

**CHFFA HELP II PROGRAM
EXECUTIVE SUMMARY**

| <p>Applicant: Vista Community Clinic (“VCC”) 1000 Vale Terrace Vista, California 92084 San Diego County</p> <p>Project Site: Same as above.</p> <p>Facility Type: Community Clinic Federally Qualified Health Center</p> <p>Prior HELP II Borrower: Yes (current loan balance is \$235,000¹).</p> | <p>Amount Requested: \$525,000</p> <p>Requested Loan Term: 15 year fixed</p> <p>Authority Meeting Date: September 2, 2010</p> <p>Resolution Number: HII-253</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---|------------------------------------|----------------------------|---------------------------------|--|-------------|--------------|--------------------|--------------|-----------------|-----------|-----------------|-------|---------------|---------|--|--|-----------|---------|--|--|-----------|--------------|--|--|----------------------|----------------------------|-------------------|----------------------------|
| <p>Issue to Note: VCC’s gross revenues exceed the current HELP II \$30 million gross revenue ceiling by approximately 1%. VCC’s audited statement of financial position for FY 09 reflects gross revenues of approximately \$30.1 million. Staff nevertheless recommends the Authority consider this proposed loan for the reasons more particularly discussed on page two herein.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Background: VCC is a nonprofit organization operating healthcare facilities at five sites in San Diego County. VCC provides a variety of medical, dental, mental health and health education services providing low-cost, high quality, comprehensive primary care services to residents of the Northern San Diego County area.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Uses of Loan Proceeds: Loan proceeds will be used to construct a new 31,000 square foot facility next to VCC’s main clinic and a parking structure on property the applicant currently owns.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Financing Structure:</p> <ul style="list-style-type: none"> • 180 monthly payments of approximately \$3,626 (yearly payments of approximately \$43,507). • Second (2nd) lien position (behind CHFFA’s existing 1st) on the property located at 1000 Vale Street, Vista, California 92084. • Combined loan to value ratio not to exceed 95% (estimated combined loan to value ratio is 25%). • Corporate gross revenue pledge. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Financial Overview: VCC’s income statement appears to exhibit positive operating results with continued revenue growth related to an increase in patient services. VCC’s balance sheet appears strong with good liquidity, a strong current ratio, and significant net assets. In addition, the proforma debt service coverage is a very solid 46.98x.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: left;"><u>Estimated Sources of Funds:</u></th> <th colspan="2" style="text-align: left;"><u>Estimated Uses of Funds:</u></th> </tr> </thead> <tbody> <tr> <td style="width: 50%;">HRSA Grant*</td> <td style="width: 25%; text-align: right;">\$11,470,000</td> <td style="width: 50%;">Construction costs</td> <td style="width: 25%; text-align: right;">\$20,384,000</td> </tr> <tr> <td>Borrowers funds</td> <td style="text-align: right;">8,000,000</td> <td>Financing costs</td> <td style="text-align: right;">9,320</td> </tr> <tr> <td>HELP II funds</td> <td style="text-align: right;">525,000</td> <td></td> <td></td> </tr> <tr> <td>Donations</td> <td style="text-align: right;">389,000</td> <td></td> <td></td> </tr> <tr> <td>Loan Fees</td> <td style="text-align: right;"><u>9,320</u></td> <td></td> <td></td> </tr> <tr> <td>Total Sources</td> <td style="text-align: right;"><u>\$20,393,320</u></td> <td>Total Uses</td> <td style="text-align: right;"><u>\$20,393,320</u></td> </tr> </tbody> </table> | | <u>Estimated Sources of Funds:</u> | | <u>Estimated Uses of Funds:</u> | | HRSA Grant* | \$11,470,000 | Construction costs | \$20,384,000 | Borrowers funds | 8,000,000 | Financing costs | 9,320 | HELP II funds | 525,000 | | | Donations | 389,000 | | | Loan Fees | <u>9,320</u> | | | Total Sources | <u>\$20,393,320</u> | Total Uses | <u>\$20,393,320</u> |
| <u>Estimated Sources of Funds:</u> | | <u>Estimated Uses of Funds:</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HRSA Grant* | \$11,470,000 | Construction costs | \$20,384,000 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Borrowers funds | 8,000,000 | Financing costs | 9,320 | | | | | | | | | | | | | | | | | | | | | | | | | | |
| HELP II funds | 525,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Donations | 389,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Loan Fees | <u>9,320</u> | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total Sources | <u>\$20,393,320</u> | Total Uses | <u>\$20,393,320</u> | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>*The Health Resources and Services Administration (HRSA) awarded VCC a Facility Improvement Plan Grant. Staff has received and reviewed the Notice of Grant Award provided by VCC.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through and Community Service Requirement documentation. All documentation satisfies the Authority’s requirements.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Parties of Interest: <i>(Included for the purpose of discerning conflicts of interest)</i> Chicago Title Company</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Staff Recommendation: Staff recommends approval of Resolution Number HII-253 for Vista Community Clinic in an amount not to exceed \$525,000, 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, concurs with the Authority’s staff recommendations.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

¹ Staff notes this existing balance, combined with the proposed loan exceeds the HELP II maximum loan amount of \$750,000 by \$10,000. However, by the time the proposed loan closes (estimated for March 2011), the outstanding HELP II loan balance of the first loan will be reduced to such a level as to bring the combined loan balance to less than the \$750,000 maximum.

