

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY  
THE HELP II PROGRAM  
EXECUTIVE SUMMARY**

<p><b>Applicant:</b> Sequoia Community Health Foundation, Inc. (“SCHF”) 1945 N. Fine #116 Fresno, CA 93727</p> <p><b>Project Site:</b> 2756 South Elm Avenue, Fresno, CA 93727</p> <p><b>Facility Type:</b> Community Clinic</p>	<p><b>Amount Requested:</b> \$430,000</p> <p><b>Requested Loan Term:</b> 15 years</p> <p><b>Date Requested:</b> August 30, 2007</p> <p><b>Resolution Number:</b> HII-203</p>																												
<p><b>Background:</b> SCHF is a licensed, non-profit community health center that provides primary medical care, health education and client advocacy to the underserved population in Fresno County. SCHF has operated community and migrant health centers in Fresno County since 1978. SCHF is the only Federal Qualified Health Center operating in the area and the only primary care provider to offer a sliding fee scale program.</p>																													
<p><b>Uses of Loan Proceeds:</b> Loan proceeds will be combined with funding from the CHFFA Community Clinic Grant Program, and other sources to construct a dental facility. The proposed 6,725 square foot dental facility will provide much needed additional dental health services to the poor and medically underserved populations in the community of Southwest Fresno. The new facility is expected to serve an additional 4,800 patients.</p>																													
<p><b>Type of Issue:</b> HELP II Loan</p> <p><b>Prior HELP II Borrower:</b> Yes</p> <p><b>Payments Status:</b> Current (Loan balance as of August 1, 2007 was \$318,140.)</p>																													
<p><b>Financial Overview:</b> SCHF experienced considerable growth in fiscal years 2004 through 2006. SCHF has experienced strong demand for its services, with an overall increase in patient visits of approximately 37% during this period.</p>																													
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><u>Sources of Funds</u></th> <th style="text-align: right;"></th> <th style="text-align: left;"><u>Uses of Funds</u></th> <th style="text-align: right;"></th> </tr> </thead> <tbody> <tr> <td>HELP II Loan</td> <td style="text-align: right;">\$430,000</td> <td>Construction</td> <td style="text-align: right;">\$2,082,190</td> </tr> <tr> <td>Borrower Funds</td> <td style="text-align: right;">241,936</td> <td>Purchase Equipment</td> <td style="text-align: right;">232,470</td> </tr> <tr> <td>CHFFA CCGP Grant<sup>1</sup></td> <td style="text-align: right;">750,000</td> <td>Loan Fees</td> <td style="text-align: right;">5,276</td> </tr> <tr> <td>First 5 Fresno County Grant<sup>2</sup></td> <td style="text-align: right;">750,000</td> <td>Closing Costs</td> <td style="text-align: right;"><u>2,000</u></td> </tr> <tr> <td>California Endowment Grant<sup>3</sup></td> <td style="text-align: right;"><u>150,000</u></td> <td></td> <td></td> </tr> <tr> <td><b>Total Sources</b></td> <td style="text-align: right;"><b><u>\$2,321,936</u></b></td> <td><b>Total Uses</b></td> <td style="text-align: right;"><b><u>\$2,321,936</u></b></td> </tr> </tbody> </table> <p>1. Community Clinic Grant Program – funds awarded, but not yet disbursed. 2. Grant awarded and disbursements in process. 3. Funds received.</p>		<u>Sources of Funds</u>		<u>Uses of Funds</u>		HELP II Loan	\$430,000	Construction	\$2,082,190	Borrower Funds	241,936	Purchase Equipment	232,470	CHFFA CCGP Grant <sup>1</sup>	750,000	Loan Fees	5,276	First 5 Fresno County Grant <sup>2</sup>	750,000	Closing Costs	<u>2,000</u>	California Endowment Grant <sup>3</sup>	<u>150,000</u>			<b>Total Sources</b>	<b><u>\$2,321,936</u></b>	<b>Total Uses</b>	<b><u>\$2,321,936</u></b>
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<p><b>Legal Review:</b> No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																													
<p><b>Staff Recommendation:</b> Staff recommends the Authority approve a resolution for a HELP II loan in an amount not to exceed \$430,000 for a term not to exceed 15 years for Sequoia Community Health Foundation, Inc., and financing terms acceptable to the Authority.</p>																													

**STAFF SUMMARY AND RECOMMENDATION  
THE HELP II PROGRAM**

August 30, 2007

Sequoia Community Health Foundation, Inc. ("SCHF")

Resolution Number: HII-203

**I. PURPOSE OF FINANCING**

SCHF proposes to use HELP II loan funds of \$750,000 from the CHFFA Community Clinic Grant Program and \$900,000 from various other grants to construct and furnish a new dental facility on land owned by the clinic. The proposed dental facility will provide much needed additional dental health services to the poor and medically underserved populations in the community of Southwest Fresno. Construction is expected to begin in the fall of 2007 and will be completed in mid 2008.

