

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

<p>Applicant: Northeastern Rural Health Clinics (Northeastern RHC) 1850 Spring Ridge Drive Susanville, CA 96130 Lassen County</p> <p>Project Site: 1850 Spring Ridge Drive, Susanville, CA 96130</p> <p>Facility Type: Nonprofit corporation operating community clinics</p> <p>Eligibility: Government Code Section 15432(d)(6)</p> <p>Prior HELP II Borrower: Yes (September 2002, paid in full as of June 2012)</p>	<p>Renovation Loan Amount: \$332,500</p> <p>Equipment Loan Amount: \$80,000</p> <p>Renovation Loan Term: 20-years</p> <p>Equipment Loan Term: 5-years</p> <p>Annual Interest Rate: 2% fixed</p> <p>Authority Meeting Date: May 25, 2023</p> <p>Resolution No.: HII-345</p>
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Background: Northeastern RHC is a 501(c)(3), Federally Qualified Health Center (FQHC) located on the Eastern slope of the Sierra Nevada Mountains in California near the Nevada border. Northeastern RHC serves the residents of Lassen County with clinics in Susanville and Westwood.

Use of Proceeds: Renovation loan proceeds will be used to remove and replace the clinic boiler. Equipment loan proceeds will be used to purchase approximately 40 laptops and 30 personal computers (PCs), monitors, and stands to replace aging computers.

- Financing Structure:**
- For renovation loan**
- First lien on real property located at 209 Birch Street, Westwood, CA 96137
 - 20-year, two percent (2%) fixed rate loan for renovations
 - 240 equal monthly payments of approximately \$1,682 (annual payments of approximately \$20,185)
 - A current appraisal that exhibits a loan-to-value ratio not to exceed 95%
 - Executed construction contract
- For equipment loan**
- UCC-1 lien on equipment purchased
 - 5-year, two percent (2%) fixed rate loan for equipment
 - 60 equal monthly payments of approximately \$1,402 (annual payments of approximately \$16,827)
- For both loans**
- Corporate gross revenue pledge
 - Verification of borrower funds to close escrow

Financial Overview: Northeastern RHC’s income statement appears to exhibit increasing operating results over the review period. Northeastern RHC appears to display a solid balance sheet with a pro-forma FY 2022 net debt service coverage ratio of 5.1x.

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II loans	\$ 412,500	Renovation project	\$ 350,000
Applicant funds	24,606	Purchase equipment	80,000
		Financing costs	7,106
Total Estimated Sources	\$ 437,106	Total Estimated Uses	\$ 437,106

Due Diligence: Staff has confirmed the following documentation provided by Northeastern RHC 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-345 in an amount not to exceed \$332,500 for renovations and not to exceed \$80,000 for equipment for Northeastern Rural Health Clinics, subject to the terms and conditions in the resolution. TAP International, Inc., the Authority’s financial analyst, concurs with the Authority’s staff recommendation.

STAFF SUMMARY, ANALYSIS, AND RECOMMENDATION

I. PURPOSE OF FINANCING:

Northeastern RHC is requesting two HELP II loans to finance the removal and replacement of the existing boiler in its Susanville clinic and to purchase equipment including laptops, PCs, monitors, and stands. The boiler is still the original one at the Susanville clinic, which opened in May 2005, making it almost 20 years old. The life expectancy of a commercial boiler averages from 15 - 20 years, and Northeastern RHC’s boiler has been losing efficiency over the past several years. Replacing the boiler will allow the Susanville clinic to be heated properly and to remain compliant with the California Division of Occupational Safety and Health standards.

***Renovation Project* \$350,000**

The Susanville clinic is nearly 27,000 square feet, housing six medical suites, an urgent care clinic, a dental suite, behavioral health exam rooms, and administrative offices. The renovation project will replace an old inefficient boiler with a new energy efficient boiler, new circulation pumps, new expansion tank, new system separator, and new transition piping and valves. The old boiler has incurred maintenance costs totaling \$186,000 over the past three years, it has shut down several times in the past few months, it has caused leaking throughout the building, and it forced a one-day closure. Northeastern RHC has been able to patch some of the problems, but new issues continue to emerge.

The renovation HELP II loan will be secured by a first (1st) lien position on 209 Birch Street in Westwood. Additionally, Northeastern RHC will provide an appraisal of the real property that exhibits a loan-to-value ratio not to exceed 95% before the time of closing as well as an assurance of meeting the other security terms and conditions set forth in the resolution.

