**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**

**Executive Summary**

**The Last Frontier Healthcare District, or in the alternative,**
**County of Modoc for the benefit of the Modoc Medical Center**

**Resolution No. HII-259**

**October 28, 2010**

**PURPOSE:**
Staff requests Authority approval for a new HELP II loan for Modoc Medical Center to reflect its new legal status and a change in the structure of the overall transaction previously approved at the Authority's July 13, 2010 meeting. Specifically, the borrower is now The Last Frontier Healthcare District ("the District") rather than the County of Modoc on behalf of the Modoc Medical Center due to the recent initiative passed by the voters of Modoc County. Also, the borrower proposes changing the loan term from five years to two years.

To make the board's review of this transaction as efficient as possible, staff attaches the report prepared for a loan previously approved for the County of Modoc on behalf of the Modoc Medical Center at CHFFA's July 13, 2010 meeting (Attachment A). The financial analysis and facts set forth therein remain unchanged with the exception of any and all facts clarified in this report. Staff also now includes a brief summary of the District's unaudited interim financials.

**BACKGROUND:**
At the July 13, 2010 meeting, the Authority approved Resolution No. HII-252, which authorized a $750,000 HELP II loan for the County of Modoc on behalf of the Modoc Medical Center. Loan proceeds were approved to fund accounts payable and payroll in order for the hospital to stay in operation.

Recently, voters approved the district formation of the hospital (effective October 12, 2010). Staff currently awaits receipt of a written opinion from county counsel confirming the valid existence of the District and the District's authority to enter into the required HELP II loan agreement.

Formation of a district entity extends new funding to the hospital in the form of local parcel tax assessment collections. Modoc's County Treasurer and Tax Collector, Cheryl Knoch, estimates the District's overall tax assessment for FY 2010/2011 to be $2,821,650 with an anticipated 85% collection rate of $2,398,402.50.

The District has proposed the repayment plan attached hereto as Attachment B which reflects the proposed change in loan duration from five years to roughly two years. Essentially, the plan is for the District to pay $10,000 per month and then for the District to make three large principal reductions following the District's receipt of tax assessments starting in April 2011 and continuing to December 2011 and April 2012. The District will then retire whatever sums remain outstanding effective June 30, 2012.

To secure the HELP II loan, staff recommends intercepting three lump sum payments of $175,000 each from the tax collector (the County of Modoc) beginning in April 2011, then December 2011, and finally April 2012 – each time period representing when the County collects and allocates tax assessment receipts to the District. Staff plans to prepare a three party agreement with the District, the County of Modoc, and CHFFA to memorialize this process of intercepting the tax payments.

In addition, staff recommends intercepting the sum of $10,000 per month from the Department of Health Care Services (DHCS) for the District's Medi-Cal reimbursements until such time as the loan is paid in full. Staff is currently working with DHCS to finalize this intercept process.

The District's cost of issuance will be paid directly from the District, amortized over three months.

<u>Interim Financials:</u>
Although the District had negative operating results over the three-year review period, they have developed a plan to recover from the economic downturn and to stabilize the relationship between revenues and expenses. Unaudited interim financials for FY 2010 (ten months through August 2010) appear to show positive net revenues but also appear to reflect negative trends in other areas. The District's balance sheet appears to indicate a need for emergency cash for operations. The District agrees to provide monthly updates to the Authority concerning its financial plan.

**RECOMMENDATION:**
Staff recommends the Authority approve Resolution No. HII-259 to amend the borrower's name from the County of Modoc on behalf of the Modoc Medical Center to The Last Frontier Healthcare District and to modify the HELP II loan terms from five-years to two years as set forth with more particularity herein.

**Attachment A**

# CHFFA HELP II PROGRAM
# EXECUTIVE SUMMARY

**Applicant:** County of Modoc ("County") for the benefit of Modoc Medical Center ("MMC")
228 W. McDowell Center
Alturas, CA 96101
Modoc County

**Amount Requested:** $750,000
**Requested Loan Term:** 5 year fixed
**Authority Meeting Date:** July 13, 2010
**Resolution Number:** HII-252

**Project Site:** Same as above
**Facility Type:** General Acute Care Hospital, Skilled Nursing and a Rural Health Clinic
Designated as a Critical Access Hospital
**Prior HELP II Borrower:** No

**Issues to Note:** The County and MMC (collectively, the "Borrower") are in financial distress and have an urgent need for emergency working capital funding. Borrower is largely unable to give the forms of security the Authority routinely requests and is also largely unable to satisfy the Authority benchmarks typically utilized to measure fiscal soundness.

