

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
HEALTHCARE EXPANSION LOAN PROGRAM II (HELP II)
EXECUTIVE SUMMARY**

Applicant: Southern Humboldt Community
Healthcare District (Southern Humboldt)
733 Cedar Street
Garberville, CA 95542
Humboldt County

Loan Amount: \$2,000,000
Loan Term: 20-years
Annual Interest Rate: 2% fixed
Authority Meeting Date: December 1, 2022
Resolution Number: HII-340

Project Site: 733 Cedar Street, Garberville, CA 95542
Facility Type: General Acute Care Hospital
Eligibility: Government Code section 15432(d)(1)
Prior HELP II Borrower: Yes (July 2010 – paid in full as of March 2020)

Background: Southern Humboldt operates an acute care district hospital in southern Humboldt County and has been providing health care to the people of in its community since 1949. Southern Humboldt Community Hospital was formed in 1960, and that eventually led to the formation of Southern Humboldt Community Healthcare District in 1980. The hospital is now known as the Jerold Phelps Community Hospital.

Use of Loan Proceeds: Loan proceeds will be used for renovations to the acute care hospital to meet seismic requirements for Non-structural Performance Category (NPC) 3.

Financing Structure:

- 20-year, two percent (2%) fixed rate loan
- 240 equal monthly payments of approximately \$10,118 (annual payments of approximately \$121,412)
- Assignment of Humboldt County property tax revenue in the event of default (annual payments of \$121,412 in agreement with Humboldt County)
- Executed construction contract
- Corporate gross revenue pledge
- Verification of borrower funds to close

Financial Overview: Southern Humboldt’s income statement appears to exhibit positive net income results over the review period. Southern Humboldt’s balance sheet appears strong, with a pro-forma fiscal year (FY) 2020 net debt service coverage ratio of 6.24x.

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II loan	\$ 2,000,000	Renovations	\$ 5,600,000
Commercial bank loan(s)	3,600,000	Financing costs	18,750
Applicant funds	18,750		
Total Estimated Sources	\$ 5,618,750	Total Estimated Uses	\$ 5,618,750

Due Diligence: Staff has confirmed the following documentation satisfies the California Health Facilities Financing Authority’s (Authority) requirements: Eligibility, Legal Review, and Religious Affiliation Due Diligence.

Staff Recommendation: Staff recommends the Authority approve Resolution No. HII-340 in an amount not to exceed \$2,000,000 for Southern Humboldt Community Healthcare District, subject to the terms and conditions in the resolution. TAP International, Inc., the Authority’s financial analyst, concurs with the Authority staff’s recommendation.

STAFF SUMMARY, ANALYSIS, AND RECOMMENDATION

I. PURPOSE OF FINANCING

Southern Humboldt is requesting a HELP II loan to finance renovations at its existing Jerold Phelps Community Hospital to meet seismic requirements for NPC 3. The NPC's were developed to establish various levels of seismic performance for nonstructural equipment, components, and systems critical to patient care. Buildings in the NPC 3 category are expected to maintain their inpatient population following a moderate earthquake, as well as provide a full array of emergency services to the public. In order to meet the seismic requirements deadline, the renovations must begin by September 2023. Once completed, the renovations will modernize the acute wing of the hospital and replace outdated equipment and systems that will allow Southern Humboldt to continue providing services to the community.

Renovations **\$5,600,000**

Loan funds will be used to replace the hospital's existing generator, which is currently powered by a diesel engine from a 1950s Ford tractor. The generator is housed in a room constructed in the 1960s, before the county required any building permits. In addition to the generator replacement, the renovation project will also include the removal of the existing generator room; the replacement of an outdated boiler; the replacement of the existing heating, ventilation, and air conditioning system in the acute wing, which includes the acute care and skilled nursing rooms; and extensive changes to the electric system in the acute wing of the hospital.

Southern Humboldt will finance the remaining amount for the renovation project through one or more commercial bank loans.