***Purchase Equipment* 80,000**

Northeastern RHC intends to purchase approximately 40 laptops and 30 PCs, monitors, and stands. Purchase of the new laptops and PCs will help increase patient capacity by having up-to-date computer systems that will allow for faster patient intake and charting.

The equipment HELP II loan will be secured by a UCC-1 Financing Statement filed against the equipment purchased.

***Financing Costs* 7,106**

Authority Fees	\$5,106
Estimated Escrow/Title Fees	<u>2,000</u>

***Total Estimated Uses of Funds* \$437,106**

II. FINANCIAL STATEMENTS AND ANALYSIS:

**Northeastern Rural Health Clinics
Statement of Activities
(Income Statement)**

	For the Years Ended June 30,		
	2022	2021	2020
Revenues and other support			
Net patient services revenues	\$ 6,248,750	\$ 6,387,392	\$ 5,320,512
Capitaion revenue	878,476	820,686	752,970
Pharmacy revenues	2,619,461	1,333,783	1,661,304
Grant and contract revenue	7,320,575	5,841,757	3,311,453
Other revenue	282,826	781,015	478,791
Net assets released from restriction	226	-	49,142
Total revenue	<u>17,350,314</u>	<u>15,164,633</u>	<u>11,574,172</u>
Expenses			
Salaries and wages	7,040,835	6,932,787	6,528,961
Payroll taxes and employee benefits	1,353,885	1,446,660	1,510,221
Purchased and professional services	3,343,164	2,698,038	3,416,748
Equipment and supplies	1,116,939	923,883	839,687
Depreciation and amortization	294,746	243,187	347,216
Utilities and communication	484,471	426,816	297,221
Interest	279,103	142,186	154,936
Travel, conferences and meetings	21,781	24,145	69,507
Building and equipment rent	66,077	72,143	127,247
Insurance	73,638	59,682	55,894
Repairs and maintenance	133,629	193,996	54,361
Other	367,975	336,189	261,497
Total expenses	<u>14,576,243</u>	<u>13,499,712</u>	<u>13,663,496</u>
Change in net assets without donor restrictions	<u>2,774,071</u>	<u>1,664,921</u>	<u>(2,089,324)</u>
Net assets with donor restrictions			
Contributions	1,325	1,800	2,350
Net assets released form restriction	<u>(226)</u>	<u>-</u>	<u>(49,142)</u>
Changes in net assets with donor restrictions	1,099	1,800	(46,792)
Changes in net assets	2,775,170	1,666,721	(2,136,116)
Net deficit, beginning of the year	<u>(3,338,526)</u>	<u>(5,005,247)</u>	<u>(2,869,131)</u>
Net deficit, end of the year	<u>\$ (563,356)</u>	<u>\$ (3,338,526)</u>	<u>\$ (5,005,247)</u>

**Northeastern Rural Health Clinics
Statement of Financial Position
(Balance Sheet)**

	As of June 30,			
	2022	2021	2020	
Assets				
Current assets				
Cash and cash equivalents	\$ 1,689,452	\$ 1,884,038	\$ 1,582,099	
Patient accounts receivable, net	698,832	787,952	926,330	
Pharmacy accounts receivable	219,387	181,872	75,131	
Grants and contracts receivable	619,720	85,884	194,081	
Prepaid expenses and other assets	415,999	138,945	131,492	
Total current assets	<u>3,643,390</u>	<u>3,078,691</u>	<u>2,909,133</u>	
Noncurrent assets				
Property and equipment, net	2,461,253	2,711,527	2,432,235	
Restricted cash	220,457	220,169	219,926	
Total noncurrent assets	<u>2,681,710</u>	<u>2,931,696</u>	<u>2,652,161</u>	
Total assets	<u>\$ 6,325,100</u>	<u>\$ 6,010,387</u>	<u>\$ 5,561,294</u>	
Liabilities and Net Assets (Deficit)				
Current liabilities				
Accounts payable and accrued expenses	\$ 909,200	\$ 539,466	\$ 1,288,113	
Accrued payroll and related liabilities	741,828	794,343	716,495	
Refundable advances	-	1,397,900	1,984,943	
Capital leases, current	68,094	66,544	-	
Long term debt, current	242,081	275,392	157,157	
Estimated third-party settlements payable, current	1,200,000	1,200,000	654,474	
Total current liabilities	<u>3,161,203</u>	<u>4,273,645</u>	<u>4,801,182</u>	
Noncurrent liabilities				
Capital lease obligations, net of current portion	86,408	153,793	-	
Long term debt, net of current	2,749,733	2,991,713	3,162,306	
Estimated third party settlements payable, current	891,112	1,929,762	2,603,053	
Total noncurrent liabilities	<u>3,727,253</u>	<u>5,075,268</u>	<u>5,765,359</u>	
Total liabilities	6,888,456	9,348,913	10,566,541	
Net assets (deficit)				
Net deficit without donor restrictions	(587,118)	(3,361,189)	(5,026,110)	
Net assets with donor restrictions	23,762	22,663	20,863	
Total net deficit	<u>(563,356)</u>	<u>(3,338,526)</u>	<u>(5,005,247)</u>	
Total liabilities and net deficit	<u>\$ 6,325,100</u>	<u>\$ 6,010,387</u>	<u>\$ 5,561,294</u>	
Proforma^(a)				
	FYE 6/30/2022	2022	2021	2020
Debt Service Coverage - Net (x)	5.1	5.4	6.9	(5.0)
Debt to Unrestricted Net Assets (x)	(6.1)	(5.4)	(1.0)	(0.7)
Margin (%)		16.0	11.0	(18.1)
Current Ratio (x)		1.2	0.7	0.6

