

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

|                                     |   |                             |               |
|-------------------------------------|---|-----------------------------|---------------|
| <b>Applicant:</b>                   | East Valley Community Health Center<br>("EVCHC")<br>420 S. Glendora Avenue<br>West Covina, CA 91790<br>Los Angeles County | <b>Amount Requested:</b>    | \$750,000     |
|                                     |   | <b>Requested Loan Term:</b> | 15 years      |
|                                     |   | <b>Date Requested:</b>      | June 25, 2009 |
|                                     |   | <b>Resolution Number:</b>   | HII-243       |
| <b>Project Site:</b>                | Same  |                             |               |
| <b>Facility Type:</b>               | Community Clinic (Federally Qualified Health Center)  |                             |               |
| <b>Prior HELP II Loan Borrower:</b> | No  |                             |               |

**Background:** EVCHC is private, non-profit corporation founded in 1970. EVCHC has evolved from a free clinic that focused on family planning and counseling services into a comprehensive health care provider, operating facilities in West Covina and Pomona and currently employing over 130 staff. EVCHC has been a Federally Qualified Health Center since 2002.

**Uses of Loan Proceeds:** Loan proceeds will be used to refinance a portion of a construction line of credit (LOC) from Promerica Bank. EVCHC is obtaining the CHFFA loan to refinance the smaller portion of the LOC. In comparison to a commercial loan of \$750,000 at a fixed rate of 7%, the proposed financing will potentially save approximately \$281,000 over the life of the proposed HELP II loan.

**Financing Structure**

- 15-year fixed rate loan.
- 180 equal monthly payments of approximately \$5,179 (yearly payments of approximately \$62,152).
- Gross revenue pledge.
- A 2nd lien position on the property located at 420 S. Glendora Avenue, West Covina, CA.
- Combined loan to value ratio not to exceed 95%, estimated combined loan to value ratio of 78%.

**Financial Overview:** EVCHC's income statement appears to show positive operating results over the three year review period. EVCHC's balance sheet appears strong with adequate liquidity and acceptable debt service coverage of 1.36x, which appears to indicate that EVCHC will be able to meet its repayment obligation for the proposed HELP II loan.

| <b><u>Sources of Funds</u></b> |                    | <b><u>Uses of Funds</u></b>        |                    |
|--------------------------------|--------------------|------------------------------------|--------------------|
| Promerica Bank loan            | \$3,984,500        | Refinance construction credit line | \$4,883,000        |
| HELP II Loan                   | 750,000            | Financing costs                    | <u>12,125</u>      |
| Borrower Funds                 | <u>160,625</u>     | Total Uses                         | <u>\$4,895,125</u> |
| Total Sources                  | <u>\$4,895,125</u> |                                    |                    |

**Legal Review:** No information was disclosed to question the financial viability or legal integrity of the Applicant.

**Staff Recommendation:** Staff recommends approval of a HELP II loan for East Valley Community Health Center in an amount not to exceed \$750,000 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**

June 25, 2009

East Valley Community Health Center (“EVCHC”)

Resolution Number: HII-243

**I. PURPOSE OF FINANCING**

***Refinance bank loan* ..... **\$4,883,000****

The HELP II loan will refinance \$750,000 of a short-term construction line of credit (LOC) from Promerica Bank (currently with a balance of approximately \$4.88 million). The largest portion of the LOC will be refinanced by a fixed rate loan with Promerica Bank, with the remainder of the LOC paid by borrower funds. Promerica has a 65% maximum loan to value requirement and because of the declining value in the underlying property, EVCHC is obtaining the CHFFA loan to fund the remaining portion of the LOC.

The original LOC was a portion of the funding for a \$10 million construction project in West Covina, launched in 2004, which consisted of a separate lighted and landscaped parking location, street improvements, city mandated public artwork and a three-story 25,000 square foot facility located at 420 South Glendora Avenue, West Covina. The facility was completed in November 2008.

