

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

<p>Applicant: Seneca Healthcare District (“Seneca”) 130 Brentwood Drive Chester, California, 96129 Plumas County</p> <p>Project Site: 199 Reynolds Road, Chester, California 96020 (Plumas County)</p> <p>Facility Type: General Acute Care Hospital</p> <p>Prior HELP II Borrower: No (Prior Medi-Cal loan bridge program recipient)</p>	<p>Amount Requested: \$750,000</p> <p>Requested Loan Term: 15 years</p> <p>Date Requested: March 25, 2010</p> <p>Resolution Number: HII-247</p>
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Background: Established in 1952 for the residents of Plumas County, Seneca operates three facilities including acute care, skilled nursing and a rural health clinic. Revenues for this organization are derived from Medicare, Medi-Cal, Health Maintenance Organizations (HMOs), Preferred Provider Organizations (PPO’s) and various tax revenues.

Uses of Loan Proceeds: Loan proceeds will be used to refinance a portion of an existing variable rate loan, which currently has a balance of approximately \$920,000. The refinance of this loan will reduce the variable interest rate from 6.5% to 3%, resulting in a monthly savings of approximately \$11,000.

Financing Structure

- 15-year fixed rate loan. 180 equal monthly payments of approximately \$5,179 (yearly payments of approximately \$62,148)
- First (1st) lien position on the property located at 199 Reynolds Road, Chester, California 96020
- 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 33%).
- Corporate gross revenue pledge.

Financial Overview: Seneca’s income statement appears to exhibit an improvement in operating results during CHFFA’s review period. The proforma debt service coverage ratio is a sound 3.56x, indicating Seneca should be able to repay the proposed HELP II loan.

Parties of Interest:

Plumas Bank
Cal-Sierra Title Company
(Included for the purpose of discerning Conflicts of Interest)

<u>Sources of Funds</u>		<u>Uses of Funds</u>	
HELP II Loan, (1 st)	\$750,000	Refinance loan	\$920,000
Plumas Bank, (2 nd)	132,500	Financing costs	11,375
Borrower Funds	37,500	Total Uses	<u>\$931,375</u>
Loan Fees	<u>11,375</u>		
Total Sources	<u>\$931,375</u>		

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

Staff Recommendation: Staff recommends approval of Resolution Number HII-247 for Seneca Healthcare District 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. Macias Gini & O’Connell, LLP., the Authority’s financial analyst, has reviewed all relevant financial documentation submitted by Seneca and has advised of its concurrence with the Authority’s staff recommendations.

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

March 25, 2010

Seneca Healthcare District (“Seneca”)

Resolution Number: HII-247

I. PURPOSE OF FINANCING: Seneca plans to refinance an existing loan in order to lower its interest rate from an existing 6.5% to 3%. According to the borrower, this refinancing will enable Seneca to increase its cash flow and redirect the cost savings toward improvement of services and projects.

***Refinance loan with Plumas Bank* \$ 920,000**

Seneca intends to refinance an existing loan of \$920,000 with Plumas Bank. The original loan was obtained in August 1995 and was used for the construction of the current Seneca location at 199 Reynolds Road, Chester, California 96020. This loan has a current variable interest rate of 6.5% with a monthly payment of \$16,207 and is secured by the aforementioned real property which includes an 18,000 square foot building. The facility is used to provide services for general acute care and skilled nursing for 26 adults and is licensed as a general acute care hospital.

The refinance of this existing loan will reduce the variable interest rate as mentioned above, saving Seneca approximately \$11,000 in monthly payments. In addition, this refinance will provide Seneca a stable interest rate, eliminating the uncertainty of a variable interest rate loan.

According to Seneca’s management, the estimated value of the facility is \$2.25 million. Seneca is in the process of having the property appraised. CHFFA will close this loan, contingent upon receipt of a full appraisal demonstrating satisfaction of the Authority’s maximum loan to value ratio of 95%.

As part of the transaction, Plumas Bank will hold a second (2nd) lien position for the balance of the loan with the current terms, which includes a variable interest rate (presently at 6.5%) that does not exceed more than .50% over the Index Rate (Plumas Bank Base Rate) or an increase/decrease more than 1%. The loan is due to mature August, 2015 and will be paid in full.

