

**CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Santa Cruz Community Health Centers (SCCHC) 125 Water Street, Suite A1 Santa Cruz, CA 95061 Santa Cruz County</p>	<p>Loan Amount: \$1,500,000 Loan Term: 20-year fixed Annual Interest Rate: 2% Authority Meeting Date: January 28, 2021 Resolution Number: HII-328</p>
<p>Project Site: 1500 Capitola Road, Santa Cruz, CA 95062 Facility Type: Community Clinic Eligibility: Government Code Section 15432(d)(6) Prior HELP II Borrower: Yes (March 2011 – paid in full as of August 2018)</p>	

Background: Established in 1974, SCCHC is a 501(c)(3) non-profit organization and Federally Qualified Health Center. SCCHC’s health centers include its Santa Cruz Women’s Health Center and its East Cliff Family Health Center. SCCHC’s services include primary care, pediatrics, integrated behavioral health, prenatal care and education, chronic disease management, health insurance enrollment, and more.

Use of Loan Proceeds: Loan proceeds will be used to help finance the construction of a 20,000 square-foot medical facility. The project is part of a collaboration between SCCHC, MidPen Housing (MidPen), and Dientes Community Dental Care (Dientes) to bring affordable housing and healthcare services to the Live Oak area of Santa Cruz County.

Financing Structure:

- 20-year, two percent (2%) fixed rate loan
- 240 equal monthly payments of approximately \$7,588 (annual payments of approximately \$91,059)
- First lien on the real property located at 250 Locust Street, Santa Cruz, CA 95060
- A current appraisal that exhibits a loan-to-value ratio not to exceed 95%
- Executed construction contract
- Corporate gross revenue pledge
- Verification of borrower funds to close escrow
- Verification of receipt of other funding sources acceptable to Authority staff

Financial Overview: SCCHC’s income statement appears to exhibit positive operating results and increased net assets during the review period. SCCHC appears to display a solid balance sheet, with a pro-forma net debt service coverage ratio of 1.35x.

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
Private contributions	\$ 8,769,395	Project fund	\$18,150,250
Dignity Health loan	4,000,000	Financing costs	20,750
New market tax credits	2,993,055		
HELP II loan	1,500,000		
Borrower funds	908,550		
Total Estimated Sources	<u><u>\$18,171,000</u></u>	Total Estimated Uses	<u><u>\$ 18,171,000</u></u>

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

Staff Recommendation: Staff recommends approval of Resolution Number HII-328 for Santa Cruz Community Health Centers 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:

SCCHC is seeking a HELP II loan to help finance the construction of a new medical facility. The project is a collaboration among SCCHC, MidPen, and Dientes in order to respond to community needs by offering new services, increasing patients served, creating economic opportunity, and increasing affordable housing in its surrounding community. The new medical facility will share the same 3.65-acre campus as a new 57-unit affordable housing complex managed by MidPen and an 11-chair dental clinic for Dientes. In addition, the medical facility is estimated to generate over 60 new healthcare and administrative jobs in the community. Along with the new proposed HELP II loan, funding sources will include private contributions, a loan from Dignity Health, new market tax credits, and borrower funds.

***Project fund* \$18,150,250**

1500 Capitola Road Project

Although the project will include the construction, purchase, and equipping of real property, HELP II loan proceeds will only be used to help finance the construction of a new 20,000 square-foot, two-story medical facility located at 1500 Capitola Road in Santa Cruz, CA. The medical facility will feature 27 exam rooms, six behavioral health rooms, three case management/health education rooms, an outreach and enrollment area, a prenatal care office, and three flex spaces. Offering new services such as optometry, pharmacy, family therapy, and telehealth services, the new medical facility is expected to serve 10,000 patients annually across its primary care, pediatrics, behavioral health, oral health, and complex care programs. The construction is expected to begin in April 2021 and conclude in 2022.