**Background:** MMC has been serving residents of Modoc County since the early 1900's and has been in its current facility since 1951. MMC is a County operated health care facility, which provides a full complement of services ranging from general acute care, skilled nursing, outpatient diagnostic services, and rural health primary care clinic services. In August 2010, residents of the County will vote on a measure to allow MMC to become a district hospital, separate and independent from the County.

**Uses of Loan Proceeds:** Loan proceeds will be used to assist MMC with their immediate financial needs for the months of July and August. At a minimum, MMC reports that it needs funding for accounts payable and payroll in order to stay in operation.

**Financing Structure:**

- Five-year fixed rate loan.
- Interception of Medi-Cal Reimbursements (monthly payments not to exceed $15,000 and in coordination with MMC and DHCS).
- Gross revenue pledge of MMC's revenues.

**Financial Overview:** Although MMC has had negative operating results over the three-year review period, they have developed a plan to recover from the economic downturn and to stabilize the relationship between revenues and expenses. Unaudited interim financials for FY 2010 (ten months through April 2010) appear to show positive net revenues, exceeding budget projections by 17%. MMC's balance sheet appears to indicate a need for emergency cash for operations.

| **Estimated Sources of Funds:** | | **Estimated Uses of Funds:** | |
|---|---|---|---|
| HELP II Loan | $750,000 | Emergency financing | $750,000 |
| Loan Fee | 9,375 | Financing cost | 9,375 |
| Total Sources | $759,375 | Total Uses | $759,375 |

**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.

**Parties of Interest:** *(Included for the purpose of discerning conflicts of interest)*
Not applicable.

**Staff Recommendation:** Staff recommends approval of Resolution HII-252 for the County of Modoc for the benefit of Modoc Medical Center in an amount not to exceed $750,000 for a term not to exceed 5 years and contingent upon receipt of an official resolution from the County Board of Supervisors concerning each of the items set forth on the following page.

(TH/MM/KM)

## I. ISSUES:

The County and MMC are in financial distress and have an urgent need for emergency funding. Recently, representatives from the County and MMC appealed to the Department of Finance (DOF), the State Treasurer's Office (STO) and the State Controller's Office (SCO) to temporarily assist the County with its need to immediately restore (as soon as possible pursuant to SCO directive) approximately $12.5 million in restricted funds to the County treasury. Apparently, the County improperly transferred this sum (and additional sums which have since been restored) to MMC over a period of roughly ten years to finance, in part, operating deficits at MMC. It appears Generally Accepted Accounting Principles (GAAP) were violated when the County allowed MMC to use restricted funds not designated for MMC's use. This violation has contributed to MMC's existing negative cash balances and why, in part, MMC is requesting a HELP II loan from the Authority. This proposed transaction raises the following programmatic issues for consideration by the Authority:

- <u>Weak Fiscal Condition</u> – The Authority uses four ratios to evaluate the fiscal soundness of each borrower based on industry standards. None of the MMC ratios meet the levels the Authority normally likes to see. The most significant of the ratios is the Debt Service Coverage Ratio (DSCR) which measures a borrower's ability to make interest and principal payments as they become due. Although, MMC'S proforma debt service coverage is a negative 2.94x, MMC would allow the Authority to intercept Medi-Cal reimbursement payments, thus securing loan repayment. Given the unique strength of the security offered by MMC (a measure employed in the Authority's 2008 Medical Loan Bridge Program) and the unique circumstances faced by MMC, staff recommends proceeding with this loan notwithstanding MMC's overall weak fiscal condition.

- <u>Working Capital Loan</u> – Traditionally, the Authority has not authorized working capital loans under the HELP II loan program notwithstanding express statutory authorization to do so pursuant to California Government Code section 15438(i). In 2008, the Authority broke from tradition and provided working capital loans under the Medi-Cal Bridge Loan Program of 2008. These loans were secured via the same intercept process recommended for this proposed loan to MMC. Staff recommends the Authority authorize this working capital loan under the HELP II loan program with appropriate security measures in place.

- <u>Gross Revenue Pledge</u> – Typically, HELP II loans are secured by a gross revenue pledge. The County, a governmental entity, is unwilling to provide a general gross revenue pledge, but is agreeable to providing a gross revenue pledge solely on MMC receivables. Staff submits this is satisfactory and recommends accepting this form of security.

- <u>Financing Costs</u> – Historically, borrowers generally pay the Authority's loan fees associated with processing a HELP II loan. Given the circumstances faced by MMC, staff recommends the loan fees be divided into several monthly installment payments to ease the burden on MMC's cash flow.