***Financing Costs* 11,375**

Authority Fees.....	\$9,375
Title and Escrow	<u>2,000</u>

***Total Uses of Funds* \$ 931,375**

II. FINANCIAL STATEMENTS AND ANALYSIS

Seneca Healthcare District Statement of Activities

	For the Year Ended June 30,		
	2009	2008	2007
Revenue and Support:			
Net patient revenue	\$ 11,831,044	\$ 11,488,473	\$ 11,321,501
Other operating revenue	99,744	113,445	146,530
Total revenue and support	11,930,788	11,601,918	11,468,031
Operating Expenses:			
Salaries and wages	4,033,169	4,073,178	3,967,722
Employee benefits	1,023,222	1,058,898	1,145,705
Professional fees	3,213,157	2,809,228	2,744,771
Purchased services	1,064,945	1,030,075	813,945
Supplies	797,981	815,718	851,767
Rapairs and maintenance	174,206	192,043	108,449
Utilities and telephone	229,360	247,980	281,181
Rentals and leases	148,575	142,398	153,903
Insurance	100,816	105,362	122,490
Depreciation and amortization	400,838	426,802	462,717
Provision for bad debts	678,807	1,144,320	1,468,880
Other operating expenses	105,564	89,238	109,292
Total operating expenses	11,970,640	12,135,240	12,230,822
Operating loss	(39,852)	(533,322)	(762,791)
Non-operating revenue (expenses):			
District tax revenues	568,941	1,037,693	979,393
Non-capital grant revenues	1,628	675	9,401
Investment income	12,134	13,151	9,944
Interest expenses	(138,889)	(174,692)	(187,952)
Total non-operating revenue (expenses)	443,814	876,827	810,786
Excess of revenue (expenses)	403,962	343,505	47,995
Capital grants and contributions	180,523	23,580	75,246
Increase in net assets	584,485	367,085	123,241
Net assets, beginning of year	2,946,565	2,579,480	2,456,239
Net assets, end of year	\$ 3,531,050	\$ 2,946,565	\$ 2,579,480

Seneca Healthcare District
Financial Position

	As of June 30,		
	2009	2008	2007
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 128,022	\$ 116,229	\$ 81,236
Patient accounts receivable, net of allowances	2,368,766	2,175,453	2,373,919
Other receivables	56,136	77,270	122,841
Estimated third party payor settlements	150,778	251,512	-
Supplies	291,371	277,591	267,849
Prepaid expenses and deposits	5,610	10,415	17,250
Total current assets	3,000,683	2,908,470	2,863,095
Assets limited as to use	160,630	150,418	148,931
Capital assets, net of accumulated depreciation	3,163,053	3,171,859	3,417,073
Other assets	16,497	19,068	21,639
Total assets	6,340,863	6,249,815	6,450,738
 LIABILITIES AND NET ASSETS:			
Current liabilities:			
Current maturities of long-term debt	\$ 299,133	\$ 309,264	\$ 310,593
Accounts payable and accrued expenses	933,801	1,180,577	1,461,856
Accrued payroll and related liabilities	317,173	243,856	249,444
Estimated third party payor settlements	-	-	82,703
Total current liabilities	1,550,107	1,733,697	2,104,596
 Long-term debt, net of current maturities	1,259,706	1,569,553	1,766,662
Total liabilities	2,809,813	3,303,250	3,871,258
 Net assets:			
Invested in capital assets, net of related debt	1,604,214	1,293,042	1,339,818
Unrestricted	1,926,836	1,653,523	1,239,662
Total net assets	3,531,050	2,946,565	2,579,480
 TOTAL LIABILITIES AND NET ASSETS	\$6,340,863	\$6,249,815	\$6,450,738

Financial Ratios:	Proforma (a) <u>FYE June 30, 2009</u>	As of June 30,		
		2009	2008	2007
Debt service coverage (x)	3.56	2.51	2.00	1.55
Debt/Unrestricted Net Assets (x)	0.67	0.81	1.14	1.68
Margin (%)		3.12	2.61	0.23
Current Ratio (x)		1.94	1.68	1.36

(a) Recalculates FY 2009 audited results to include the impact of this proposed financing.

Financial Discussion:

Seneca's income statement appears to exhibit improved operating results during the review period.

During the review period, net assets appear to have increased from approximately \$123,000 in FY 2007 to \$584,000 in FY 2009. According to the borrower, this increase is a result of higher patient revenues combined with cost containment measures implemented by Seneca.