^(a) Recalculates FY 2022 audited results to include the impact of this proposed financing.

Financial Discussion

Northeastern RHC's income statement appears to exhibit increasing operating results over the review period.

Northeastern RHC demonstrates increased operating margins each year, from a negative approximately 18.1% in FY 2020 to 11% in FY 2021 and most recently posting a margin of 16% in FY 2022. Total revenues grew from approximately \$11.6 million in FY 2020 to nearly \$17.4 million in FY 2022, primarily from increases in grant and contract revenue and pharmacy revenues. Grant and contract revenue increased from approximately \$3.3 million in FY 2020 to over \$7.3 million in FY 2022 due largely to temporary federal grants, which funded facility improvements and replaced lost revenue due to COVID-19 restrictions. Pharmacy revenues initially decreased from almost \$1.7 million in FY 2020 to approximately \$1.3 million in FY 2021, but then rebounded to approximately \$2.6 million in FY 2022. According to Northeastern RHC's management, pharmacy revenues initially decreased in FY 2020 due to a combination of restricted access to 340B Program¹ drugs and an error in uploading patient data. Certain drug manufacturers were declining to distribute outpatient drugs at the ceiling price even though they were covered by the 340B Program. Governmental rulings have since eased some of the restrictions. Northeastern RHC was not able to collect revenue for the patients whose data was not properly uploaded and was only able to recapture a portion of the lost revenue in FY 2021 after the error was rectified. Pharmacy revenues then increased once the errors were rectified and after Northeastern RHC changed its pharmacy income administrator, which resulted in fewer fees and better capture rates.

Total expenses fluctuated over the review period and overall grew at a slower rate than total revenues, which also contributed to the improving operating results. After decreasing from approximately \$13.7 million in FY 2020 to nearly \$13.5 million in FY 2021, total expenses then increased to almost \$14.6 million in FY 2022. Total expenses grew 7% from FY 2020 to FY 2022, while total revenues increased 50% over the same period. Salaries and wages increased from \$6.5 million in FY 2020 to over \$6.9 million in FY 2021, and then increased to about \$7 million in FY 2022. According to Northeastern RHC's management, salaries and wages increased as Northeastern RHC's entry-level positions were set at \$1 above minimum wage, and the wage scale increased along with the minimum wage increases in California over the past several years. Nurse and provider salaries have also increased as a necessity to compete in a tight labor market for these positions.

The COVID-19 pandemic impacted Northeastern RHC's revenues, profitability, and cash flows as patient volumes decreased with the closure of its dental facilities, as well as a reduction in overall service capacity for a portion of calendar year 2020. Under the Coronavirus, Aid, Relief, and Economic Security Act, Northeastern RHC received grant funding in FY 2020 of approximately \$480,000 through the Provider Relief Fund and a loan of nearly \$1.8 million through the Paycheck Provider Program (PPP). In FY 2021, Northeastern RHC received a second PPP loan for almost \$1.4 million. Both PPP loans have been forgiven as the conditions for forgiveness have been met.