- <u>Resolution from the County Board of Supervisors</u> – Staff has requested the County Board of Supervisors to pass a formal resolution concerning the below enumerated items. Staff recommends the Authority condition the approval of a loan to the County for the benefit of MMC on receipt of a resolution confirming these items:

  - Authorizing a gross revenue pledge of MMC's revenues using the following language or some reasonable permutation thereof: "All gross revenues described as follows: All revenues, income, receipts and money received by or on behalf of the Borrower, including (a) gross revenues derived from its operation and possession of the health facility, as defined by the California Health Facilities Financing Authority Act; (b) gifts, grants, bequests, donations, endowments and contributions, exclusive of any gifts, grants, bequest, donations, endowments and contributions to the extent specifically restricted by the donor to particular purpose inconsistent with payment of the Loan and Security Agreement; (c) proceeds with respect to or related to the health facility, as defined by the California Health Facilities Financing Authority Act derived from (i) condemnation proceeds, (ii) securities and other investments, (iii) inventory and other tangible and intangible property, (iv) insurance proceeds, (v) contract rights and other rights and assets now or hereafter owned by the Borrower; (d) accounts receivable including, but not limited to, any amounts receivable from third party payors such as Medicare and Medicaid, unless otherwise prohibited by law; and (e) rentals received from the lease of office space in the health facility, as defined by the California Health Facilities Financing Authority Act."

  - Directing that any proceeds of a loan provided by the Authority and received by the County for the benefit of MMC to be placed in a restricted account for the exclusive use of the MMC in accordance with the purpose articulated in the loan agreement memorializing the loan from the Authority to the County.

  - Authorizing the Authority to enter into an agreement with the Department of Health Care Services permitting the Authority to intercept Medi-Cal reimbursements up to the sum of $15,000 per month as may be owed to the County for services rendered by MMC.

  - Affirming that in the event local voters vote in favor of forming a healthcare district hospital (Last Frontier Healthcare Tax District or otherwise named), the County will remain an obligor and guarantor on the debt owed to the Authority notwithstanding any agreement as may exist between the County and the new hospital district and any assignment of the debt from the County to the new district hospital.

## II. DISCLOSURES:

The items presented below are included for purposes of disclosure.

1. Presently, the County is being audited by the SCO. SCO auditors are preparing to release revised audited financial statements for FY 2007 within the next month. Shortly thereafter, revised statements for FY 2008 and FY 2009 will be released. When the SCO audit is completed, restated financial statements for the three-year review period may present MMC's financial statement line items differently. Staff's review is based on the existing audited financials, as well as unaudited financial interim statements for FY 2010 financials.

2. The County Board of Supervisors recently voted to suspend all future funding transfers to MMC. The Board of Supervisors recently passed a resolution requiring MMC to operate self-sufficiently on an on-going basis.

3. MMC is currently servicing an approximate $1.7 million debt to the Federal Government for Medicare overpayments (interest rate approximately 11%).

4. MMC does not have the ability to file for bankruptcy on its own. If the County files for bankruptcy, MMC would be included in the bankruptcy as a component unit of the County. At this time, the Authority is not aware of any intention by the County to file for bankruptcy in the foreseeable future.

5. In August 2010, residents of the County will vote on a measure to allow MMC to become a district hospital. In the event the measure is successful, this item will be presented to the Authority a second time to consider whether the debt should be transferred from the County to the new district entity. Additionally, the County Board of Supervisors has signed a "Transition of Ownership" agreement which announces their intention to hold the new district accountable for the debt incurred by the County Treasury on behalf of MMC to the extent audited financials on an annual basis demonstrate positive net operating revenues.

6. MMC's current facility does not meet required earthquake standards. The facility is also currently located in a flood zone. Existing law requires that any acute care hospital buildings that are determined to be a potential risk of collapse or pose a significant loss of life be used only for non-acute care hospital purposes after January 1, 2008 or January 1, 2013 with extensions as provided by law. In 2007, Senate Bill 306 added Health and Safety Code Section 130061.5, which authorizes granting an extension for city and county hospitals or certain hospitals that meet strict financial hardships criteria to replace their Structural Performance Category 1 (SPC-1) buildings by 2020. MMC was granted an extension through January 1, 2020.

## III. PURPOSE OF FINANCING:

MMC is vital to the roughly 10,000 residents of Modoc County. MMC is an acute care facility and the largest medical facility within a three hour drive of the City of Alturas. As of October 2008, MMC was designated as a Critical Access Hospital. Other nearby facilities are located in Klamath Falls, Oregon, and Reno, Nevada, but access for both require travel over major mountain ranges which are often closed during the winter months. In addition to providing emergency medical services, MMC operates a rural health clinic and a skilled nursing facility.