The HELP II loan will be secured by a first (1st) lien position on the property located at 250 Locust Street in Santa Cruz, CA. SCCHC is offering a first lien on its Santa Cruz Women’s Health Center because Dignity Health will have the first lien position on 1500 Capitola Road in Santa Cruz, CA as collateral for its \$4 million loan to SCCHC. The estimated value of the property located at 250 Locust Street is \$1,600,000, resulting in a loan-to-value ratio of 94%. In addition to the \$1.5 million HELP II loan and \$4 million Dignity Health loan, the remaining funds for the project are expected to be acquired from private contributions, new money tax credits, and borrower funds. Authority staff will verify receipt of these other sources prior to loan closing.

***Financing Costs* 20,750**

Authority fees \$18,750
 Estimated escrow/title fees 2,000

Total uses of funds \$18,171,000

II. FINANCIAL STATEMENTS AND ANALYSIS:

Santa Cruz Community Health Centers Income Statement (Unrestricted)

	As of June 30,		
	2020	2019	2018
Revenues, gains, and other support			
Net patient service revenue	\$ 10,620,585	\$ 10,747,931	\$ 8,417,077
MediCal revenue from retroactive rate adjustments	-	1,871,848	718,493
Grants and contributions	531,649	492,781	1,577,889
Incentives and other revenues	1,035,503	798,006	1,114,094
Net assets released from restriction	3,979,211	2,608,331	2,107,452
Total revenues and other support	<u>16,166,948</u>	<u>16,518,897</u>	<u>13,935,005</u>
Expenses			
Salaries and benefits	11,615,254	10,827,248	10,367,334
Accounting	268,792	334,924	317,223
Legal and consulting	271,718	427,934	336,285
Contract/Temporary labor	213,433	161,389	81,202
Contract payment	97,595	187,154	229,090
Medical supplies	522,285	384,812	385,393
Lab service	29,914	28,774	29,874
e-Clinical Works software and support	187,336	184,322	175,330
Telephone/internet	75,940	75,676	65,467
Board and employee relations	62,187	44,996	27,939
Postage	14,938	20,682	13,706
Supplies	110,231	57,894	71,493
Occupancy	367,062	434,187	358,095
Worker's compensation	76,507	68,529	89,049
Small equipment, rent, and maintenance	75,660	31,177	59,426
Repairs and maintenance	90,827	69,224	100,450
Computer software and support	420,107	262,345	281,565
CAM	55,238	28,074	30,190
Printing and publications	7,211	52,674	33,865
Other	186,587	178,961	99,924
Staff development	60,644	55,488	41,691
Recruitment	48,802	104,245	178,095
Membership dues	55,959	56,795	49,594
Interest expense	17,240	78,244	85,293
Bank charges	12,672	12,159	9,827
Insurance	78,220	61,655	66,554
Permits and licenses	14,498	23,170	9,891
Advertising	22,035	11,007	17,610
Depreciation and amortization	310,309	356,910	364,824
Total expenses	<u>15,369,201</u>	<u>14,620,649</u>	<u>13,976,279</u>
Change in net assets from operations	<u>797,747</u>	<u>1,898,248</u>	<u>(41,274)</u>
Non-operating income (expense)			
Contributions - capital expansion	-	-	-
Capital project expense recovery	59,953	-	-
Investment income (loss)	(183,653)	116,236	146,275
Total non-operating income (expense)	<u>(123,700)</u>	<u>116,236</u>	<u>146,275</u>
Change in net assets	674,047	2,014,484	105,001
Net assets, beginning of year	8,594,013	6,579,529	6,474,528
Net assets, end of year	<u>\$ 9,268,060</u>	<u>\$ 8,594,013</u>	<u>\$ 6,579,529</u>

Santa Cruz Community Health Centers
Balance Sheet
(Unrestricted)