I. ISSUE TO NOTE:

The HELP II program is intended to benefit eligible small health facilities whose annual revenues are less than \$30 million. VCC’s audited statement of financial position for FY 09 reflects gross revenues of approximately \$30.1 million. While VCC’s gross revenues exceed the maximum by approximately 1%, these revenues are inclusive of roughly \$1.5 million in grants for the expansion of its Grapevine clinic and the implementation of an electronic health records system. VCC also received an increase in federal funding for HIV, family planning, and after school programs. The Authority has previously approved similar requests in which the applicants were 6% and 7% in excess of the maximum annual gross revenue limit.

This transaction presents the Authority with a unique and meaningful opportunity to assist a vital organization in San Diego County. Nearly 90,000 residents in the cities of Vista and Oceanside have incomes below the 200% poverty line and nearly 45,000 residents in north coastal San Diego County are uninsured. In FY 09, VCC served approximately 56,291, which included nearly 210,954 patient visits, a 15% increase compared to FY 08. Staff recommends the Authority permit this financing, notwithstanding the fact that VCC’s gross revenues reached \$30.1 million for FY 09.

II. PURPOSE OF FINANCING: VCC seeks to complete a major expansion of VCC’s main clinic located in Vista, California, with a cost of \$20.3 million. It is anticipated the expansion will accommodate an additional 12,000 new patients and approximately 43,000 additional patient visits annually. Additionally, the new clinic will improve operational efficiencies and allow the expansion of critical health care services in San Diego County.

Construct a 31,000 square foot facility \$20,384,000

VCC intends to construct a new 31,000 square foot facility situated on approximately 2.2 acres (currently owned by VCC), located at 1000 Vale Terrace in Vista, CA. According to VCC, the new facility will accommodate women’s health services, maternal and child health, clinical programs, patient classrooms and conference rooms. The current facility will be utilized for pediatrics, adult medicine, and dental services. The construction of the new facility began in July 2010 and is expected to be completed in December 2011.

VCC will use internal funds of approximately \$8 million, along with HRSA approved grant funds of \$11.4 million, in addition to the HELP II loan funds.

The proposed HELP II loan will be secured by a second (2nd) lien position on property owned by VCC located at 1000 Vale Terrace in Vista, CA 92084. Although, CHFFA will be in a second (2nd) lien position, CHFFA currently holds the first (1st) lien position for a loan financed by CHFFA in 2003 for \$400,000 on the same property. Though the current loan balance is approximately \$235,000 and the combined balance of both loans would exceed the HELP II loan maximum of \$750,000, Vista does not anticipate closing the new HELP II loan until March 2011 at which time, the existing loan balance will be approximately \$217,959, thereby reducing the combined HELP II balance to less than the HELP II \$750,000 maximum.

With the proposed loan, the combined loan to value ratio on the aforementioned property is a modest 25%. Staff has permitted Vista to supply an "as is" appraisal on this property, but is requiring the appraisal to demonstrate a value in excess of \$3 million which will be required prior to closing. VCC anticipates the new facility will significantly increase the value of the property once the construction has been completed.

The project is designed to meet LEED Silver specifications as an environmentally friendly construction project and building design.

| | | |
|--------------------------------------|--------------|----------------------------|
| Financing Costs | | <u>9,320</u> |
| Authority Fees | \$6,563 | |
| Title and Escrow | <u>2,757</u> | |
| Estimated Uses of Funds | | <u>\$20,393,320</u> |

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III. FINANCIAL STATEMENTS AND ANALYSIS

Vista Community Clinic, Inc.

