

**CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: CommuniCare Health Centers (“CommuniCare”) 2051 John Jones Road Davis, CA 95616 Yolo County</p> <p>Project Site: 455 1st Street, Woodland, CA 95695</p> <p>Facility Type: Community Clinic</p> <p>Eligibility: Government Code section 15432(d)(6)</p> <p>Prior HELP II Borrower: No</p>	<p>Amount Requested: \$456,000</p> <p>Requested Loan Term: 20-year fixed</p> <p>Annual Interest Rate: 2%</p> <p>Authority Meeting Date: July 26, 2018</p> <p>Resolution Number: HII-314</p>
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Background: CommuniCare was formed in 1972 as the Davis Free Clinic providing part-time limited medical services. Today, CommuniCare is a Federally Qualified Health Center with expanded services that include comprehensive general medicine, perinatal, women’s health, pediatrics, and substance abuse treatment services. CommuniCare provides primary medical and dental care, behavioral health services, and substance abuse treatment to 25,422 patients. In fiscal year 2017, CommuniCare provided a total of 128,873 patient visits and an additional 7,485 encounters for health education and outreach.

Use of Loan Proceeds: Loan proceeds will be used to finance the purchase of a facility previously owned by a HELP II borrower, Yolo Family Service Agency (“YFSA”). YFSA has suspended its operations and CommuniCare intends to buy the property in order to continue providing mental health services at the facility.

Financing Structure:

- First lien on real property located at 455 1st St., Woodland, CA 95695
- 20-year, two percent (2%) fixed rate loan
- 240 equal monthly payments of approximately \$2,307 (annual payments of approximately \$27,682)
- A current appraisal that is acceptable to the Authority staff
- Corporate gross revenue pledge
- Loan to value ratio not to exceed 95% (estimated loan to value ratio is approximately 95%)
- Verification of borrower funds to close escrow

Financial Overview: CommuniCare’s income statement appears to display strong operating results from FY 2015 to FY 2017. CommuniCare’s balance sheet appears strong with a FY 2017 pro-forma debt service coverage ratio of 19.26x.

Estimated Sources of Funds:

HELP II Loan	\$ 456,000
Borrower funds	36,700
Total Estimated Sources	<u>\$ 492,700</u>

Estimated Uses of Funds:

Purchase real property	\$ 485,000
Financing costs	7,700
Total Estimated Uses	<u>\$ 492,700</u>

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: Yolo Family Service Agency

Staff Recommendation: Staff recommends approval of Resolution Number HII-314 for CommuniCare Health Centers in an amount not to exceed \$456,000 for a term not to exceed 20 years, and contingent upon financing terms acceptable to the Authority. TAP International, the Authority’s financial analyst, concur with the Authority’s staff recommendation.

I. PURPOSE OF FINANCING:

CommuniCare is seeking a HELP II loan to purchase a facility owned by a current HELP II borrower, YFSA. YFSA experienced financial difficulty and determined the organization would no longer be able to continue and provide services. CommuniCare was approached by the Yolo County Administrator and the head of the County’s Health & Human Services, as well as YFSA’s Board President, regarding purchasing YFSA’s building and continuing to provide services at the facility. In April 2018, YFSA suspended its operations and CommuniCare began serving YFSA’s clients and hired some of its employees. CommuniCare is currently in the process of performing its due diligence and anticipates making a decision whether to move forward with purchasing the property no later than October 1, 2018.

The Authority currently has two HELP II loans with YFSA totaling approximately \$250,000 as well as the first two lien positions on the subject property. When CommuniCare purchases the property, the YFSA HELP II loans will be repaid and the two liens against YFSA will be removed from the property. The Authority will then have one loan with CommuniCare and the first lien position on the newly-owned CommuniCare property.

***Purchase Real Property*..... \$485,000**

Loan proceeds will be used to purchase a commercial property located at 455 1st Street, Woodland, CA. The property consists of three detached office buildings totaling approximately 4,600 square feet. The buildings were previously used as an administrative headquarters and for program services. CommuniCare has an existing headquarters and will therefore be able to use all three buildings to continue providing services to the previous YFSA clients as well as new clients.