The proposed HELP II loan will be in the 2<sup>nd</sup> lien position, subordinate to the proposed Promerica Bank loan of approximately \$3.9 million. An executed copy of the Promerica Bank loan agreement with terms acceptable to the Authority will be required as a condition of closing. CHFFA has received a recent full appraisal report dated April 9, 2009 on the property securing the proposed HELP II, which indicates an estimated value of \$6.1 million, leading to a combined loan to value ratio of 78%, well below the maximum of 95% per HELP II guidelines.

|   |              |                               |
|---|--------------|-------------------------------|
| <b><i>Financing Costs</i></b>               |              | <b><u>12,125</u></b>          |
| <i>Title and Escrow fee</i> .....           | \$2,750      |                               |
| <i>Authority fee</i> .....                  | <u>9,375</u> |                               |
| <br><b><i>Total Uses of Funds</i></b> ..... |              | <br><b><u>\$4,895,125</u></b> |

## II. FINANCIAL STATEMENTS AND ANALYSIS

**East Valley Community Health Center, Inc.**  
**Statement of Activities**  
(Unrestricted)

|  | <b>For the year ended June 30</b> |                     |                     |
|--|-----------------------------------|---------------------|---------------------|
|  | <b>2008</b>                       | <b>2007</b>         | <b>2006</b>         |
| <b><u>Support and Revenue</u></b>            |                                   |                     |                     |
| Net patient revenues                         | \$ 5,556,517                      | \$ 5,795,666        | \$ 4,848,660        |
| Grant revenue                                | 3,759,658                         | 3,626,514           | 3,299,544           |
| Other income                                 | 649,124                           | 1,129,876           | 1,973,483           |
| Total support and revenue                    | <u>9,965,299</u>                  | <u>10,552,056</u>   | <u>10,121,687</u>   |
| <b><u>Expenses</u></b>                       |                                   |                     |                     |
| Employee Compensation and benefits           | 6,203,598                         | 5,460,641           | 5,222,675           |
| Medications/dispensary                       | 1,111,913                         | 1,712,528           | 2,244,958           |
| Consulting services                          | 782,306                           | 895,427             | 681,951             |
| Lab costs                                    | 360,215                           | 402,424             | 283,925             |
| Rent   | 346,082                           | 357,555             | 296,561             |
| Medical supplies                             | 222,506                           | 224,927             | 217,047             |
| Facilities maintenance                       | 206,309                           | 142,109             | 45,244              |
| Depreciation and amortization                | 140,822                           | 194,811             | 116,496             |
| Telephone and Utilities                      | 139,628                           | 125,266             | 132,988             |
| Supplies                                     | 130,519                           | 136,068             | 231,564             |
| General administration                       | 118,109                           | 159,325             | 85,075              |
| Postage and Printing                         | 114,248                           | 89,943              | 120,539             |
| Accounting and professional                  | 70,567                            | 52,460              | 58,373              |
| Fundraising event                            | 59,502                            | 87                  | 22,178              |
| Insurance                                    | 52,454                            | 51,466              | 267,216             |
| Travel                                       | 49,879                            | 44,965              | 60,981              |
| Training                                     | 42,984                            | 33,964              | 38,328              |
| Interest                                     | 33,737                            | 6,239               | 2,237               |
| Equipment lease and rental                   | 31,481                            | 25,864              | 30,260              |
| Medical waste                                | 30,245                            | 24,295              | 22,351              |
| Membership/dues                              | 23,428                            | 21,620              | 25,342              |
| Program incentives                           | 19,199                            | 30,009              | 31,186              |
| Miscellaneous                                | 19,070                            | 15,799              | 10,432              |
| License and permits                          | 18,030                            | 7,626               | 6,945               |
| Special event                                | 11,691                            | 7,698               | 9,813               |
| Educational materials                        | 6,767                             | 9,692               | 18,209              |
| Advertising                                  | 5,085                             | 62,570              | 7,550               |
| Property taxes                               | 4,752                             | 5,133               | 2,131               |
| Minor equipment                              | 4,639                             | 9,165               | 19,506              |
| Subscriptions                                | 2,098                             | 579                 | 2,254               |
| Bank charges                                 | 931                               | 3,806               | 1,445               |
| Other  | 508                               | 32,456              | -                   |
| Total expenses                               | <u>10,363,302</u>                 | <u>10,346,517</u>   | <u>10,315,760</u>   |
| Loss on grants                               | (3,718)                           | (23,624)            | -                   |
| Loss on disposal of building                 | -                                 | -                   | (51,128)            |
| Contributions from Donors                    | 1,091,185                         | 2,848,184           | 489,994             |
| <b>Change in unrestricted net assets</b>     | <b>689,464</b>                    | <b>3,030,099</b>    | <b>244,793</b>      |
| Unrestricted net assets at beginning of year | 5,058,627                         | 2,085,653           | 1,840,860           |
| Prior period adjustment                      | (40,383)                          | (57,125)            | -                   |
| Unrestricted net assets end of year          | <u>\$ 5,707,708</u>               | <u>\$ 5,058,627</u> | <u>\$ 2,085,653</u> |