District hospitals are considered public property and cannot be foreclosed upon to liquidate assets for loan repayments. As such, the HELP II loan will be secured by an assignment of Southern Humboldt's property tax revenue in the event of default in lieu of requiring a lien position.

Financing Costs **18,750**

Authority Fees \$18,750

Total Uses of Funds **\$5,618,750**

II. FINANCIAL STATEMENTS AND ANALYSIS

The following analysis displays FY 2020 as the most current audited financial statements. Staff and TAP International have reviewed drafts of the FY 2021 and FY 2022 financials, which do not raise any concerns at this time.

**Southern Humboldt Community Healthcare District
Statement of Activities
(Income Statement)**

	For the Years Ended June 30,		
	2020	2019	2018
Revenue			
Operating revenue			
Net patient service revenue	\$ 16,583,338	\$ 12,266,445	\$ 10,861,233
Other operating revenue	29,819	13,483	1,210,314
Total operating revenue	<u>16,613,157</u>	<u>12,279,928</u>	<u>12,071,547</u>
Expenses			
Operating expenses			
Salaries and wages	6,276,724	5,171,557	5,210,743
Employee benefits	1,665,545	1,363,972	1,787,982
Professional fees	2,749,820	2,202,192	1,479,139
Supplies	1,209,513	854,309	680,606
Purchased services	1,472,575	1,388,816	1,513,117
Utilities	147,700	115,034	95,188
Repairs and maintenance	356,250	232,159	215,002
Insurance	90,836	71,444	100,381
Other	347,758	366,779	322,903
Rents	116,162	126,023	116,967
Depreciation	734,417	490,512	403,122
Total operating expenses	<u>15,167,300</u>	<u>12,382,797</u>	<u>11,925,150</u>
Increase in operating income	<u>1,445,857</u>	<u>(102,869)</u>	<u>146,397</u>
Nonoperating revenue (expenses)			
Tax revenue	1,066,629	1,238,743	1,158,829
Grant revenue	306,827	101,333	100,197
Contribution and donation income	-	20,000	10,155
Interest income	-	31,300	7,331
Interest expense	(61,242)	(109,327)	(32,044)
Other	80,903	65,892	1,751
Total nonoperating revenue	<u>1,393,117</u>	<u>1,347,941</u>	<u>1,246,219</u>
Increase in net income	<u>2,838,974</u>	<u>1,245,072</u>	<u>1,392,616</u>
Net assets, beginning of the year	<u>9,062,730</u>	<u>8,429,686</u>	<u>7,037,070</u>
Restatement - correction of an error	-	(612,028)	-
Net assets, end of the year	<u>\$ 11,901,704</u>	<u>\$ 9,062,730</u>	<u>\$ 8,429,686</u>

Southern Humboldt Community Healthcare District
Statement of Financial Position
(Balance Sheet)