MMC is currently the second largest employer in the County with approximately 170 full and part time employees (the largest employer is the County of Modoc). In March 2010, the unemployment rate for Modoc County was 17.7% as compared to the State average of 12.6% and the national average of 9.6%. The poverty rate (in 2007) was 19.6% compared to the State average of 12%.

MMC was created by the County in the early 1900s as a self-supporting component unit to be operated out of a County enterprise fund. MMC provides care for patients who have little or no health insurance, and also provides charity care services for patients with no expectation of repayment. MMC does not report charity care services as patient service revenues.

MMC's overall strategic plan is to put itself on a positive financial path. Part of the County's plan is to seek approximately $14 million in emergency financing from the State of California to help address a shortfall in operations due to misappropriation of funds. In addition, the County is endeavoring to assemble a financing team for a possible certificate of participation effort. While waiting for financial assistance from the State of California and for the County to seek a larger scale effort via certificates of participation, MMC will need the HELP II loan to assist with short-term operations for the months of July and August.

***Emergency financing*** .......................................................................................... ***$ 750,000***

MMC seeks $750,000 for immediate financial needs for the months of July and August. At a minimum, MMC reports that it needs funding for accounts payable and payroll in order to stay in operation.

**Financing cost** ........................................................................................................ **9,375**

Staff recommends dividing this sum into two monthly payments of $4,687.50 for a total of $9,375.00.

***Estimated Uses of Funds*** ........................................................................................ ***$ 759,375***

# IV. FINANCIAL STATEMENTS AND ANALYSIS

**Modoc Medical Center**
**Statement of Activities[a]**
**(Unrestricted)**

| | Interim Period Ended April 30 | For the year ended June 30, | | |
|---|---|---|---|---|
| **OPERATING REVENUES** | **2010** | **2009 (draft)** | **2008** | **2007** |
| Net patient service revenue* | $ 12,365,165 | $ 11,209,210 | $ 9,465,267 | $ 8,472,558 |
| Other income | 311,694 | 83,867 | 61,765 | 52,703 |
| Total support, revenue and gains | 12,676,859 | 11,293,077 | 9,527,032 | 8,525,261 |
| **OPERATING EXPENSES** | | | | |
| Salaries and benefits | 7,216,715 | 7,176,356 | 5,989,653 | $ 5,408,414 |
| Professional services | 2,349,047 | 2,967,288 | 3,019,401 | 3,187,691 |
| Purchased services | 433,817 | 960,190 | 726,192 | 345,477 |
| Supplies | 1,124,042 | 948,268 | 870,994 | 958,359 |
| Other | 281,447 | 739,945 | 627,121 | 337,454 |
| Depreciation and Amortization | 367,923 | 383,168 | 263,838 | 213,936 |
| Utilities | 274,463 | 262,648 | 261,615 | 214,725 |
| Insurance | 143,268 | 188,012 | 200,221 | 150,530 |
| Interest | 132,843 | - | - | - |
| Repair and maintenance | 209,243 | 174,769 | 147,586 | 132,486 |
| Rent | 69,359 | 99,627 | 117,520 | 95,849 |
| Total Operating expenses | 12,602,166 | 13,900,271 | 12,224,141 | 11,044,921 |
| Operating Income (Loss) | 74,693 | (2,607,194) | (2,697,109) | (2,519,660) |
| **NONOPERATING REVENUES (EXPENSES)** | | | | |
| Capital Contributions | - | 145,374 | 664,891 | 66,476 |
| Noncapital grant and contributions | - | 12,138 | 143,250 | - |
| Other revenues | 36,920 | 9,805 | 1,783 | 23,923 |
| Investment income | 2,042 | 872 | 8,686 | 5,896 |
| Interest expense on debt | - | (222,267) | (294,105) | (207,308) |
| | 38,962 | (54,078) | 524,505 | (111,013) |
| **Change in unrestricted net assets** | **113,655** | **(2,661,272)** | **(2,172,604)** | **(2,630,673)** |
| Unrestricted net assets at beginning of year | | (7,170,063.00) | (4,997,459.00) | (2,366,786) |
| Unrestricted net assets end of year | | $ (9,831,335) | $ (7,170,063) | $ (4,997,459) |

(a) MMC is currently being audited by the State Controller's Office. FY 2009, FY 2008, and FY 2007 figures are subject to change.

