

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

Applicant: Open Door Community Health Centers (“ODCHC”) **Amount Requested:** \$491,000
670 Ninth Street, Suite 203 **Requested Loan Term:** 15 years
Arcata, California **Date Requested:** May 28, 2009
Resolution Number: HII-241

Project Site: 959 Myrtle Avenue, Eureka, CA 95501, Humboldt County

Facility Type: Community Clinic

Prior HELP II Borrower: Yes (current borrower with current payments that are in good standing.)

Background: ODCHC was founded in 1971 as a storefront free clinic in Arcata California. Over the 37 years, ODCHC has grown to nine clinics and one mobile unit. It is one of the oldest and largest community clinic systems in northwest California. ODCHC is a private, non-profit, tax-exempt organization, administered under the supervision of a local volunteer Board of Directors. ODCHC services include: family practice, pediatrics, nutritional counseling, urgent and same day care, health education, smoking cessation, and chronic disease management among many other services.

Uses of Loan Proceeds: Loan proceeds will be used to consolidate other ODCHC existing dental sites (the Old Town Dental Center in Eureka and the Humboldt Open Door Clinic) into the Burre Dental Center facility located in Eureka. To accomplish this consolidation without losing dental capacity, the Burre Dental Center must be expanded from ten to sixteen operatories. Additionally, ODCHC will modernize the entire dental services.

Financing Structure

- 15-year fixed rate loan.
- First (1st) lien position on property located at 2412 Buhne Street, Eureka, CA 95501, Humboldt County.
- A current appraisal of the collateralized property acceptable to the Authority.
- Loan to value ratio not to exceed 95% (estimated loan to value ratio of 41%).
- Corporate gross revenue pledge.
- The outstanding loan amount shall become due and payable should the Burre Dental Center’s lease be terminated for any reason.

Financial Overview: ODCHC’s income statement appears to have exhibited positive operating results with what appears to be continuously increasing net income over the review period. ODCHC’s financial strength appears is sound with approximately \$1 million in cash, and an adequate proforma debt service coverage of 1.61x.

Sources of Funds

HELP II Loan	\$491,000
Borrower funds	<u>380,000</u>
Total Sources	<u>\$871,000</u>

Uses of Funds

Remodeling & Expansion	\$863,000
Financing costs	<u>8,000</u>
Total Uses	<u>\$871,000</u>

Legal Review: Although disclosures were made by the applicant, the information disclosed does not appear to detrimentally affect the financial viability or legal integrity of the applicant.

Staff Recommendation: Staff recommends approval of a HELP II loan for Open Door Community Health Centers in an amount not to exceed \$491,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.

STAFF SUMMARY AND RECOMMENDATION
THE HELP II PROGRAM
 May 28, 2009
 Open Door Community Health Centers (“ODCHC”)
 Resolution Number: HII-241

I. PURPOSE OF FINANCING

Consolidate and modernize scattered dental locations **\$ 863,000**

ODCHC intends to use the HELP II loan proceeds, along with its own funds, to consolidate other existing dental sites, the Old Town Dental Center in Eureka and the Humboldt Open Door Clinic, into the Burre Dental Center facility. To accomplish this consolidation without losing dental capacity, the Burre Dental Center must be expanded from ten to sixteen operatories. Additionally, ODCHC will modernize its entire dental services.

The consolidation of dental services at the Burre Dental Center will result in the same number of dental operatories currently spread across the two locations in Eureka and one in Arcata, allowing operational savings through economies of scale, such as reduced front desk and receptions facilities, reduced sterilization facilities and centralized purchasing. Further, this consolidation will increase patient access to services through flexibility of scheduling, increased provider (dentist) availability and better ability to respond to patient emergencies. Moreover, during the consolidation, outdated equipment and IT infrastructure in the locations to be consolidated will be modernized to allow better service to patients.

ODCHC’s current lease agreement for the Burre Dental Center has 12 years remaining with the tenant option to extend it for an additional five years. The borrower will be required to execute a loan agreement containing a provision to make the loan due and payable in the event the Burre Dental Center lease is terminated for any reason. The Authority will be securing this loan with a first lien position on ODCHC’s property on 2412 Buhne Street, Eureka, CA 95501, Humboldt County, which has an estimated value of \$1.2 million. CHFFA will require a full appraisal of this property prior to loan closing.

Financing Costs **8,000**

Authority Fees.....	6,143
Title and Escrow.....	<u>1,857</u>

Total Uses of Funds **\$ 871,000**

II. FINANCIAL STATEMENTS AND ANALYSIS

Open Door Community Health Centers Statement of Activities Unrestricted

	For the Year Ended December 31,		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Unrestricted revenues and other support			
Patient service revenue, net	\$ 17,861,500	\$ 15,659,796	\$ 13,345,948
Grant revenue	4,622,777	4,170,994	4,007,183
Contributions	649,320	515,211	304,427
Other support	151,394	218,366	125,281
Total revenue and support	<u>23,284,991</u>	<u>20,564,367</u>	<u>17,782,839</u>
Expenses:			
Salaries and related expenses	14,736,059	13,522,693	11,606,092
Payroll related expenses	1,346,736	1,267,809	1,086,800
Healthcare services and supply	2,364,852	1,538,921	1,291,189
Occupancy expense	1,452,882	1,251,026	1,088,905
Depreciation and amortization	655,256	601,283	555,807
Equipment expenses	753,561	643,723	447,530
Contract services	546,505	465,187	622,785
Office expense	323,775	330,750	292,156
Training, development, education, and travel	322,526	287,978	291,130
Interest	309,431	264,102	244,417
Insurance	148,580	142,622	133,313
Other	101,095	89,651	32,891
Total expenses	<u>23,061,258</u>	<u>20,405,745</u>	<u>17,693,015</u>
Change in unrestricted net assets	223,733	158,622	89,824
Unrestricted net assets, beginning of year	<u>1,557,198</u>	<u>1,398,576</u>	<u>1,308,752</u>
Unrestricted net assets, end of year	<u>\$1,780,931</u>	<u>\$1,557,198</u>	<u>\$1,398,576</u>