The HELP II loan will be secured by a first (1st) lien position on the property. An appraisal will be completed prior to closing to ensure a loan-to-value ratio of less than 95%. CommuniCare’s management estimates the value of the property at \$480,000, resulting in an estimated loan-to-value ratio of 95%.

***Financing Costs*..... 7,700**

Authority Fees	\$5,700
Estimated Escrow/Title Fees	<u>2,000</u>

Total Uses of Funds \$492,700

II. FINANCIAL STATEMENTS AND ANALYSIS:

CommuniCare Health Centers Statement of Activities

	For the year ended June 30,		
	2017	2016	2015
Unrestricted revenue and other support:			
*Net patient service revenue less provision for uncollectible accounts	\$ 16,617,564	\$ 15,149,839	\$ 14,059,093
Grant revenue	7,739,717	6,293,799	6,801,014
Contributions	859,670	463,501	863,827
Other	1,301,813	911,896	174,279
Net assets released from restriction for operations	81,877	122,619	1,296
Total unrestricted revenue and other support	<u>26,600,641</u>	<u>22,941,654</u>	<u>21,899,509</u>
Expenses:			
Salaries and benefits	17,777,496	16,843,513	16,117,308
Medical contractual services	943,531	1,473,670	1,354,187
Purchased services	836,046	965,019	1,020,573
Supplies	2,621,289	981,148	887,619
Utilities	206,394	228,003	306,304
Travel, conferences, and meetings	245,431	229,296	252,322
Repairs and maintenance	248,350	233,042	238,451
Rent, building and equipment	195,958	186,179	173,067
Communications	217,124	188,715	140,752
Insurance	92,324	95,072	93,909
Depreciation and amortization	737,698	736,079	728,837
Interest	70,736	91,958	121,391
Other	325,445	375,243	429,121
Total expenses	<u>24,517,822</u>	<u>22,626,937</u>	<u>21,863,841</u>
Excess of revenues and other support over expenses	2,082,819	314,717	35,668
Unrealized losses on marketable securities	(1,311)	(183)	(21,922)
Increase in unrestricted net assets	<u>2,081,508</u>	<u>314,534</u>	<u>13,746</u>
Temporarily restricted net assets:			
Contributions	139,042	445,867	71,200
Net assets released from restriction	(81,877)	(122,619)	(1,296)
Increase in temporarily restricted net assets	<u>57,165</u>	<u>323,248</u>	<u>69,904</u>
Increase in net assets	2,138,673	637,782	83,650
Net assets, beginning of year	<u>13,485,337</u>	<u>12,847,555</u>	<u>12,763,905</u>
Net assets, end of year	<u>\$ 15,624,010</u>	<u>\$ 13,485,337</u>	<u>\$ 12,847,555</u>

*Net patient service revenue for FYE June 30,

Payor Source	2017	2016
Med-Cal	56%	55%
Medicaid	5%	4%
Other third-party payers	2%	2%
Private pay	37%	39%
Total	100%	100%

**CommuniCare Health Centers
Statement of Financial Position**

Assets	As of June 30,		
	2017	2016	2015
Current assets:			
Cash and cash equivalents	\$ 2,540,594	\$ 802,588	\$ 2,195,112
Short term investments	96,440	-	-
Patient accounts receivable, net	1,774,170	1,235,440	1,150,824
Contract and grant receivables	476,314	446,209	656,743
Third-party payor receivables	119,854	161,732	489,661
Inventories	129,099	189,809	132,265
Prepays, deposits and other assets	484,386	408,384	357,670
Total current assets	5,620,857	3,244,162	4,982,275
Investments, net	466,823	-	-
Assets limited to use	151,717	794,407	533,865
Third-party payor receivables, net of current portion	1,599,866	1,330,449	794,002
Property and equipment, net	10,696,796	11,202,855	11,875,138
Total assets	\$ 18,536,059	\$ 16,571,873	\$ 18,185,280
Liabilities			
Current liabilities:			
Line of Credit	\$ -	\$ -	\$ 2,487,529
Current maturities of debt borrowings	55,220	51,651	48,664
Accounts payable and accrued expenses	154,531	500,850	341,410
Accrued compensation and related liabilities	1,288,762	1,344,913	1,223,352
Deferred revenue	279,853	-	-
Total current liabilities	1,778,366	1,897,414	4,100,955
Debt borrowings, net of current maturities	1,133,683	1,189,122	1,236,770
Total liabilities	2,912,049	3,086,536	5,337,725
Net assets:			
Unrestricted	15,170,700	13,089,193	12,774,659
Temporarily restricted	453,310	396,144	72,896
Total net assets	15,624,010	13,485,337	12,847,555
Total liabilities & net assets	\$ 18,536,059	\$ 16,571,873	\$ 18,185,280