Statement of Activities

| | For the Year Ended June 30, | | |
|---|-----------------------------|---------------------|---------------------|
| | 2009 | 2008 | 2007 |
| Change in Unrestricted Net Assets: | | | |
| Revenue and other support: | | | |
| Patient and third party revenue, net* | \$ 19,700,427 | \$ 17,215,677 | \$ 16,929,370 |
| Grant and contract revenue | 8,667,491 | 7,384,945 | 6,910,381 |
| Contributions | 264,610 | 472,007 | 515,510 |
| Other | 506,078 | 703,035 | 993,829 |
| Net assets released from restriction | 1,001,659 | 308,372 | - |
| Total unrestricted revenue and other support | <u>30,140,265</u> | <u>26,084,036</u> | <u>25,349,090</u> |
| Expenses: | | | |
| Salaries and benefits | 18,398,401 | 17,182,250 | 15,912,438 |
| Medical supplies and drugs | 2,381,522 | 2,152,781 | 1,925,129 |
| Other operating expenses | 2,104,441 | 1,852,337 | 2,152,556 |
| Contract services | 1,562,446 | 1,598,804 | 1,321,240 |
| Space costs | 865,065 | 831,281 | 851,478 |
| Depreciation | 458,696 | 491,302 | 511,434 |
| Travel, conferences and meetings | 242,734 | 241,774 | 217,992 |
| Insurance | 175,509 | 161,024 | 142,888 |
| Provisions for bad debts | 165,124 | 136,540 | 130,045 |
| Total expenses | <u>26,353,938</u> | <u>24,648,093</u> | <u>23,165,200</u> |
| Excess of Revenue over Expenses | 3,786,327 | 1,435,943 | 2,183,890 |
| Change in net unrealized gains and losses | <u>(652,224)</u> | <u>(66,799)</u> | <u>-</u> |
| Increase in unrestricted net assets | 3,134,103 | 1,369,144 | 2,183,890 |
| Change in temporarily restricted net assets: | | | |
| Contributions | 146,849 | 1,194,902 | - |
| Net assets released from restriction | <u>(1,001,659)</u> | <u>(308,372)</u> | <u>-</u> |
| Change in temporarily restricted net assets | (854,810) | 886,530 | - |
| Increase in net assets | 2,279,293 | 2,255,674 | - |
| Net assets: | | | |
| Beginning of year | <u>23,837,383</u> | <u>21,581,709</u> | <u>19,397,819</u> |
| End of year | <u>\$26,116,676</u> | <u>\$23,837,383</u> | <u>\$21,581,709</u> |

*Net Patient Service Revenue for FYE June 30, 2009

| <u>Payor Source</u> | <u>Percent</u> |
|--------------------------|----------------|
| Medi-Cal | 79% |
| Other third-party payors | 12% |
| Private party patients | 7% |
| Medicare | <u>2%</u> |
| Total | <u>100%</u> |

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Vista Community Clinic, Inc.
Statement of Financial Position

| | As of June 30, | | |
|---|---------------------|---------------------|---------------------|
| | 2009 | 2008 | 2007 |
| ASSETS: | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 6,528,117 | \$ 6,669,531 | \$ 3,267,018 |
| Patients accounts receivable, net | 1,785,369 | 2,733,745 | 4,577,213 |
| Grants, contract and other receivables | 820,570 | 999,224 | 1,071,896 |
| Pledges receivable | 652,832 | 800,354 | - |
| Inventories | 10,730 | 18,416 | 23,636 |
| Prepaid assets | 395,881 | 261,438 | 593,328 |
| Total current assets | 10,193,499 | 11,482,708 | 9,533,091 |
| Property and equipment, net | 12,377,295 | 8,359,494 | 7,957,067 |
| Board designated cash and investments | 7,412,770 | 7,775,598 | 7,622,132 |
| Total assets | \$29,983,564 | \$27,617,800 | \$25,112,290 |
| LIABILITIES AND NET ASSETS: | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 878,615 | \$ 749,985 | \$ 778,138 |
| Accrued payroll liabilities | 1,754,823 | 1,586,968 | 1,420,641 |
| Deferred revenue | 772,285 | 1,157,393 | 1,021,560 |
| Long-term debt, current portion | 43,077 | 24,906 | 24,171 |
| Total current liabilities | 3,448,800 | 3,519,252 | 3,244,510 |
| Long-term debt | 418,088 | 261,165 | 286,071 |
| Total liabilities | 3,866,888 | 3,780,417 | 3,530,581 |
| Net assets: | | | |
| Unrestricted | 26,084,956 | 22,950,853 | 21,581,709 |
| Temporarily restricted | 31,720 | 886,530 | - |
| Total net assets | 26,116,676 | 23,837,383 | 21,581,709 |
| TOTAL LIABILITIES AND NET ASSETS | \$29,983,564 | \$27,617,800 | \$25,112,290 |

Financial Ratios:

| | Proforma (a) FYE June 30, 2009 | | | |
|----------------------------------|-----------------------------------|--------|-------|-------|
| Debt service coverage | 46.98 | 108.64 | 56.40 | 81.60 |
| Debt/Unrestricted Net Assets (x) | 0.04 | 0.02 | 0.01 | 0.01 |
| Margin (%) | 12.56 | 5.26 | 5.26 | 8.62 |
| Current Ratio (x) | 2.96 | 2.96 | 3.26 | 2.94 |

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

Financial Discussion – Statement of Activities (Income Statement)

VCC's income statement appears to exhibit positive operating results with continued revenue growth from an increase in patient services.