Open Door Community Health Centers
Financial Position

	As of December 31,		
	2008	2007	2006
ASSETS:			
Current assets:			
Cash and cash equivalents	\$935,934	\$1,065,353	\$789,561
Assets limited as to use, current	95,572	85,718	88,619
Patient account receivable, net	2,541,403	2,198,926	2,103,607
Other receivables	55,621	126,577	392,269
Estimated third party payor settlements	517,400	398,724	379,521
Inventories	333,130	753,966	229,731
Prepaid assets and deposits	321,053	258,175	219,025
Total current assets	4,800,113	4,887,439	4,202,333
Assets limited as to use, net	104,236	116,520	116,520
Property and equipment, net	4,211,800	3,507,509	3,308,807
Total assets	\$9,116,149	\$8,511,468	\$7,627,660
LIABILITIES AND NET ASSETS:			
Current liabilities:			
Line of credit	\$486,512	\$630,518	\$761,161
Current maturities of debt borrowings	547,012	388,531	260,313
Account payable and accrued expenses	637,359	706,799	626,545
Accrued payroll and related liabilities	1,419,119	1,210,680	998,710
Deferred revenue	406,103	225,365	374,463
Total current liabilities	3,496,105	3,161,893	3,021,192
Debt borrowings, net of current maturities	3,839,113	3,792,377	3,207,892
Total liabilities	7,335,218	6,954,270	6,229,084
Unrestricted - total net assets	1,780,931	1,557,198	1,398,576
TOTAL LIABILITIES AND NET ASSETS	\$9,116,149	\$8,511,468	\$7,627,660

Financial Ratios:

Proforma (a)
FYE December, 2009

Debt service coverage (x)	1.61	1.70	1.97	1.61
Debt/Unrestricted Net Assets (x)	2.88	2.46	2.68	2.48
Margin (%)		1.37	1.55	1.39
Current Ratio (x)		1.37	0.77	1.39

(a) Recalculates 2008 audited results to include the impact of this proposed financing.

Financial Discussion:

ODCHC's income statement appears to exhibit positive operating results with seemingly continuously increasing net income in FY 2007 and FY 2008.

ODCHC is continuing to expand its operations to meet the changing needs of the community. Patient visits have increased from 138,000 in FY 2006 to 164,000 in FY 2008. Net Patient Revenue has increased from \$13.3 million in FY 2006 to \$17.9 million in FY 2008. Meanwhile, contributions and grant revenues have continued to grow over the review period. On the other hand, expenses have grown proportionally from \$17.7 million in FY 2006 to \$23 million in FY 2008 with the majority of the increase resulting from the increase in salary and related expenses, a nearly \$3.1 million increase over the review period.

ODCHC's financial strength appears sound with approximately \$1 million in cash, and adequate proforma debt service coverage of 1.61x.

In FY 2008, ODCHC's balance sheet appears sound with good liquidity of approximately \$1 million in cash and cash equivalents and a current ratio of 1.37x. ODCHC's proforma long-term debt to unrestricted net assets is a 2.88x, indicating ODCHC is highly leveraged. Meanwhile, debt service coverage is an adequate 1.70x and with the proposed financing, the proforma debt service coverage ratio continues to appear to be adequate at 1.61x, indicating ODCHC can likely manage the additional debt.

III. UTILIZATION STATISTICS

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

	2006	2007	2008
Totals	32,747/(138,151)	37,453/(157,985)	39,516/(167,118)

IV. ORGANIZATION

Background and Licensing

ODCHC was founded in 1971 as a storefront free clinic in Arcata California. Over the 37 years, ODCHC has grown to nine clinics and one mobile unit. It is one of the oldest and largest community clinic systems in northwest California. ODCHC is a private, non-profit, tax-exempt organization, administered under the supervision of a local volunteer Board of Directors. ODCHC services include: family practice, pediatrics, nutritional counseling, urgent and same day care, health education, smoking cessation, and chronic disease management among many other services. Member clinics of ODCHC are:

- Administration, Open Door Community Health Centers, Arcata;
- Humboldt Open Door Clinic, Eureka (1971);
- Eureka Community Health Center, Eureka (1991);
- McKinleyville Community Health Center, McKinleyville (1998);
- North County Clinic, Arcata (1976);
- Burre Dental Center, Eureka (2003);
- Old Town Dental Center, Eureka (2006);
- Telehealth & Visiting Specialist Center, Eureka (2006);
- Willow Creek Community Health Center, Willow Creek (2006);
- Del Norte Community Health Center, Crescent City (1990); and
- Mobile unit, Del Norte and Humboldt Counties.

V. OUTSTANDING DEBT

As of fiscal year ending December 31, 2008, ODCHC has approximately \$3.8 million in outstanding debt of which approximately \$268,000 is Authority debt. With this loan financing, ODCHC outstanding debt will increase by \$491,000 for a total of \$4.3 million in outstanding debt.

VI. DUE DILIGENCE

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

- Savings Pass Through: ODCHC has provided a description of its savings pass through in **Exhibit A**.
- Section 15459.1 of the Act (Community Service Requirement): ODCHC 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 approval of a HELP II loan for Open Door Community Health Centers in an amount not to exceed \$491,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.