to participating health institutions, as defined;

WHEREAS, the Authority has previously established a HELP II Program to make loans to finance or refinance, among other things, all or a portion of the cost of acquiring certain equipment or constructing certain capital improvements (the “Project”) as authorized by the Act;

WHEREAS, **Del Norte Clinics, Inc.** (the “Borrower”), a California nonprofit corporation and participating health institution, has applied to the Authority for a loan for the financing of the Project, and the application has been reviewed by the staff of the Authority and must be approved by the Authority;

WHEREAS, **Del Norte Clinics, Inc.** is one of four borrowers remaining in the STARTS 1994 B Series bonds, the implementation of which has historically imposed on the borrower an ongoing shortfall in the debt service reserve fund, and the Authority has determined the uses of HELP II Loan proceeds appropriate to relieve the borrower of this ongoing challenge and to simultaneously reduce the borrower’s annual debt service obligations.

WHEREAS, HELP II fund are being utilized for this one time special circumstance to refund said borrower out of the STARTS 1994 B Series bonds.

WHEREAS, final 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 this one time special circumstance loan to the Borrower, in the amount of **\$985,961** for a term not to exceed **15 years** to refund the STARTS 1994 Series B bonds, as described in the application filed with the Authority, but solely to the extent there are available proceeds of the HELP II Program, as determined pursuant and subject to Section 2 hereof. This approval is further contingent upon the following conditions:

1. A first lien position on real property located at 4941 Olivehurst Avenue, Olivehurst, CA 95961; and
2. A first lien position on corporate gross revenues.



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 approved pursuant to Section 1 hereof, 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 loan 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, or that the Executive Director determines shall be funded from the HELP II Program. Any notice to an applicant approved hereunder shall indicate that the Authority shall not be liable to the applicant 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 HELP II Program fund not to exceed those amounts approved by the Authority for the Borrower approved in Section 1. The Executive Director is further authorized and directed, for and on behalf of the Authority, to execute and deliver to the Borrower in Section 1 any and all documents necessary to complete the transfer of funds.

Section 4. The Authority hereby finds that the loan approved in Section 1 is for a Project eligible for financing pursuant to provisions of the Act.

Section 5. The Executive Director of the Authority is hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they deem 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 6. This resolution expires one year from the date approved.

Date Approved: \_\_\_\_\_