**East Valley Community Health Center, Inc.**  
**Statement of Financial Position**

|   | <b>As of June 30,</b>      |                            |                            |
|---|----------------------------|----------------------------|----------------------------|
|   | <b>2008</b>                | <b>2007</b>                | <b>2006</b>                |
| <b><u>Assets:</u></b>                       |                            |                            |                            |
| Cash  | \$ 672,778                 | \$ 738,802                 | \$ 417,354                 |
| Net patient accounts receivable             | 498,747                    | 671,768                    | 599,644                    |
| Grants and other receivable                 | 650,778                    | 548,428                    | 583,584                    |
| Inventory                                   | 70,847                     | 48,254                     | 60,936                     |
| Prepaid and deposits                        | 80,520                     | 80,173                     | 76,142                     |
| Cash restricted for acquisition of property | 352,864                    | 1,392,362                  | 780,332                    |
| Total Current Assets                        | <u>2,326,534</u>           | <u>3,479,787</u>           | <u>2,517,992</u>           |
| Property and equipment, net                 | 10,575,217                 | 4,088,165                  | 1,462,457                  |
| Total Assets                                | <u><u>\$12,901,751</u></u> | <u><u>\$ 7,567,952</u></u> | <u><u>\$ 3,980,449</u></u> |
| <b><u>Liabilities &amp; Net Assets:</u></b> |                            |                            |                            |
| Accounts payable                            | \$ 443,981                 | \$ 660,784                 | \$ 477,635                 |
| Estimated third-party settlements           | -                          | 1,102,030                  | 711,828                    |
| Accrued expenditures                        | 1,073,630                  | 275,098                    | 276,376                    |
| Advances from grants                        | 377,492                    | 251,653                    | 262,600                    |
| Line of credit                              | -                          | -                          | 152,806                    |
| Loan payable                                | 4,151,655                  | 98,310                     | 2,558                      |
| Current portion long-term debt              | 211,219                    | 32,418                     | -                          |
| Total Current Liabilities                   | <u>6,257,977</u>           | <u>2,420,293</u>           | <u>1,883,803</u>           |
| Other liabilities - net of current portion  | 936,066                    | 89,032                     | 10,993                     |
| Total Liabilities                           | <u>7,194,043</u>           | <u>2,509,325</u>           | <u>1,894,796</u>           |
| Unrestricted Net Assets                     | 5,707,708                  | 5,058,627                  | 2,085,653                  |
| Total Liabilities & Unrestricted Net Assets | <u><u>\$12,901,751</u></u> | <u><u>\$ 7,567,952</u></u> | <u><u>\$ 3,980,449</u></u> |

**Financial Ratios:**

|                                  | <b><u>Proforma (a)</u></b> |              |               |              |
|----------------------------------|----------------------------|--------------|---------------|--------------|
| Debt Service Coverage (x)        | <b>1.36</b>                | <b>10.93</b> | <b>367.30</b> | <b>76.61</b> |
| Debt/Unrestricted Net Assets (x) | <b>0.33</b>                | <b>0.20</b>  | <b>0.02</b>   | <b>0.01</b>  |
| Margin (%)                       |                            | <b>2.46</b>  | <b>28.72</b>  | <b>2.42</b>  |
| Current Ratio (x)                |                            | <b>0.37</b>  | <b>1.44</b>   | <b>1.34</b>  |

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

## **Financial Discussion – Statement of Activities (Income Statement)**

**EVCHC's income statement appears to show positive operating results over the three-year review period.**

Over the three-year review period, EVCHC has had positive operating results supported by positive unrestricted net assets and a 15% increase in Net patient revenues. The increases in patient revenue can be attributed to the 10% increase in the number of patients served from FY 2006 to FY 2008, and 2% increase in the number of patient visits. Despite increases in the number of patients and the number of visits, operating expenses have remained relatively stable since 2006. This was accomplished, in large part by employing mid-level providers, such as nurse practitioners and physician assistants and by using contract providers.