*Net Patient Service Revenue for FYE June 30, 2009

| Payor Source | Percent |
|---|---|
| Medi-cal | 39% |
| Medicare | 36% |
| Private Insurance | 19% |
| Self Pay | 6% |
| Total | 100% |

**Modoc Medical Center**
**Statement of Financial Position[(a)]**

| | As of June 30 | | |
|---|---|---|---|
| | **2009 (draft)** | **2008** | **2007** |
| **Assets** | | | |
| Current Assets: | | | |
| Cash and cash equivalents | $ (13,691,835) | $ (11,031,076) | $ 23,375 |
| Accounts receivable, net | 3,311,838 | 2,258,719 | 1,607,016 |
| Due from third -party payors | 127,098 | 368,648 | 130,918 |
| Receivable from other governments | 26,131 | 116,691 | 18,812 |
| Contributions receivable | - | 500,000 | - |
| Supplies inventories | 195,100 | 172,602 | 152,700 |
| Prepaid expenses and other assets | 231,543 | 79,974 | 110,392 |
| Total Current Assets | (9,800,125) | (7,534,442) | 2,043,213 |
| Restricted cash and investments | 113,505 | 47,354 | 253,664 |
| Capital assets, net | 2,075,036 | 2,198,654 | 1,395,549 |
| Total Assets | (7,611,584.00) | (5,288,434.00) | 3,692,426.00 |
| **Liabilities & Net Assets** | | | |
| Current Liabilities: | | | |
| Accounts payable | 408,277 | 711,259 | 581,523 |
| Accrued salaries and benefits | 336,587 | 241,320 | 387,937 |
| Accrued compensated absences | 34,141 | 26,080 | - |
| Other accrued liabilities | 41,791 | 5,520 | - |
| Capital lease obligation | 65,948 | 303,433 | - |
| Cost report settlement | 29,768 | - | - |
| Due to Modoc County | 42,605 | 76,112 | - |
| Total Current Liabilities | 959,117 | 1,363,724 | 969,460 |
| Noncurrent Liabilities: | | | |
| Long-term compensated absences | 307,270 | 234,721 | - |
| Cost report settlement | 738,801 | - | - |
| Due to Modoc County | - | - | 7,947,320 |
| Capital lease obligations | 214,563 | 283,184 | - |
| Total Liabilities | 2,219,751 | 1,881,629 | 8,916,780 |
| Net Assets: | | | |
| Invested in capital assets, net | 1,794,525 | 1,612,037 | 1,394,522 |
| Restricted for capital acquisitions | 113,505 | 547,354 | - |
| Temporarily restricted net assets | - | - | 55,934 |
| Unrestricted | (11,739,365) | (9,329,454) | (6,674,810) |
| Total Liabilities & Net Assets | $ (9,519,614) | $ (7,447,825) | $ 2,241,970 |

| **Financial Ratios:** | | As of June 30 (a) | | |
|---|---|---|---|---|
| | **Proforma (b)** | **2009 (draft)** | **2008** | **2007** |
| Debt Service Coverage (x) | **(2.94)** | **(3.82)** | **(5.42)** | **(10.66)** |
| Debt/Unrestricted Net Assets (x) | **(0.09)** | **(0.02)** | **(0.06)** | **(1.23)** |
| Margin (%) | | **(23.57)** | **(22.80)** | **(31.63)** |
| Current Ratio (x) | | **(10.22)** | **(5.52)** | **2.11** |

(a) MMC is currently being audited by the State Controller's Office. FY 2009, FY 2008, and FY 2007 figures are subject to change.
(b) Recalculates 2009 draft audited results to include the impact of this proposed financing.

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

**MMC has developed a plan to recover from the economic downturn and to stabilize the relationship between revenues and expenses despite negative operating results over the three-year review period. The County is also in pursuit of financing to fund the enormous operational losses it has accumulated over the last decade. As part of this financial plan, the County has requested approximately $14 million in emergency cash support from the State of California for operations to restore money borrowed from the county treasury. Staff is unaware of the current status of this request. In addition, the County is in the process of assembling a financial team designed ultimately to issue Certificates of Participation.**

Important Facts to Note:

- Over the review period, MMC has had annual operating losses of over $2.5 million for the last three fiscal years. However, operating revenues increased by $1.6 million in FY 2009 and approximately $1 million in FY 2008 compared with FY 2007 due to increased patient volume, which slightly increased net patient revenues. Although net patient revenues increased slightly from FY 2008 to FY 2009, and jumped nearly $1.8 million from FY 2008 to FY 2009, increases in expenses outweighed revenue increases.