Financial Ratios:

	Proforma (a)			
	<u>FYE June 30, 2017</u>			
Debt Service Coverage (x)	19.26	23.61	8.13	5.16
Debt/Unrestricted Net Assets (x)	0.11	0.08	0.09	0.10
Margin (%)		7.83	1.37	0.16
Current Ratio (x)		3.16	1.71	1.21

(a) Recalculates FY 2017 audited results to include the impact of this proposed financing

Financial Discussion – Statement of Activities (Income Statement)

CommuniCare's income statement appears to display strong operating results from FY 2015 to FY 2017.

CommuniCare appears to display strong and consistent growth in revenues in comparison to its expenses. CommuniCare's revenues increased 21.5% from FY 2015 to FY 2017, while expenses grew 12.1% over the same period. CommuniCare's revenues exceeded expenses by approximately \$36,000 in FY 2015, by approximately \$315,000 in FY 2016, and finally by approximately \$2.1 million in FY 2017. In FY 2017, nearly all of CommuniCare's revenue sources grew by double-digits; net patient service revenue by 9.7%, grant revenue by 23%, contributions by 85.5%, and other revenue by 42.8%. According to CommuniCare's management, the increases were predominantly due to federal and state programs. The increase in net patient revenues was primarily driven by the organization's participation in the federal 340B Drug Pricing Program, which requires drug manufacturers to provide outpatient drugs to eligible health care organizations at significantly reduced prices. The 340B program was a new revenue source for CommuniCare in FY 2017. The increase in grant revenue was comprised of increased federal grant funds for the purpose of expanding clinic capacity. With the increased funding, CommuniCare was able to provide evening hours at all three of its sites as well as expanding substance use services. The increase in contributions was related to the state program known as Vaccine for Children and Adults. CommuniCare received vaccines at no cost and the value was recorded in the financial statements. The receipt of Meaningful Use Funds, the Medicare Electronic Health Records Incentive Program, from the state accounted for the increase in other revenues.

Also in FY 2017, CommuniCare experienced modest growth in salaries and benefits expense by 5.5% while at the same time medical contractual services decreased by 36% and purchased services decreased by 13.4%. According to CommuniCare's management, medical contractual services decreased due to recruiting physicians and midlevel providers that replaced the previously contracted staff that were less productive and costlier.

Financial Discussion – Statement of Financial Position (Balance Sheet)

CommuniCare's balance sheet appears strong with limited reliance on debt, a solid ability to repay outstanding debt, and a sound cash position in FY 2017.

CommuniCare's debt service coverage ratio appears to have increased each fiscal year, displaying a consistently strong and growing ability to repay its long-term debts. CommuniCare's debt service coverage ratio appears to be a 5.16x in FY 2015, 8.13x in FY 2016, and 23.61x in FY 2017. Adding new long-term debt with the HELP II loan slightly decreases CommuniCare's proforma debt service coverage ratio to 19.26x.

