

**CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Redwoods Rural Health Center, Incorporated (“RRHC”) 101 West Coast Road Redway, CA 95560 Humboldt County</p> <p>Project Sites: 101 West Coast Road, Redway, CA 95560; 59 Shady Grove Lane, Redway, CA 95560; and 217 Briceland Thorn Road, Redway, CA 95560</p> <p>Facility Types: Community Clinics</p> <p>Eligibility: Government Code section 15432(d)(6)</p> <p>Prior HELP II Borrower: Yes (September 2010 – paid off as of November 2017)</p>	<p>Amount Requested: \$1,500,000</p> <p>Requested Loan Term: 20-year fixed</p> <p>Annual Interest Rate: 2%</p> <p>Authority Meeting Date: October 31, 2019</p> <p>Resolution Number: HII-322</p>
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Background: RRHC is a non-profit community clinic that has been providing services to Humboldt County’s population since 1976. RRHC’s services include family practice, general nursing, counseling, dental services, and drug rehabilitation.

Use of Loan Proceeds: Loan proceeds will be used to finance renovations to existing medical and dental buildings, accommodate parking needs, and replace aging HVAC systems. The renovations are expected to help create an environment that attracts and retains patients to continue care at RRHC’s facilities.

Financing Structure:

- 20-year, two percent (2%) fixed rate loan
- 240 equal monthly payments of approximately \$7,588 (annual payments of approximately \$91,056)
- First lien on real properties located at 101 West Coast Road, 59 Shady Grove Lane, and 217 Briceland Thorn Road in Redway, CA 95560
- Current appraisals that exhibit a combined loan-to-value ratio not to exceed 95%
- Executed construction contract(s)
- Corporate gross revenue pledge
- Verification of borrower funds to close escrow

Financial Overview: RRHC’s income statement appears to exhibit strong operating results with an increase in unrestricted net assets in each fiscal year over the review period. RRHC appears to display a strong balance sheet, with a pro-forma debt service coverage ratio of 5.39x.

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II loan	\$1,500,000	Construction and renovation of real property	\$1,575,000
Borrower funds	98,775	Financing costs	23,775
Total Estimated Sources	\$1,598,775	Total Estimated Uses	\$1,598,775

Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, and Religious Affiliation documentation, and the Community Service Obligation certification. All documentation satisfies the Authority’s requirements.

Parties of Interest: Humboldt Land Title Co.

Staff Recommendation: Staff recommends approval of Resolution Number HII-322 for Redwoods Rural Health Center, Incorporated in an amount not to exceed \$1,500,000 for a term not to exceed 20 years, and contingent upon financing terms acceptable to the Authority. TAP International, the Authority’s financial analyst, concurs with the Authority’s staff recommendation.

I. PURPOSE OF FINANCING:

RRHC is requesting a HELP II loan to finance the renovation of its main facility, to construct an adjacent parking lot, and to renovate a newly acquired dental facility that will be used to expand its services. In recent years, RRHC has experienced increased demand for adult dental services, largely due to the fact that RRHC is one of the only three dental facilities that accept and accommodate economically disadvantaged populations in Humboldt County. Currently, RRHC has a year-long wait list for new adult dental patients at its main dental clinic and is forced to turn away patients due to its physical operatory space being at full capacity. With the proposed financing, RRHC will be able to service its growing need for quality and quantity of dental services in its surrounding community.

Construction and Renovation of Real Property* **\$1,575,000*

RRHC plans to use the HELP II loan proceeds to finance renovation and construction at its facilities located at 101 West Coast Road, 59 Shady Grove Lane, and 217 Briceland Thorn Road, in Redway, CA 95560. Prevailing wages will be paid and the language will be included in the construction contract(s).

101 West Coast Road & 59 Shady Grove Lane

Loan proceeds will be used to finance renovations at RRHC’s main facility. As RRHC’s patient population is growing, it plans to enhance and redesign the current reception areas in both its medical and dental buildings. Renovations include replacing flooring, purchasing handicap accessible exam tables, and refinishing cabinetry. Loan proceeds will also be used to replace the current HVAC system, including the replacement of aging air ducts. Additionally, RRHC will expand its parking lot at 59 Shady Grove Lane, allowing patients and staff to have adequate parking within close proximity of the main facility.

217 Briceland Thorn Road

Within proximity of RRHC’s main facility, a local dental practice closed permanently, and RRHC was able to take advantage of purchasing the space using capital reserves. Loan proceeds will be used to renovate these newly acquired offices and replace its outdated infrastructure. When the space is fully operational, the renovated facility will effectively double the amount of dental patients that RRHC is able to serve at any given time. RRHC anticipates hiring an additional 11 employees to work in the new dental clinic.