- In response to the negative operating results, MMC is taking steps to increase net revenues by expanding services, improving revenue cycle functions, reviewing pricing strategies, and improving collection procedures. Over the last ten months, MMC has improved efficiencies in operations which appears to have resulted in a positive net income. However, at any time the County may choose to intercept MMC revenues to help pay County expenses, which would have the impact of reducing MMC's net income. The primary cause for the FY 2009 and FY 2008 operating losses is the increase in salary and benefits expenses for hospital employees. Expenses for professional services decreased in FY 2009 while purchased services increased. Professional and purchased services contracts provide health administration services, back office functions, and outsourced Quality Assurance staff. MMC is located in a remote, rural community and compensates employees and contracted service providers accordingly. Over the review period, salaries and professional and purchased services accounted for an average of 80% of MMC's operating expenses.

- Pharmacy and medical supplies expenses increased in FY 2009 due to increases in demand for services.

- If the County measure passes to create a healthcare district to administer MMC, the measure would include a new special tax to generate revenue. The new tax assessment is estimated to generate between $1.4 million to $2.8 million in revenue (as soon as December 2010, but more likely in April 2011) to be used toward expenses and future capital for MMC. The outcome of this measure should be known by the end of August 2010.

- Unaudited interim financials for FY 2010 (through April 2010) appear to show actual net revenues exceeding budget projections by 17%. MMC's ten-month interim net income is $113,655, which exceeds the projected FY 2010 net deficit of ($1.1) million. However, MMC recently advised staff of an approximate $600,000 deficit for May 2010 associated with an obligation paid to the Federal Government for Medicare overpayments. This helps illustrate why a HELP II loan will be helpful to MMC to sustain them through cash flow challenges over the next several months.

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

**MMC's balance sheet appears to indicate a need for emergency cash for operations. MMC and the County have tentatively agreed to secure the proposed HELP II loan request for emergency funding with Medi-Cal reimbursement payments.**

MMC appears to have had a negative cash position for the last three fiscal years. The negative cash and cash equivalents balance of $13.7 million for FY 2009 was a result of inter-fund borrowing between the MMC enterprise fund and the County. The County is not able to identify which funds were used to advance cash to MMC. Currently, any excess cash MMC generates has been used to pay down the negative cash position. When the SCO audit is completed, restated financial statements for the three-year review period may present MMC's cash position, total assets, total liabilities, and other line items differently.

<u>Important Facts to Note:</u>

- MMC has negative current assets of $9.8 million in FY 2009. However, both total current assets and current liabilities have decreased by 30% from FY 2009 to FY 2008.
- Negative current assets impact the current ratio of (10.22)x. The auditor has expressed uncertainty about the ability of MMC to continue as a going concern. Management of MMC is developing a plan to reduce its liabilities through the increase of patient services, improved billing, and collection efforts, and short period financing. The FY 2009 draft financial statements underscore the importance of this plan, its success and ultimately, approval by the County Board of Supervisors.
- MMC has a significant allowance for uncollectable accounts. In FY 2008, 51% of accounts receivable were deemed uncollectable, rising slightly to 52% in FY 2009. MMC has plans to hire a consultant to improve collection procedures.
- MMC has been overpaid by Medicare due to high estimated reimbursement rates. The cost report settlements due to Medicare are $703,446 for FY 2009 and $987,583 for FY 2010. The proposed monthly payments will be $16,732 and $21,570 at an approximate 10.785% interest rate for a 5 year term.
- Although, the proforma debt service coverage ratio is a negative 2.94x, the proposed loan will be secured by Medi-Cal reimbursement payments. The Authority and the Department of Health Care Services are coordinating to secure an interagency agreement to establish repayment.

## EXHIBIT 1

## UTILIZATION STATISTICS

The following table shows utilization statistics of Modoc Medical Center for the fiscal years ended June 30, 2009, 2008 and 2007:

| | Fiscal Year Ended June 30, | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| Patient-Days | 15,657 | 15,876 | 15,080 |
| Average Daily Census | 42.90 | 43.38 | 41.32 |
| Average Length of Stay | 6.19 | 2.70 | 2.41 |
| Admissions | 226 | 189 | 205 |
| Clinic Visits | 13,701 | 14,198 | 12,012 |
| Emergency Room Visits | 3,161 | 2,533 | 2,386 |