*Construction of New Dental Facility* ..... **\$2,082,190**

SCHF seeks to construct and develop a 6,725 square foot dental center at 2756 South Elm Avenue in Fresno. The dental center will house 18 operatories and serve an estimated 4,800 new dental patients at the end of the first year.

The proposed HELP II loan will be secured by a second (2<sup>nd</sup>) lien position on property owned by SCHF located at 1350 South Orange Avenue in Fresno, which is a licensed community clinic. The estimated current market value of this property is \$1.25 million. The current first (1<sup>st</sup>) lien on this property is secured by deed of trust held by Cal-Mortgage (1993 Certificates of Participation) with a current outstanding balance of approximately \$585,000. The combined loan (1<sup>st</sup> and 2<sup>nd</sup> liens) to value ratio will be 80%\*, below the maximum allowable loan to value ratio of 95%, per underwriting guidelines. CHFFA will not take a lien on the new dental facility, as the new building will be located on a campus site along with other existing buildings, which already have two existing liens.

\*Cal-Mortgage has agreed to subordinate its 2000 Deed of Trust (current outstanding balance of \$1.435 million) on the property located at 1350 South Orange into the third (3<sup>rd</sup>) lien position, behind CHFFA's HELP II loan.

*Equipment* ..... **232,470**

Dental equipment and information systems will be purchased for the proposed dental operatories.

*Financing Costs* ..... **7,276**

Authority Fee ..... \$5,276

Title/Escrow/Other ..... 2,000

*Total Uses of Funds* ..... **\$2,321,936**

### **Financing structure and terms**

- 15-year fully amortized loan in the amount of \$430,000.
- 180 equal monthly payments of approximately \$2,970 (yearly payments of about \$35,634).
- Total interest payments of approximately \$104,510.
- Second lien on property located at 1350 South Orange Avenue, Fresno, CA.
- Lien on corporate gross revenue pledge.
- Appraisal on the property located at 1350 South Orange Avenue, Fresno, CA.
- Subordination agreement with Cal-Mortgage for the 1993 deed of trust on property located at 1350 South Orange Avenue, Fresno, CA.

## II. FINANCIAL STATEMENTS AND ANALYSIS

**Sequoia Community Health Foundation, Inc**  
**Statement of Activities**  
**(Unrestricted)**

	<b>June 30</b>	<b>Year ended December 31,</b>		
	<b>(Interim)</b>			
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Revenues:</b>				
Patient services, net	\$ 7,438,157	\$ 13,283,238	\$ 11,938,096	\$ 9,031,526
DHHS grants	1,635,219	3,068,736	3,227,989	3,343,779
Contract services and other grants	434,015	841,191	859,615	1,046,155
Other	83,395	319,055	236,395	190,156
<b>Total revenue</b>	<b>9,590,786</b>	<b>17,512,220</b>	<b>16,262,095</b>	<b>13,611,616</b>
<b>Expenses:</b>				
Salaries and benefits	7,495,345	13,842,077	12,807,973	10,307,319
Other personnel services	1,623,549	3,262,385	3,047,402	2,259,176
Depreciation and amortization	410,725	770,027	639,236	542,399
Interest	191,289	254,446	329,924	292,861
Provision for bad debts	25,954	47,101	85,983	101,967
<b>Total expenses</b>	<b>9,746,862</b>	<b>18,176,036</b>	<b>16,910,518</b>	<b>13,503,722</b>
<b>Operating income (loss)</b>	<b>(156,076)</b>	<b>(663,816)</b>	<b>(648,423)</b>	<b>107,894</b>
<b>Non-operating revenue:</b>				
Prior years' retroactive Medicaid settlement	341,327	499,649	341,390	-
Prior years' PPS rate adjustment	-	-	100,434	-
Gain on sale of land	-	-	290,832	-
Contract services and other grants	152,407	349,000	51,000	140,280
Net assets released from restrictions	-	-	89,015	352,458
<b>Total non-operating revenue</b>	<b>493,734</b>	<b>848,649</b>	<b>872,671</b>	<b>492,738</b>
<b>Increase in unrestricted net assets</b>	<b>337,658</b>	<b>184,833</b>	<b>224,248</b>	<b>600,632</b>
Unrestricted net assets at beginning of year	3,109,654	2,924,821	2,700,573	2,099,941
Unrestricted net assets end of year	<u>\$ 3,447,312</u>	<u>\$ 3,109,654</u>	<u>\$ 2,924,821</u>	<u>\$ 2,700,573</u>