Financing Costs*..... **23,775*

Authority Fee \$18,750

Estimated Escrow/Title Fees 5,025

Total Estimated Uses of Funds..... **\$1,598,775**

II. FINANCIAL STATEMENTS AND ANALYSIS:

**Redwoods Rural Health Center, Incorporated
Income Statement
(Unrestricted)**

	As of June 30,		
	2018	2017	2016
Revenues and other support			
Net patient service revenue*	\$ 3,095,980	\$ 2,547,666	\$ 2,385,054
Grant and contribution revenue	1,936,127	1,663,261	1,592,033
Interest and other revenues	210,718	199,524	550,302
Total revenues and other support	<u>5,242,825</u>	<u>4,410,451</u>	<u>4,527,389</u>
Expenses			
Salaries, wages, and employee benefits	2,829,446	2,532,347	2,163,303
Purchased services and professional services	802,252	766,665	646,702
Office and other supplies	336,039	175,279	332,933
Occupancy costs	159,889	156,859	110,806
Depreciation	131,161	135,961	126,700
Insurance	31,514	28,458	31,432
Travel and conferences	48,812	62,735	52,078
Interest	2,330	7,732	9,513
Other	167,676	91,646	58,047
Total expenses	<u>4,509,119</u>	<u>3,957,682</u>	<u>3,531,514</u>
Excess of revenues over expenses	733,706	452,769	995,875
Unrealized gains	37,508	62,745	-
Change in net assets	771,214	515,514	995,875
Net assets, beginning of year	4,128,004	3,612,490	2,616,615
Net assets, end of year	<u>\$ 4,899,218</u>	<u>\$ 4,128,004</u>	<u>\$ 3,612,490</u>

***Net patient service revenues for FYE June 30,**

Payor Source	2018	2017
Medi-Cal	56%	60%
Medicare	11%	20%
Private pay	16%	9%
Insurance & other	17%	11%
Total	100%	100%

Redwoods Rural Health Center, Incorporated
Balance Sheet
(Unrestricted)

	As of June 30,			
	2018	2017	2016	
Assets				
Current assets				
Cash and cash equivalents	\$ 3,329,445	\$ 2,715,511	\$ 2,250,140	
Assets limited as to use	175,021	174,401	248,784	
Patient accounts receivable, net	420,725	479,094	344,917	
Grant and other receivables	168,491	271,489	275,912	
Inventory	46,657	47,052	30,010	
Prepaid expenses	36,725	46,553	40,947	
Total current assets	<u>4,177,064</u>	<u>3,734,100</u>	<u>3,190,710</u>	
Property, plant and equipment, net	<u>1,323,842</u>	<u>1,223,589</u>	<u>1,167,088</u>	
Total assets	<u>\$ 5,500,906</u>	<u>\$ 4,957,689</u>	<u>\$ 4,357,798</u>	
Liabilities and net assets				
Current liabilities				
Current portion of long-term debt	\$ -	\$ 60,463	\$ 58,678	
Accounts payable and accrued expenses	77,160	52,680	69,338	
Accrued payroll and other related liabilities	160,852	129,876	127,954	
Estimated third-party settlements payable	363,676	421,821	264,030	
Total current liabilities	<u>601,688</u>	<u>664,840</u>	<u>520,000</u>	
Long-term debt, net of current portion	-	164,845	225,308	
Total liabilities	<u>601,688</u>	<u>829,685</u>	<u>745,308</u>	
Net assets				
Unrestricted	<u>4,899,218</u>	<u>4,128,004</u>	<u>3,612,490</u>	
Total net assets	<u>4,899,218</u>	<u>4,128,004</u>	<u>3,612,490</u>	
Total liabilities and net assets	<u>\$ 5,500,906</u>	<u>\$ 4,957,689</u>	<u>\$ 4,357,798</u>	
	Proforma^(a)			
	FYE June 30, 2018	2018	2017	2016
Debt Service Coverage - Net (x)	5.39	14.41	9.93	17.03
Debt to Unrestricted Net Assets (x)	0.38	N/A	0.05	0.08
Margin (%)		13.99	10.27	22.00
Current Ratio (x)		6.94	5.62	6.14

^(a) Recalculates FY 2018 audited results to include the impact of this proposed financing.

Financial Discussion – Income Statement

RRHC's income statement appears to exhibit strong operating results with an increase in unrestricted net assets in each fiscal year over the review period.

RRHC appears to exhibit consistently strong operating margins over the review period, starting with approximately 22% in FY 2016, decreasing to just over 10% in FY 2017, and increasing to a solid 14% in FY 2018, indicating a consistent ability to generate a net operating surplus. Total revenues grew by 15.8% from approximately \$4.5 million in FY 2016 to just over \$5.2 million in FY 2018. According to RRHC's management, much of this increase came from an overall increase in net patient service revenue, which increased from approximately \$2.4 million in FY 2016 to just under \$3.1 million in FY 2018. RRHC's management states that net patient service revenue grew due to the fact that its dental operations patient base expanded from 2,452 patients in FY 2016 to 2,840 patients in FY 2018. The additional dental patients resulted in a 17% increase in billable visit revenue from FY 2017 to FY 2018. Although expenses outpaced the growth of revenues over the review period, RRHC's management states that it was largely related to an outlier year in FY 2017, when RRHC hired a new Family Nurse Practitioner, who was hired at a higher salary than the previous position holder. RRHC's management also states that it lost one of its long-standing dentists and had to rely on higher-paid local dentists until the position could be filled. In FY 2018, RRHC's total revenues grew 18.9% while total expenses grew 13.9% from the previous year. Considering total net income, RRHC's appears to have the ability to meet current and future debt obligations.