## EXHIBIT 2

## OUTSTANDING DEBT

| Date Issued | Original Amount | Amount Outstanding As of June 30, 2010 | Estimated Amount Outstanding after Proposed Financing |
|---|---|---|---|
| | | (unaudited) | |
| **Existing Long-Term Debt:** | | | |
| West America Bank 2007 | $287,936 | $102,010 | $102,010 |
| Philips Medical Capital 2008 | 477,000 | 130,040 | 130,040 |
| Philips Medical Capital 2008 | 24,303 | 15,024 | 15,024 |
| Olympus Financial Services 2009 | 202,753 | 138,934 | 138,934 |
| Palmetto GBA Multiple Dates* | 1,792,642 | 1,707,586 | 1,707,586 |
| **Proposed** | | | |
| CHFFA HELP II, 2010 | | N/A | **750,000** |
| **TOTAL DEBT** | | **$2,093,594** | **$2,843,594** |

*MMC is currently repaying overpayments received by Medicare for FY 2008-2009. MMC is in the process of finalizing a repayment plan to Medicare for FY 2009-2010.

# EXHIBIT 3

# BACKGROUND AND LICENSURE

## Background

The County of Modoc, California is a legal subdivision of the State of California and was incorporated on February 17, 1874 under the general law of the State of California. The County's powers are exercised through an elected five-member board of Supervisors, which, as the governing body is responsible for the legislative and executive control of the County. The County provides a broad range of services, including: general government, public ways and facilities, public protection, health and sanitation, public assistance, education and recreation and cultural services.

MMC has been serving residents of Modoc County since the early 1900's and has been in its current facility since 1951. MMC is a County operated health care facility, which provides a full complement of services ranging from general acute care, skilled nursing, outpatient diagnostic services, and a rural health clinic. As an acute care facility and skilled nursing facility, MMC provides for 87 licensed beds.

## Licensure, Certification and Accreditation

MMC is licensed by the California Department of Public Health to operate and maintain a general acute care hospital, a skilled nursing facility and a rural health clinic. MMC was designated as a Critical Access Hospital in October 2008.

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**

**The HELP II Program**

**Resolution Number HII-252**

RESOLUTION APPROVING EXECUTION AND DELIVERY OF HELP II LOAN PROGRAM AGREEMENTS WITH CERTAIN PARTICIPATING HEALTH INSTITUTIONS

WHEREAS, the California Health Facilities Financing Authority (the "Authority"), a public instrumentality of the State of California, is authorized by the provisions of the California Health Facilities Financing Authority Act (the "Act") to make secured or unsecured loans to participating health institutions, as defined;

WHEREAS, the Authority has previously established a HELP II Program to make loans as authorized by the Act;

WHEREAS, **County of Modoc** (the "Borrower"), a California county, and a participating health institution, has applied to the Authority for a loan and the application has been reviewed by the staff of the Authority and must be approved by the Authority;

WHEREAS, final approval of the loan by the Authority is now sought;

NOW THEREFORE BE IT RESOLVED by the California Health Facilities Financing Authority, as follows:

Section 1. Pursuant to the Act, the Authority approves a loan to the Borrower, in the amount of **$750,000** for a term not to exceed **5 years** to assist Modoc Medical Center with their immediate financial needs for the months of July and August as described in the application filed with the Authority, but solely to the extent there are available proceeds of the HELP II Program, as determined pursuant and subject to Section 2 hereof. This approval is further contingent upon the following conditions:

1. Five-year fixed rate loan; and

2. Resolutions from the County Board of Supervisors regarding: gross revenue pledge, restricted account, Medi-Cal Interception and County as obligor/guarantor.

Section 2. The Executive Director is hereby authorized, for and on behalf of the Authority, to determine the final amount, terms and conditions of the loan approved pursuant to Section 1 hereof, and to approve any changes in the purpose of the financing as described in the application submitted to the Authority, as said officer shall deem appropriate and authorized under the Act (provided that the amount of the loan may not be increased above the amount approved by the Authority and provided further that the loan continues to meet the Authority's guidelines for HELP II loans). Nothing in this resolution shall be construed to require the Authority to obtain any additional funding, even if more loans are approved than there is available funding, or that the Executive Director determines shall be funded from the HELP II Program. Any notice to an applicant approved hereunder shall indicate that the Authority shall not be liable to the applicant in any manner whatsoever should such funding not be completed for any reason whatsoever.

Section 3. The Executive Director is hereby authorized and directed, for and on behalf of the Authority, to draw money from the HELP II Program fund not to exceed those amounts approved by the Authority for the Borrower approved in Section 1. The Executive Director is further authorized and directed, for and on behalf of the Authority, to execute and deliver to the Borrower in Section 1 any and all documents necessary to complete the transfer of funds.

Section 4. The Authority hereby finds that the loan approved in Section 1 is eligible for financing pursuant to provisions of the Act.