**Sequoia Community Health Foundation, Inc**  
**Statement of Financial Position**

	<b>June 30</b>		<b>As of December 31,</b>	
	<b>(Interim)</b>			
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 345,135	\$ -	\$ 505,842	\$ 443,717
Cash restricted for collateral and specific programs	-	-	300,000	400,643
Patient services receivable, net	2,396,491	2,399,876	1,853,601	1,346,525
Grant and contract receivables	94,868	34,023	36,359	131,601
Prepaid expenses and other	563,223	419,576	387,675	291,035
Total Current Assets	<u>3,420,277</u>	<u>2,853,475</u>	<u>3,083,477</u>	<u>2,613,521</u>
Property and equipment, net	7,341,526	7,248,114	6,461,419	6,286,708
Construction in progress	-	160,955	-	-
Assets whose use is limited	644,104	555,934	502,137	530,061
Bond issuance costs, net of accumulated amortization	123,297	127,602	136,213	144,823
Total Assets	<u>\$ 11,529,204</u>	<u>\$ 10,946,080</u>	<u>\$ 10,183,246</u>	<u>\$ 9,575,113</u>
<b>LIABILITIES AND UNRESTRICTED NET ASSETS</b>				
Current Liabilities:				
Cash Overdraft	\$ -	\$ 30,208	\$ -	\$ -
Accounts payable and accrued expenses	728,084	1,748,679	803,030	532,787
Accrued compensation	783,658	549,177	740,000	534,413
Line of credit	400,000	291,236	300,000	263,000
Current maturities of long-term debt	440,739	440,739	490,617	73,933
Current maturities of bonds payable	155,000	155,000	135,000	135,000
Refundable advances <sup>(a)</sup>	824,259	249,134	164,754	12,249
Total Current Liabilities	<u>3,331,740</u>	<u>3,464,173</u>	<u>2,633,401</u>	<u>1,551,382</u>
Long-term Liabilities:				
Long-term debt, less current liabilities	2,885,152	2,507,253	2,595,024	1,764,143
Bonds payable, less current liabilities	1,865,000	1,865,000	2,030,000	3,470,000
Total Liabilities	<u>8,081,892</u>	<u>7,836,426</u>	<u>7,258,425</u>	<u>6,785,525</u>
Net Assets:				
Unrestricted	3,447,312	3,109,654	2,924,821	2,700,573
Temporarily restricted	-	-	-	89,015
Total Net Assets	<u>3,447,312</u>	<u>3,109,654</u>	<u>2,924,821</u>	<u>2,789,588</u>
Total Liabilities and Unrestricted Net Assets	<u>\$ 11,529,204</u>	<u>\$ 10,946,080</u>	<u>\$ 10,183,246</u>	<u>\$ 9,575,113</u>

**Financial Ratios:**

	<b>Proforma (b)</b>			
	<b>FYE 2006</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Debt service coverage (x)	1.32	1.37	2.21	2.52
Debt/Unrestricted Net Assets (x)	1.54	1.41	1.58	1.94
Margin (%)		5.20%	1.31%	8.10%
Current Ratio (x)		0.82	1.17	1.68

(a) Includes liability to DHS \$132,211

(b) Recalculates 2006 audited results to include the impact of this proposed financing.

## **Financial Discussion – Income Statement**

### **SCHF experienced considerable growth in fiscal years (FY) 2004 through FY 2006.**

SCHF has successfully been operating community clinics since 1978. SCHF has experienced strong growth in its services during the last three fiscal years related to the opening of a new Regional Medical Center at 2505 Divisadero Street in late 2003 and extended hours of operations at a number of its other sites.

During FY 2006, SCHF reported an increase in unrestricted net assets of \$184,000. In 2006, total revenues increased by 8%, while patient visits increased by 11%. Losses from operations were seen in 2006, but they were offset by increases in non-operating revenue. Typically, grants received by community health centers for equipment or “bricks and mortar”, are recorded as non-operating revenue. Total unrestricted net assets were solid at just over \$3.1 million.