	As of June 30,		
	2020	2019	2018
Assets			
Current Assets			
Cash and cash equivalents	\$ 15,843,576	\$ 4,081,974	\$ 1,759,663
Patient accounts receivable, net	1,019,969	1,497,868	1,926,452
Estimated third-party payor settlements receivable	-	-	1,385,270
Taxes receivable	6,528	6,586	6,529
Other	1,261	1,262	991
Inventories	83,377	17,229	81,522
Prepaid expenses and other	188,427	214,754	91,760
Total current assets	<u>17,143,138</u>	<u>5,819,673</u>	<u>5,252,187</u>
Noncurrent Assets			
Nondepreciable capital assets	823,341	1,568,721	1,438,171
Depreciable capital assets, net	3,781,591	3,934,570	3,151,440
Total noncurrent assets	<u>4,604,932</u>	<u>5,503,291</u>	<u>4,589,611</u>
Total assets	<u>\$ 21,748,070</u>	<u>\$ 11,322,964</u>	<u>\$ 9,841,798</u>
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	\$ 322,153	\$ 159,511	\$ 343,030
Payroll and related liabilities	320,929	219,911	249,537
Accrued compensated absences	276,011	168,067	135,573
Estimated third-party payable	128,232	383,839	-
Current portion of refundable advance	559,600	-	-
Unearned revenue	3,100,784	-	-
Current maturities - long-term debt	-	56,832	106,707
Current maturities - capital lease obligations	-	84,649	50,310
Total current liabilities	<u>4,707,709</u>	<u>1,072,809</u>	<u>885,157</u>
Noncurrent Liabilities			
Long-term debt - less current portion	1,221,456	240,221	296,762
Capital lease obligations - less current portion	-	335,175	230,193
Refundable advance - less current portion	3,917,201	-	-
Total noncurrent liabilities	<u>5,138,657</u>	<u>575,396</u>	<u>526,955</u>
Total liabilities	<u>9,846,366</u>	<u>1,648,205</u>	<u>1,412,112</u>
Net Assets			
Net investment in capital assets	4,604,932	4,786,414	3,905,639
Unrestricted	7,296,772	4,888,344	4,524,047
Total net assets	<u>11,901,704</u>	<u>9,674,758</u>	<u>8,429,686</u>
Total liabilities and net assets	<u>\$ 21,748,070</u>	<u>\$ 11,322,963</u>	<u>\$ 9,841,798</u>

	Proforma			
	FYE June 30, 2020	2020	2019	2018
Debt Service Coverage - Net (x)	6.24	15.79	4.95	13.61
Debt to Unrestricted Net Assets (x)	0.77	0.17	0.15	0.15
Margin (%)		21.91	17.22	18.08
Current Ratio (x)		3.64	5.42	5.93

Financial Discussion

Southern Humboldt's income statement appears to exhibit positive net income over the review period.

Southern Humboldt's operating revenue exhibits a positive upward trend, increasing 38% from approximately \$12.1 million in FY 2018 to \$16.6 million in FY 2020. According to Southern Humboldt's management, this growth in revenue was primarily due to the addition of new services namely: CT scanner services, a group psychotherapy program, ultrasound services, substance abuse counseling, and pharmacy services. During the same period, operating expenses also increased 27% from approximately \$11.9 million in FY 2018 to \$15.2 million in FY 2020. According to Southern Humboldt's management, this increase in expenses was due to increased expenditures relating to the new services, including staffing costs, costs relating to the maintenance of additional square footage, and the purchase of a van for the transportation of senior citizens participating in the group psychotherapy. Overall, revenues outpaced expenses, resulting in a strong positive net income each fiscal year: approximately \$1.4 million in FY 2018, approximately \$1.2 million in FY 2019, and approximately \$2.8 million in FY 2020.

When the COVID-19 pandemic began, Southern Humboldt canceled all of its in-person clinic visits but was soon able to transition to telehealth appointments. In addition, although Southern Humboldt kept many of its specialized services open, the number of lab visits, mammograms, X-rays, CT scans, and emergency room visits decreased significantly. Southern Humboldt also did not lay off any of its staff during this time as Southern Humboldt obtained a Paycheck Protection Program (PPP) loan through the Small Business Association and an Accelerated and Advance Payment Program (AAPP) loan from the Centers for Medicare & Medicaid Services in the amounts of \$1.2 million and \$4.3 million, respectively, to maintain cash flow. The AAPP loan is not forgivable; however, the PPP loan was forgiven in September 2021.

Southern Humboldt's balance sheet appears strong, with a pro-forma net debt service coverage ratio of 6.24x.

Over the review period, Southern Humboldt maintained strong debt service coverage ratios of 13.61x in FY 2018, 4.95x in FY 2019, and 15.79x in FY 2020. With the inclusion of the HELP II loan, Southern Humboldt continues to display a strong ability to repay its debts with a pro-forma FY 2020 debt service coverage ratio of 6.24x. Southern Humboldt had a debt to unrestricted net assets ratio of 0.17x in FY 2020, which demonstrates their readiness to take on new debt. The pro-forma FY 2020 debt-to-unrestricted net assets ratio of 0.77x continues to display Southern Humboldt's ability to manage the new debt. Moreover, Southern Humboldt's existing debts were paid off or forgiven in FY 2021, which will leave the HELP II loan and the commercial bank loans for this renovation project as Southern Humboldt's only long-term debt.