Section 5. The Executive Director of the Authority is hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they deem necessary or advisable in order to effectuate the purposes of this Resolution and the transactions contemplated hereby, and which have heretofore been approved as to form by the Authority.

Section 6. This resolution expires one year from the date approved.

Date Approved: July 13, 2010

**Attachment B**

## PROPOSED AMORTIZATION SCHEDULE
## FOR THE LAST FRONTIER HEALTHCARE DISTRICT

| **Enter Values:** | | | | | | | **Lender Name:** | | CHFFA |
|---|---|---|---|---|---|---|---|---|---|
| Loan Amount | | | $ 750,000.00 | | | | | | |
| Annual Interest Rate | | | 3% | | | | | | |
| | | | | | | | | | |
| | | **Beginning** | **MediCal** | **Tax** | **Total** | | | **Ending** | **Cummulative** |
| **Pmt#** | **Date** | **Balance** | **Intercept** | **Intercept** | **Payment** | **Interest** | **Principle** | **Balance** | **Interest** |
| 1 | 11/30/2010 | 750,000.00 | 10,000.00 | | 10,000.00 | 1,875.00 | 8,125.00 | 741,875.00 | 1,875.00 |
| 2 | 12/31/2010 | 741,875.00 | 10,000.00 | | 10,000.00 | 1,854.69 | 8,145.31 | 733,729.69 | 3,729.69 |
| 3 | 1/31/2011 | 733,729.69 | 10,000.00 | | 10,000.00 | 1,834.32 | 8,165.68 | 725,564.01 | 5,564.01 |
| 4 | 2/28/2011 | 725,564.01 | 10,000.00 | | 10,000.00 | 1,813.91 | 8,186.09 | 717,377.92 | 7,377.92 |
| 5 | 3/31/2011 | 717,377.92 | 10,000.00 | | 10,000.00 | 1,793.44 | 8,206.56 | 709,171.37 | 9,171.37 |
| 6 | 4/30/2011 | 709,171.37 | 10,000.00 | 175,000.00 | 185,000.00 | 1,772.93 | 183,227.07 | 525,944.29 | 10,944.29 |
| 7 | 5/31/2011 | 525,944.29 | 10,000.00 | | 10,000.00 | 1,314.86 | 8,685.14 | 517,259.16 | 12,259.16 |
| 8 | 6/30/2011 | 517,259.16 | 10,000.00 | | 10,000.00 | 1,293.15 | 8,706.85 | 508,552.30 | 13,552.30 |
| 9 | 7/31/2011 | 508,552.30 | 10,000.00 | | 10,000.00 | 1,271.38 | 8,728.62 | 499,823.68 | 14,823.68 |
| 10 | 8/31/2011 | 499,823.68 | 10,000.00 | | 10,000.00 | 1,249.56 | 8,750.44 | 491,073.24 | 16,073.24 |
| 11 | 9/30/2011 | 491,073.24 | 10,000.00 | | 10,000.00 | 1,227.68 | 8,772.32 | 482,300.93 | 17,300.93 |
| 12 | 10/31/2011 | 482,300.93 | 10,000.00 | | 10,000.00 | 1,205.75 | 8,794.25 | 473,506.68 | 18,506.68 |
| 13 | 11/30/2011 | 473,506.68 | 10,000.00 | | 10,000.00 | 1,183.77 | 8,816.23 | 464,690.45 | 19,690.45 |
| 14 | 12/31/2011 | 464,690.45 | 10,000.00 | 175,000.00 | 185,000.00 | 1,161.73 | 183,838.27 | 280,852.17 | 20,852.17 |
| 15 | 1/31/2012 | 280,852.17 | 10,000.00 | | 10,000.00 | 702.13 | 9,297.87 | 271,554.30 | 21,554.30 |
| 16 | 2/29/2012 | 271,554.30 | 10,000.00 | | 10,000.00 | 678.89 | 9,321.11 | 262,233.19 | 22,233.19 |
| 17 | 3/31/2012 | 262,233.19 | 10,000.00 | | 10,000.00 | 655.58 | 9,344.42 | 252,888.77 | 22,888.77 |
| 18 | 4/30/2012 | 252,888.77 | 10,000.00 | 175,000.00 | 185,000.00 | 632.22 | 184,367.78 | 68,520.99 | 23,520.99 |
| 19 | 5/31/2012 | 68,520.99 | 10,000.00 | | 10,000.00 | 171.30 | 9,828.70 | 58,692.30 | 23,692.30 |
| 20 | 6/30/2012 | 58,692.30 | 10,000.00 | 48,839.03 | 58,839.03 | 146.73 | 58,692.30 | (0.00) | 23,839.03 |