Particular Facts to Note:

- Net patient revenue (includes Medicare, Medi-Cal, HMOs and PPOs constitutes of approximately 99% of Seneca's revenues. Other operating revenue, (which consists of revenue from non patient food sales, medical record copy fees, collection agency recoveries, physician rent and health fairs) experienced a decrease from FY 2007 to 2009. According to the borrower, this reduction was due to a decrease in revenue from collection agencies and physicians rent as well as an absence of a health fair in FY 2008. Seneca also experienced a decrease in district revenue tax due to the expiration of a special assessment tax in June 2008. Professional fees increased by 17% due to additional services offered in orthopedics and pain management beginning in December 2009.
- According to the borrower, Seneca has received revenues derived from two separate county taxes including perpetuity property tax and a special assessment property tax, each worth approximately \$500,000 annually. The special assessment property tax was a 5-year tax that expired during FY 2008/2009 year, but Seneca will continue to receive the perpetuity property tax. According to Seneca during the FY 2008/2009 year, Seneca did not receive the special assessment property tax and maintained operations adequately.
- Seneca's patient visits have modestly declined while revenues have gradually increased. According to the borrower, Seneca was certified as a Critical Access Hospital in September 2007. Overall, this has helped with revenue and cash flow for Medicare patients. Due to an expansion of services, total inpatient volumes have increased from FY 2007 to FY 2009 by 12.5% or 105 patient days. The combination of both has increased Seneca's Medicare Net Revenue by approximately \$500,000.
- According to the borrower, in recent years Seneca has improved its cash collection process, collecting 13% more cash or \$1,325,522. Through January FY 2010, projected total cash is about \$12 million. After expenses, this has allowed Seneca to reduce their Accounts Payable by 45% or \$661,293. Seneca's long term Accounts Payable goal is \$650k, which they anticipate reaching by June 2010. Once the Account Payable goal is met, Seneca plans to focus on restoring cash reserves. In addition, Seneca has deposited an additional \$35,000 in their cash reserves, which is a board restricted account. Seneca also plans on restoring their cash reserves shortly through their increased business due to an expansion in services.

Seneca's financial strength appears sound with a proforma debt service coverage ratio of 3.56x.

Seneca's cash position has increased from approximately \$81,000 in FY 2007 to \$128,000 in FY 2009. This increase was a result of a one-time cash donation received in 2009 for the purchase of medical equipment. Seneca's proforma debt-to-unrestricted net assets ratio is an acceptable .67x, while Seneca maintains adequate liquidity with a current ratio of 1.94x.

The existing debt service coverage ratio is 2.51x and the proforma debt service coverage ratio improves to 3.56x, indicating Seneca should be able to repay the HELP II loan.

III. UTILIZATION STATISTICS

**Patient Visits
Fiscal Year Ended June 30,**

	2009	2008	2007
Totals	28,576	30,556	33,315

IV. ORGANIZATION

Background

Seneca Healthcare District was established in 1952 to meet the healthcare needs of the Plumas area residents. The agency is governed by a volunteer Board of Directors and employs a staff of 116+ individuals to administer and provide the hospital's general acute care and skilled nursing services.

Licensing:

Seneca is licensed by the California Department of Public Health to operate and maintain a general acute care hospital, which is located at 130 Brentwood Drive, Chester, CA 96020.

V. OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding* As of June 30, 2009</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
Existing Long-Term Debt:			
USDA Loan #1, 2007	\$39,500	\$35,507	\$35,507
USDA Loan #2, 2007	27,070	24,332	24,332
USDA Loan #3, 2007	5,392	4,800	4,800
Siemens Medical, 2008	25,412	17,357	17,357
Siemens Medical, 2008	13,000	9,086	9,086
Siemens Medical, 2008	105,927	72,415	72,415
C.I.T. Financial, 2006	65,712	20,339	20,339
Siemens Medical SVC, 2007	403,903	178,585	178,585
Plumas Bank Loan, 1995	*2,017,317	*919,957	-0-
Enloe Notes Payable, 2005	212,230	133,538	133,538
Proposed			
CHFFA HELP II, 2010		N/A	750,000
Plumas Bank, 2010		N/A	132,457
TOTAL DEBT		\$1,415,916	\$1,378,416

* Includes current portion of long-term debt.

VI. DUE DILIGENCE

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

- **Section 15438.5(a) of the Act (Savings Pass Through):** Seneca properly completed and submitted the “Pass-Through Savings Certification,” in addition to a narrative explaining how it intends to pass through savings.
- **Section 15491.1 of the Act (Community Service Requirement):** Seneca properly completed and submitted this certification and indicated that Medi-Cal and Medicare patients are accepted.
- Religious Due Diligence
- Legal Review

VII. STAFF RECOMMENDATION

Staff recommends approval of Resolution Number HII-247 for Seneca Healthcare District 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.