	As of June 30,		
	2020	2019	2018
Assets			
Current assets			
Cash and cash equivalents	\$ 4,831,442	\$ 917,779	\$ 1,275,916
Investments	2,700,305	2,590,444	2,277,489
Patient accounts receivable, net	969,810	793,974	1,039,217
Due from MediCal - retroactive rate receivable	1,745,433	3,485,180	2,666,706
Due from MediCal - PPS settlements	2,608	370,570	-
Contributions and grants receivable, net	461,208	337,115	184,632
Inventory	90,840	64,053	28,385
Prepaid and other current assets	223,949	147,167	147,183
Total current assets	<u>11,025,595</u>	<u>8,706,282</u>	<u>7,619,528</u>
Noncurrent assets			
Property and equipment, net	3,096,223	2,715,473	3,027,217
Cash designated for capital acquisition	2,177,053	261,381	-
Total noncurrent assets	<u>5,273,276</u>	<u>2,976,854</u>	<u>3,027,217</u>
Total assets	<u>\$ 16,298,871</u>	<u>\$ 11,683,136</u>	<u>\$ 10,646,745</u>
Liabilities and net assets			
Current liabilities			
Accounts payable	\$ 369,647	\$ 199,314	\$ 198,781
Accrued expenses	1,024,810	770,385	762,325
Due to MediCal - PPS settlements, net	830,905	380,749	992,125
Deferred revenue	35,500	-	-
Current portion of long-term debt	680,911	1,009,844	51,556
Total current liabilities	<u>2,941,773</u>	<u>2,360,292</u>	<u>2,004,787</u>
Long-term liabilities			
Long-term debt, noncurrent	1,375,511	-	2,062,429
Deferred rent	56,902	60,828	-
Total long-term liabilities	<u>1,432,413</u>	<u>60,828</u>	<u>2,062,429</u>
Total liabilities	<u>4,374,186</u>	<u>2,421,120</u>	<u>4,067,216</u>
Net assets			
Without donor restrictions	9,268,060	8,594,013	6,579,529
With donor restrictions	2,656,625	668,003	-
Total net assets	<u>11,924,685</u>	<u>9,262,016</u>	<u>6,579,529</u>
Total liabilities and net assets	<u>\$ 16,298,871</u>	<u>\$ 11,683,136</u>	<u>\$ 10,646,745</u>
	Proforma^(a)		
	FYE June 30, 2020	2020	2019
Debt Service Coverage - Net (x)	1.35	0.98	18.87
Debt to Unrestricted Net Assets (x)	0.59	0.22	0.12
Margin (%)		4.93	11.49
Current Ratio (x)		3.75	3.69
			0.24
			0.32
			(0.30)
			3.80

^(a) Does not include an approximate \$2 million PPP loan obtained from the U.S. Small Business Administration in 2020.

Financial Discussion – Statement of Activities (Income Statement)

SCCHC's income statement appears to exhibit positive operating results and increased net assets during the review period.

It appears that SCCHC has recovered and maintained strong operations, displaying margins of 11.5% and 4.9% in FY 2019 and FY 2020, respectively, although beginning with an operating margin of negative 0.3% in FY 2018. Total revenues grew by 16.5% over the review period, from approximately \$13.9 million in FY 2018 to approximately \$16.2 million in FY 2020. SCCHC's management attributes the growth in revenues to strong fundraising efforts and an increase in federal and private foundation grants, while also focusing on improving overall operational efficiencies. Because of these efforts, SCCHC has seen an increase in overall productivity and total visits compared to FY 2018. Like revenues, total expenses also increased from just under \$14 million in FY 2018 to approximately \$15.4 million in FY 2020, an overall increase of 10%.

Due to the COVID-19 pandemic, SCCHC's management explains that there was an initial decrease of 15% in patient visits. In order to deal with the decrease in patients seen, SCCHC successfully pivoted to telehealth visits while also still providing on-site services, returning to pre-pandemic levels of patient visits. Currently, 64% of SCCHC's total visits are being performed via telehealth services.

Financial Discussion – Statement of Financial Position (Balance Sheet)

SCCHC appears to display a solid balance sheet, with a pro-forma net debt service coverage ratio of 1.35x.

SCCHC's net debt service coverage ratio fluctuated over the review period, starting with 0.24x in FY 2018, greatly improving to 18.87x in FY 2019, and finishing at 0.98x in FY 2020. The net debt service coverage ratio for FY 2020 includes a large payment in July 2019, which paid off an outstanding loan issued by Dignity Health. Considering the proposed HELP II loan and a new \$4 million loan from Dignity Health to assist with the costs of the project, it appears that SCCHC will be able to comfortably take on its proposed new debts, displaying a pro-forma net debt service coverage ratio of 1.35x.