CommuniCare has also demonstrated a limited use of debt financing. In FY 2017, CommuniCare had approximately \$1.2 million in outstanding long-term debt with approximately \$15.2 million in unrestricted net assets, which leads to a debt-to-unrestricted net assets ratio of 0.08x. In FY 2015 and FY 2016, CommuniCare's debt-to-unrestricted net assets ratio was 0.1x and 0.09x, respectively. With the new HELP II loan, CommuniCare's proforma debt-to-unrestricted net assets ratio appears to nominally increase to 0.11x

III. UTILIZATION STATISTICS

Clients Served
Fiscal Year Ended June 30,
 Clients Served / (Patient Visits)

	2017	2016	2015
Totals	24,722 / (128,873)	23,589 / (123,340)	22,103 / (110,026)

IV. OUTSTANDING DEBT

Date Issued	Original Amount	Amount Outstanding^(a) As of June 30, 2017	Estimated Amount Outstanding after Proposed Financing
-EXISTING LONG-TERM DEBT:			
First Northern Bank of Dixon March 2014	\$ 1,000,000	\$ 933,537	\$ 933,537
First Northern Bank of Dixon May 2004	522,426	255,366	255,366
-PROPOSED NEW DEBT:			
CHFFA HELP II Loan, 2018		-	456,000
-TOTAL DEBT		\$ 1,188,903	\$ 1,644,903

^(a) Includes current portion of long-term debt

V. BACKGROUND AND LICENSURE

Background

CommuniCare was formed in 1972 as the Davis Free Clinic providing part-time limited medical services. Today, CommuniCare is a Federally Qualified Health Center with expanded services that include comprehensive general medicine, perinatal, women's health, pediatrics, and substance abuse treatment services. CommuniCare also provides other services such as diabetic vision care, HIV case management, health education and outreach, health services at Yolo County jail, and health coverage enrollment assistance.

CommuniCare has eight clinic sites located throughout Yolo County, including Davis Community Clinic, Hansen Family Health Center in Woodland, Salud Clinic in West Sacramento, and Esparto Dental Clinic in Esparto. CommuniCare also has sites at Cache Creek High School in Yolo, Woodland Community College, and Perinatal clinics in Dixon and Winters. CommuniCare provides primary medical and dental care, behavioral health services, and substance abuse treatment to 25,422 patients, which is one of every nine residents of Yolo County. In fiscal year 2017, CommuniCare provided a total of 128,873 patient visits and an additional 7,485 encounters for health education and outreach.

Licensure, Certification, and Accreditation

CommuniCare is licensed by the California Department of Public Health to operate community clinics.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-314

**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 provide secured or unsecured loans to participating health institutions to refinance existing debt and finance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing, or equipping of a health facility;

WHEREAS, the Authority established the HELP II Loan Program (the “Program”) to provide loans to participating health institutions as authorized by the Act;

WHEREAS, **CommuniCare Health Centers** (the “Borrower”), a California participating health institution, has applied to the Authority for a loan through the Program, and the application has been reviewed by the staff of the Authority; and

WHEREAS, 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 an amount not to exceed **\$456,000** for a term not to exceed **20 years** for the purpose described in the application filed with the Authority (the “Project”), but solely to the extent there are available proceeds of the Program, as determined pursuant and subject to Section 2 hereof. This approval is further contingent upon the following conditions:

1. 20-year, two percent (2%) fixed rate loan;
2. First lien position on real property located at 455 1st Street, CA 95695;
3. A current appraisal that is acceptable to Authority staff;
4. Corporate gross revenue pledge;
5. Loan to value ratio not to exceed 95%; and
6. Verification of Borrower’s funds to close escrow.

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, and to approve any changes in the Project 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 loans may not be increased above the amount approved by the Authority and provided further that the loans continue 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. Any notice to the Borrower shall indicate that the Authority shall not be liable to the Borrower 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 Program fund not to exceed those amounts approved by the Authority for the Borrower. The Executive Director is further authorized and directed, for and on behalf of the Authority, to execute and deliver to the Borrower any and all documents necessary to complete the transfer of funds.

Section 4. The Executive Director of the Authority is hereby authorized and directed to do any and all things and to execute and deliver any and all documents which the Executive Director deems 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 5. This resolution expires December 31, 2018.

Date of Approval: _____