### **Important Facts to Note:**

- Unrestricted net assets increased from \$2.1 million in FY 2006 to \$5.7 million in FY 2008, largely as a result of substantial private foundation revenues, which were dedicated to the construction project.
- Total support and revenue has decreased slightly from \$10.1 million in FY 2006 to \$9.9 million in FY 2008, due to a 67% decrease in other income. Other income has declined over the years because of the change in the eligibility requirements for the patient assistance program from pharmaceutical companies, which was recorded as "in kind" revenue.

## **Financial Discussion – Statement of Financial Position (Balance Sheet)**

**EVCHC's balance sheet appears strong with adequate liquidity and acceptable debt service coverage, which appears to indicate that EVCHC will be able to meet its repayment obligation for the proposed HELP II loan.**

The construction of the new West Covina facility has a significant effect on the balance sheet over the reporting period, which has led to increases in property and equipment, loan payable and long-term debt.

### **Important Facts to Note:**

- The total current assets have decreased slightly from FY 2006 to FY 2008, while total current liabilities have increased from FY 2006 to FY 2008. Total current assets are over \$2.3 million. Current liabilities increased substantially due to a short-term LOC for construction obtained from Promerica during FY 2008, which impacts the current ratio of .37x. The proposed financing will improve the current ratio to an acceptable 1.10x.
- Over the reporting period, accounts receivables have decreased by 17%, due to an emphasis on timely and accurate billing and prompt recording of cash remittances.

- The proforma debt service coverage ratio, is acceptable at 1.36x. This ratio includes both the proposed \$3.9 million Promerica Bank loan and the HELP II loan, thus EVCHC appears to have the ability to comfortably meet its loan repayment obligation for the proposed HELP II loan.

### III. UTILIZATION STATISTICS

#### Clients Served / (Patient Visits) Year Ended December 31

|               | <u>2008</u>       | <u>2007</u>       | <u>2006</u>       |
|---------------|-------------------|-------------------|-------------------|
| <b>Totals</b> | 28,574 / (73,316) | 27,548 / (68,206) | 25,975 / (71,759) |

### IV. ORGANIZATION

#### Background

EVCHC, is private, non-profit corporation founded in 1970. EVCHC has evolved from a free clinic that focused on family planning and counseling service, from 1970 to 1980, into a comprehensive health care provider. EVCHC has been a Federally Qualified Health Center since 2002 and operates facilities in West Covina and Pomona and currently employs over 130 staff. Over 94% of the patients receiving services at EVCHC are below the 200% poverty level. 89% of patients do not have any type of health insurance and receive services under public and private contracts and grants and a sliding fee scale.

Services provided include: Adult Family Practice; Pediatrics; Prenatal and Postnatal Care; Women’s Health Care; Family Planning; HIV/AIDS Care; Dental Health; Mental Health; Nutrition and Health Education. EVCHC also provides case management services and pharmacy services for uninsured patients.

#### Licenses

EVCHC is licensed by the California Department of Public Health to operate and maintain a Community Clinic.

## V. OUTSTANDING DEBT

| <u>Date Issued</u>                        | <u>Original Amount</u> | <u>Amount Outstanding* As of June 30, 2008</u> | <u>Estimated Amount Outstanding after Proposed Financing</u> |
|---|------------------------|--|--|
| <b>Existing Long-Term Debt:</b>           |                        |  |  |
| Promerica Bank – Construction Credit Line | \$4,883,000            | \$4,151,655                                    | \$0  |
| Department of Health Care Services        | 1,135,125              | 1,012,369                                      | 1,012,369  |
| NCB Capital Impact                        | 165,689                | 89,078   | 89,078   |
| <b>Proposed</b>                           |                        |  |  |
| <b>CHFFA HELP II, 2009</b>                |                        | N/A  | <b>750,000</b>   |
| Promerica Bank, 2009                      |                        | N/A  | 3,900,000 <sup>+</sup>                                       |
| <b>TOTAL DEBT</b>                         |                        | <b><u>\$5,253,102</u></b>                      | <b><u>5,751,447</u></b>                                      |

\*Includes current portion of long-term debt.

+ The remaining balance of the Construction Credit Line will be refinanced by a permanent loan of approximately \$3.9 million.

## VI. DUE DILIGENCE:

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

- Savings Pass Through: EVCHC has provided a description of its savings pass through in **Exhibit A**.
- Section 15459.1 of the Act (Community Service Requirement): EVCHC 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 East Valley Community Health Center in an amount not to exceed \$750,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.