In FY 2020, SCCHC obtained an approximate \$2 million Payment Protection Program (PPP) loan from the U.S. Small Business Administration. However, SCCHC's management expects this loan to be forgiven in full, as it has met all of its conditions of forgiveness, such as ensuring no reduction in services or staffing during the pandemic. Staff, in consultation with its financial analyst, considered the impact of the PPP loan and concluded the PPP loan should not affect the financial viability of SCCHC as it is expected to be forgiven.

SCCHC's indicators of financial liquidity appear to be strong, displaying a 3.75x current ratio for FY 2020. It appears that the strength of the current ratio can be attributed to the robust growth in cash and cash equivalents, growing from approximately \$1.3 million in FY 2018 to approximately \$4.8 million in FY 2020. SCCHC's management explains that this growth in cash and cash equivalents can be correlated to strong collections efforts, as well as finding success in its strategy of maximizing its Medi-Cal reimbursement rate for its East Cliff clinic location. SCCHC's management goes on to explain that the approximate \$2 million PPP loan is also included in this amount.

III. UTILIZATION STATISTICS:

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

	2020	2019	2018
Totals	11,198 / (51,440)	11,403 / (53,368)	10,222 / (49,536)

IV. OUTSTANDING DEBT:

	<u>Original Amount</u>	<u>Amount Outstanding as of June 30, 2020</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
<i>-EXISTING LONG-TERM DEBT</i>			
U.S. Small Business Administration Loan (2020) ^(a)	\$ 2,056,422	\$ 2,056,422	\$ 2,056,422
<i>-PROPOSED NEW DEBT</i>			
<i>HELP II Loan</i>			1,500,000
Dignity Health Loan			4,000,000
<i>-TOTAL DEBT</i>		<u>\$ 2,056,422</u>	<u>\$ 7,556,422</u>

^(a) Payment Protection Program Loan, expected to be forgiven in full

V. BACKGROUND AND LICENSURE:

Background

Established in 1974, SCCHC is a 501(c)(3) non-profit organization and Federally Qualified Health Center. SCCHC has played a key role in the local health care safety net since its opening. What started as a women's health collective founded by a group of local students, SCCHC has evolved to keep pace with the rapidly changing health care landscape, expanding in size and scope each year to meet growing community needs. Although constantly evolving, SCCHC's mission remains constant: to provide quality health services and advocate the goals of social, political, and economic equality. SCCHC is driven by its originator's commitment to social justice and access to health care as a human right.

SCCHC's health centers include the Santa Cruz Women's Health Center and the East Cliff Family Health Center. SCCHC provides comprehensive primary care services in English and Spanish to all ages, genders, ethnicities, abilities and sexual identities, and orientations, regardless of their ability to pay. SCCHC's services include primary care, pediatrics, integrated behavioral health, prenatal care and education, chronic disease management, health insurance enrollment, and more. SCCHC's health centers boast its delivery of high-quality care through compassionate, dedicated medical providers, health educators, and administrative staff.

Licensure, Certification, and Accreditation

SCCHC is licensed by the California Department of Public Health to operate and maintain Community Clinics located at 250 Locust Street, Santa Cruz, CA and 21507 E. Cliff Drive, Santa Cruz, CA.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-328

**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, **Santa Cruz Community 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 the loan to the Borrower, in an amount not to exceed **\$1,500,000** for a term not to exceed **20 years** for the purposes described in the application filed with the Authority (the “Projects”), 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 on the real property at 250 Locust Street, Santa Cruz, CA 95060;
3. A current appraisal that is acceptable to Authority staff exhibiting a loan-to-value ratio not to exceed 95%;
4. Executed construction contract;
5. Corporate gross revenue pledge;
6. Verification of Borrower’s funds to close escrow; and
7. Verification of receipt of other funding sources acceptable to Authority staff.

Section 2. The Executive Director and the Deputy Executive Director are hereby authorized, for and on behalf of the Authority, to determine the final amount, terms and conditions of the loans, 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 and the Deputy Executive Director are 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 and the Deputy Executive Director of the Authority are 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 six months from the date of approval.

Date of Approval: _____