Financial Discussion – Balance Sheet

RRHC appears to display a strong balance sheet, with a pro-forma debt service coverage ratio of 5.39x.

RRHC's balance sheet appears to demonstrate a strong ability to service its debt, displaying a debt service coverage ratio of 14.41x for FY 2018. Considering the proposed HELP II loan and a loan obtained from Community Credit Union to purchase a new, fully-equipped mobile dental van at the beginning of calendar year 2019, the pro-forma debt service coverage ratio remains a solid 5.39x, indicating RRHC's ability to support the proposed debt. In FY 2018, RRHC had no outstanding debt after paying off its previously outstanding HELP II loan. However, with the Community Credit Union and proposed HELP II loans considered, the pro-forma debt to unrestricted net assets ratio remains a low 0.38x, with unrestricted net assets growing from approximately \$3.6 million in FY 2016 to just under \$4.9 million in FY 2018.

RRHC's indicators of financial liquidity appear to be strong, posting a current ratio of 6.94x in FY 2018. It appears that the strength of the current ratio is correlated to the notable increase in cash and cash equivalents over the review period, which grew by 48% from approximately \$2.3 million in FY 2016 to just over \$3.3 million in FY 2018. RRHC's management explains that the increase in cash and cash equivalents is related to a large increase in patient revenue that resulted from an increasing number of patient visits, particularly in dental services. Combined with the fact that RRHC has not had major capital expenditures in the last few years, RRHC has been able to build cash reserves to support a portion of the cost to expand operations and renovate its facilities.

III. UTILIZATION STATISTICS

**Clients Served / (Patient Visits)
for Fiscal Year End June 30**

	2018	2017	2016
Totals	5,373 / (18,294)	5,175 / (16,710)	5,416 / (17,179)

IV. OUTSTANDING DEBT

	<u>Original Amount</u>	<u>Amount Outstanding as of June 30, 2018</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
<i>Existing Debt:</i>			
Community Credit Union Loan (2019) ^(a)	\$ 393,594	\$ -	\$ 353,444
<i>Proposed New Debt:</i>			
CHFFA HELP II Loan (2019)			1,500,000
Total Debt		<u>\$ -</u>	<u>\$ 1,853,444</u>

^(a) Loan obtained January 2019, the amount outstanding is \$353,444 as of June 30, 2019.

V. BACKGROUND AND LICENSURE

Background

Since its establishment in 1976, RRHC has served the rural and isolated communities in Southern Humboldt County, servicing an area that encompasses nearly 2,200 square miles of mountainous terrain. RRHC is located in a medical, behavioral health, and dental health professional shortage area, due to the lack of health care providers in the region. RRHC's mission is to provide responsive, preventative, high quality primary health care services, through a variety of healing disciplines, to all people without regard to social or economic status. RRHC provides many types of preventative services, such as immunizations, cancer screenings, child exams, diagnostic labs, dental care, counseling, nutritional education, acupuncture, prenatal services, and a broad scope of women's health services. In addition to primary care services, RRHC offers enabling services to address social determinants of health, such as transportation and food assistance, insurance eligibility, case management, telemedicine, patient self-management education, and homeless outreach with tents, hygiene, food, and clothing. Launched in 2018, RRHC developed its Medication Assisted Treatment Program for clients with opioid use disorder and the Bloom and Blossom Perinatal Program. In 2018, RRHC served 5,373 patients through 18,294 visits across all services. Approximately 37% of the health center's patients were living in or below poverty level and 21% were uninsured.

Licensure, Certification, and Accreditation

RRHC 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-322

**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, **Redwoods Rural Health Center, Incorporated** (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 **\$1,500,000** 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 properties located at 101 West Coast Road, 59 Shady Grove Lane, and 217 Briceland Thorn Road, Redway, CA 95560;
3. Current appraisals that are acceptable to Authority staff;
4. Executed construction contract(s);
5. Corporate gross revenue pledge;
6. Combined loan-to-value ratio not to exceed 95%; and
7. Verification of Borrower’s funds to close escrow.

Section 2. The Executive Director or Deputy 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 or Deputy 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 or Deputy 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 or Deputy Executive Director is hereby authorized and directed to do any and all things and to execute and deliver any and all documents which the Executive Director or Deputy 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 six months from the date of approval.

Date of Approval: _____