VCC appears to have maintained strong revenue growth during our review period. Net patient revenues have increased by 14%, while grant and contract income has increased by 17%. The combination of these revenue sources has provided VCC with a growing diverse revenue source. VCC operating profits have been consistent during our review period ranging from \$2.2 million to \$3.8 million. Along with growing revenues, VCC's expenses have grown by approximately 6% per year during our review period.

Particular Facts to Note:

- VCC reports that it experienced an increase in patient revenue from a Medi-Cal rate increase as well as a decrease in denials for Medi-Cal and other third-party payers following the implementation of a "denials management" processing system.
- Salaries and benefits are steadily increasing primarily, VCC reports, as a result of clinic growth and expansion of programs. Additionally, VCC conducted a market survey and consequently implemented a pay increase for medical providers in order to remain competitive. VCC also hired additional IT staff in preparation for the implementation of an electronic health records system.
- Other operating expenses are inclusive of the following expenses: supplies (office, janitorial, computer), printing, postage, communications, minor equipment, computer maintenance, fees, advertising, dues, subscriptions, and incentives.

Financial Discussion – Statement of Financial Position (Balance Sheet)

VCC's balance sheet appears strong with good liquidity, a strong current ratio, and significant net assets. In addition, the proforma debt service coverage is a very solid 46.98x.

For FY 09, VCC's balance sheet appears solid with good liquidity of over \$6.5 million in cash and a current ratio of 2.96x. VCC's proforma long-term debt to unrestricted net assets is a very low 0.04x, indicating low leverage. VCC should be able to repay the proposed HELP II loan.

Particular Facts to Note:

- Cash and cash equivalents increased 100% from FY 07 to FY 08 due to the decrease in accounts receivable and the increase in net assets. Cash remained fairly steady from FY 08 to FY 09 as funds generated from the increase in net assets were applied to capital projects. VCC's interim financials appear to reflect a cash balance of approximately \$9.6 million.
- VCC's Liquid Net Assets Policy requires a 60 day operating reserve. Operationally, VCC strives to keep a 90 day reserve due to the uncertainties of funding from the State of California.

- Property, plant and equipment steadily increased from approximately \$8 million in FY 07 to over \$12 million in FY 09 due to the construction of VCC's new Grapevine clinic which opened in July 2009 (\$4.2 million in FY 09 was categorized as construction in progress for the Grapevine clinic). The newly built clinic replaced a leased facility which was funded with 60% in grants/contributions and VCC cash reserves, according to management.
- Patient's accounts receivables declined over the review as VCC implemented a new Practice Management System in July 2007. The system allows greater visibility and control over receivables. VCC's management is also focused on getting accounts receivable as close to 30 days as possible by timely billing and claim follow up.

EXHIBIT 1

UTILIZATION STATISTICS

Clients Served (Patient Visits) for Fiscal Year Ended December 31,

| | 2009 | 2008 | 2007 |
|---------------|------------------|------------------|------------------|
| Totals | 56,291 (210,954) | 52,443 (182,321) | 51,421 (166,825) |

EXHIBIT 2

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: | | | |
| CHFFA Loan, 2003 | \$400,000 | \$261,165 | \$261,165 |
| City of Oceanside, 2009** | 200,000 | 200,000 | 200,000 |
| Proposed CHFFA HELP II, 2010 | | N/A | 525,000 |
| TOTAL DEBT | | \$461,165 | \$986,165 |

* Includes current portion of long-term debt.

**Interest only payments of 3% per annum. The loan is expected to be forgiven in 2019.

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

The mission of VCC is to provide comprehensive primary health care and health education services, with a focus on those in need due to economic, social or cultural barriers. Since 1972, VCC has served a steadily increasing number of uninsured, indigent and underinsured working poor in the north San Diego County area. VCC operates five clinic sites: two in Vista and three in Oceanside.

Specific services provided include prenatal care, pediatrics, adult medicine, family planning, HIV screening and testing, dental care, health care for the homeless, preventive services such as hypertension screening, influenza, pneumonia inoculations clinics and childhood immunizations. Lab tests, medications, and health education classes are also available on-site.

VCC also has a broad education program which addresses alcohol, tobacco, and other drug prevention, HIV/AIDS education, testing and case management, reproductive health, breast health outreach and education, maternal and child health, diabetes, asthma, and outreach and education for seasonal agricultural workers.

Licensure, Certification and Accreditation

VCC is licensed by the California Department of Public Health to operate and maintain Community Clinics.