¹ The 340B Program, established by the Public Health Service Act, imposes limitations on the prices drug manufacturers may charge for medications sold to specified health care facilities. Drug manufacturers are required, as a condition of coverage of their products under Medicaid and Medicare Part B, to sell their covered outpatient drugs to covered entities at no more than the statutorily-set "ceiling price."

Northeastern RHC appears to display a solid balance sheet with a pro-forma FY 2022 net debt service coverage ratio of 5.1x.

Northeastern RHC appears to show an improved ability to repay debt, improving from a negative 5.0x in FY 2020 to 5.4x in FY 2022. Northeastern RHC was able to apply some federal COVID-19 relief funds to payroll, freeing up operating revenue to substantially reduce the previous debt. With the new HELP II loan, Northeastern RHC’s pro-forma FY 2022 net debt service coverage ratio decreases slightly to 5.1x, indicating its ability to comfortably repay the HELP II loan.

Northeastern RHC appears to demonstrate an improving current ratio, an indicator of financial liquidity, increasing from 0.7x in FY 2021 to 1.2x in FY 2022. The strong ratio in FY 2022 can be attributed to a significant increase in grants and contracts receivable from nearly \$86,000 in FY 2021 to nearly \$620,000 in FY 2022, while refundable advances, which consisted of a PPP loan, was fully forgiven in FY 2022, eliminating almost \$1.4 million in current liabilities from FY 2021.

III. UTILIZATION STATISTICS:

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

	2022	2021	2020
Totals	12,204 / 47,702	12,071 / 44,617	11,705 / 42,203

IV. OUTSTANDING DEBT:

	Original Amount	Amount Outstanding as of June 30, 2022 ^(a)	Estimated Amount Outstanding after Proposed Financing
EXISTING LONG-TERM DEBT:			
USDA Facilities Direct Loan	\$3,604,300	\$2,132,814	\$2,132,814
Plumas Bank Note Payable	1,500,000	859,000	859,000
PROPOSED NEW DEBT			
<i>HELP II Loans (2023)</i>			412,500
TOTAL DEBT		\$2,991,814	\$3,404,314

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

V. BACKGROUND AND LICENSURE:

Background

Northeastern RHC is a 501(c)(3) FQHC located on the Eastern slope of the Sierra Nevada Mountains in California near the Nevada border. Northeastern RHC serves the residents of Lassen County with clinics in Susanville and Westwood. The area includes a high percentage of low-income individuals, families experiencing poverty and has a high unemployment rate. Northeastern RHC's target population is comprised of individuals who reside at or below 200% of Federal Poverty Guidelines and those with other barriers to accessing medical care.

The health center's mission is to meet the changing health care needs of its community with compassion, creativity, and innovation, regardless of the ability to pay. Northeastern RHC has been a part of the area's healthcare system for over 40 years, providing comprehensive healthcare services to those who would otherwise be unable to access care. Without the access provided by Northeastern RHC, area residents would need to drive approximately 80 miles to Reno, Nevada for medical care.

Licensure, Certification and Accreditation

Northeastern Rural Health Clinics is licensed by the State Department of Public Health to operate and maintain its community clinics.

VI. STAFF RECOMMENDATION:

Staff recommends the Authority approve Resolution No. HII-345 in an amount not to exceed \$332,500 for renovations and not to exceed \$80,000 for equipment for Northeastern Rural Health Clinics, 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 No. HII-345

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; and

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

WHEREAS, **Northeastern Rural Health Clinics** (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 **\$332,500** for a term not to exceed **20 years** and a loan in an amount not to exceed **\$80,000** for a term not to exceed **5 years** for the purposes described in Exhibit A of this resolution (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:

For renovation loan

1. First lien on real property located at 209 Birch Street, Westwood, CA 96137
2. 20-year, two percent (2%) fixed-rate loan for renovations
3. A current appraisal that exhibits a loan-to-value ratio not to exceed 95%
4. Executed construction contract

For equipment loan

1. UCC-1 lien on equipment purchased
2. 5-year, two percent (2%) fixed rate loan for equipment

For both loans

1. Corporate gross revenue pledge
2. 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 loan, 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 loan shall 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. This resolution shall not 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 the 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 the Deputy Executive Director deems 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 on November 30, 2023.

Date of Approval: _____

EXHIBIT A

USE OF HELP II LOAN PROCEEDS FOR RESOLUTION NO. HII-345

- Remove and replace facility boiler unit.
- Purchase laptops, personal computers, monitors, and stands.