Furthermore, Southern Humboldt appears to display financial strength in the balance sheet as total assets have increased over the review period by 121%, from approximately \$9.8 million in FY 2018 to \$21.7 million in FY 2020. According to Southern Humboldt's management, this increase was due, in part, to various funding received during the pandemic, as previously described.

III. UTILIZATION STATISTICS

**Clients Served/Patient Visits
Fiscal Year Ending June 30,**

	2020	2019	2018
Totals	3,982 / 13,114	2,022 / 12,554	4,314 / 13,079

IV. OUTSTANDING DEBT

	<u>Original Amount</u>	<u>Amount Outstanding as of 06/30/2020</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
EXISTING LONG-TERM DEBT			
Paycheck Protection Program loan*	\$1,221,458	\$1,221,458	\$0
PROPOSED NEW DEBT			
Commercial bank loan(s)			3,600,000
<i>HELP II Loan</i>			2,000,000
TOTAL DEBT		<u>\$1,221,458</u>	<u>\$5,600,000</u>

*The Paycheck Protection loan was forgiven in September 2021.

V. BACKGROUND AND LICENSURE

Background

Southern Humboldt Community Hospital was formed in 1960. In 1979, the voters of Humboldt County approved the creation of a Hospital District, and in 1980, Southern Humboldt Community Hospital became Southern Humboldt Community Hospital District, which was later changed to Healthcare District in 1995. Southern Humboldt operates an acute care district hospital in southern Humboldt County and obtained Critical Care Access Hospital status in March 2002.

Southern Humboldt's mission is to provide high quality local medical services; to engage community members with education, activities, and lifestyle opportunities that promote optimal health; and to assist its patients in navigating access to services throughout the healthcare system. Southern Humboldt serves an area of approximately 775 square miles with a population of about 10,365 full-time residents. Southern Humboldt currently includes Jerold Phelps Community Hospital with its attached skilled nursing unit; Southern Humboldt Community Clinic, a certified rural health clinic; Southern Humboldt Family Resource Center, located at Redway Elementary School; and Garberville Pharmacy, a full-service retail pharmacy.

Licensure, Certification and Accreditation

Southern Humboldt Community Healthcare District is licensed by the State Department of Public Health to operate and maintain a general acute care hospital.

VI. STAFF RECOMMENDATION

Staff recommends the Authority approve Resolution No. HII-340 in an amount not to exceed \$2,000,000 for Southern Humboldt Community Healthcare District, subject to the terms and conditions in the resolution. TAP International, Inc., the Authority's financial analyst, concurs with the Authority's staff recommendation.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
HEALTHCARE EXPANSION LOAN PROGRAM II (HELP II)
Resolution Number HII-340

RESOLUTION APPROVING EXECUTION AND DELIVERY OF
HELP II 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 (Gov. Code, §15430 et seq.) (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 HELP II (the “Program”) to provide loans to participating health institutions as authorized by the Act;

WHEREAS, **Southern Humboldt Community Healthcare District** (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 **\$2,000,000** for a term not to exceed **20 years** for the purposes 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. Assignment of Humboldt County property tax revenue in the event of default (annual payments of \$121,412 in agreement with Humboldt County);
3. Executed construction contract;
4. Corporate gross revenue pledge; and
5. Verification of Borrower’s funds to close.

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 that officer shall deem appropriate and authorized under the Act, provided that the amount of the loans shall 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 and Deputy Executive Director are 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 those amounts.

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 that the Executive Director or Deputy Executive Director deem necessary or advisable to effectuate the purposes of this resolution and the transactions contemplated hereby, and that have heretofore been approved as to form by the Authority.

Section 5. This resolution is repealed six months from the date of approval.

Date of Approval: _____