During FY 2005, SCHF posted an increase in unrestricted net assets of \$224,000, boosting unrestricted net assets to over \$2.9 million, 8% more than FY 2004. Total 2005 revenues increased by 19%, while patient visits were up 23%.

During FY 2004, SCHF posted solid operating results, with an increase in unrestricted net assets of \$600,000.

Interim figures as of June 30, 2007 indicate an increase in unrestricted net assets of \$337,000, an improvement compared to the full FY 2006 of \$184,000.

## **Financial Discussion – Balance Sheet**

### **SCHF should be able to manage repayment of the HELP II loan, given the proforma debt service coverage.**

Total unrestricted net assets were at just over \$3.1 million for FY 2006, increasing by 6% from 2005, thus providing solid financial resources for future operations. SCHF balance sheet exhibited no cash reserves in FY 2006, as SCHF experienced unexpected staff shortages, consequently cash reserves were used for expensive outsourcing medical provider services near year-end. SCHF’s current ratio was a marginal .82x, however during the interim period as of June 30, 2007, SCHF’s cash position has improved to \$345,000, while the current ratio has improved to an acceptable 1.02x. In addition, 2007 interim figures show a 58% decrease in Accounts Payable from the 2006 audit posting of \$1.7 million to \$728,000.

Also during FY 2006, delayed Medi-Cal payments contributed to a marked increase in patient services receivable over FY 2005. SCHF’s debt to unrestricted net assets ratio is 1.41x with an acceptable debt service coverage ratio of 1.37x. With the proposed financing, the debt service coverage ratio will remain acceptable at 1.32x, indicating that SCHF should be able to manage repayment of the proposed HELP II loan.

### III. UTILIZATION STATISTICS

**Clients Served / (Patient Visits)  
Fiscal Year Ended December 31**

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Totals	35,877 / (133,054)	31,926 / (119,680)	26,680 / (97,351)

### IV. ORGANIZATION

#### Background

SCHF is a licensed, nonprofit community health center that provides primary medical care, health education and client advocacy to the underserved population in Fresno County. SCHF has operated community and migrant health centers in Fresno County since 1978. SCHF currently operates seven health centers in central and southwest Fresno County. SCHF is the only Federal Qualified Health Center operating in the area, and the only primary care provider to offer a sliding fee scale program. SCHF physicians have hospital admitting privileges at Community Medical Center in downtown Fresno. SCHF collaborates with the UCSF-Fresno Medical Education program through its Sequoia Family Practice Residency Pathway.

#### Licenses

SCHF is licensed by the State Department of Health Services as a Community Clinic.

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## V. OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 12/31/06*</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
<b>Existing</b>			
<b>Notes Payable:</b>			
City of Fresno, 1993	\$629,455	\$629,455	\$629,455
CPCA/NCB, 2003	562,000	484,071	484,071
NCB, 2003	298,000	254,681	254,681
CHFFA Help II, 2003	400,000	331,763	331,763
Wells Fargo Bank, 2005	250,000	234,910	234,910
CISCO Equipment, 2005	228,961	140,620	140,620
CISCO Equipment, 2005	78,257	51,088	51,088
Bank of the West, 2005	395,732	263,050	263,050
Bank of the West, 2005	78,519	31,023	31,023
Wells Fargo Bank, 2005	273,313	105,949	105,949
Wells Fargo Bank, 2005	180,097	69,234	69,234
Wells Fargo Bank, 2006	341,250	324,973	324,973
Manifest Funding	40,762	27,175	27,175
<b>Other Long-Term Debt:</b>			
COPS, 1993 (Cal-Mortgage)	2,430,000	585,000	585,000
COPS, 2000 (Cal-Mortgage)	1,905,000	1,435,000	1,435,000
<b>Proposed</b>			
CHFFA Help II, 2007			<b>430,000</b>
<b>TOTAL DEBT</b>		<b>\$4,967,992</b>	<b>\$5,397,992</b>

\* Includes current portion of long-term debt.



## **VI. DUE DILIGENCE:**

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

- Section 15438.5 of the Act (Savings Pass Through) Sequoia Community Health Foundation, Inc. has provided a description of its pass through in Exhibit A.
- Section 15459.1 of the Act (Community Service Requirement): Sequoia Community Health Foundation, Inc. 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 in an amount not to exceed \$430,000 for a term not to exceed 15 years for Sequoia Community Health Foundation, Inc., subject to the standard HELP II loan provisions.