

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

Applicant: Northern California PET Imaging Center (NCPIC)
3195 Folsom Boulevard, Suite 110
Sacramento, CA 95816
Sacramento County

Loan Amount: \$1,175,000
Loan Term: 5 years
Annual Interest Rate: 2% fixed
Authority Meeting Date: August 31, 2023
Resolution No.: HII-347

Project Site: 3718 Atherton Road, Rocklin, CA 95765

Facility Type: Nonprofit special health care facility

Eligibility: Government Code Section 15432(d)(5)

Prior HELP II Borrower: No

Background: NCPIC is a not-for-profit, community benefit organization that was founded in 1992 as the nation's first freestanding non-university positron emission tomography (PET) center. NCPIC is an independent molecular imaging center providing diagnostic information to evaluate cancer, neurologic, and cardiac conditions, and specializing in cutting-edge technology such as PET, computed tomography (CT), molecular breast imaging, and neuro imaging.

Use of Proceeds: Loan proceeds will be used to purchase a PET/CT scanner for use at its Rocklin location.

Financing Structure:

- UCC-1 lien on equipment purchased
- 5-year, two percent (2%) fixed rate loan
- 60 equal monthly payments of approximately \$20,595 (annual payments of approximately \$247,141)
- Corporate gross revenue pledge
- Verification of Borrower's funds to close

Financial Overview: NCPIC's income statement appears to exhibit increasing operating results over the review period. NCPIC appears to display a solid balance sheet with a pro-forma FY 2022 net debt service coverage ratio of 4.8x.

Estimated Sources of Funds:

HELP II loan	\$ 1,175,000
Applicant funds	14,688

Total Estimated Sources	\$ 1,189,688
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Estimated Uses of Funds:

Purchase Equipment	\$ 1,175,000
Financing costs	14,688

Total Estimated Uses	\$ 1,189,688
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Due Diligence: Staff has confirmed the following documentation provided by NCPIC 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-347 in an amount not to exceed \$1,175,000 for Northern California PET Imaging Center, 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

In 2022, NCPIC began leasing a facility in Rocklin, California to expand its services. In 2023, NCPIC began work on tenant improvements to update the facility and is requesting a HELP II loan to finance the purchase of a digital PET/CT scanner at the Rocklin location. Purchasing the PET/CT scanner will allow NCPIC to increase patient capacity in Sacramento, Placer, Yolo, Sutter, Shasta, and Butte counties. NCPIC anticipates the Rocklin location will be open and operational in November or December 2023.

Purchase Equipment ***1,175,000***

Loan proceeds will be used for the purchase of a digital PET/CT scanner that will provide current state of the art advanced molecular diagnostic imaging for a variety of cancer diagnoses. In addition, the scanner will allow for CT vessel analysis, dental analysis, lung nodule assessment, colon assessment, and the ability to view three-dimensional head and neck bone removal.

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

Financing Costs..... **14,688**

Authority Fee \$14,688

Total Uses of Funds **\$1,189,688**

II. FINANCIAL STATEMENTS AND ANALYSIS

Northern California PET Imaging Center Statement of Activities (Income Statement)

	For the Years Ended December 31,		
	2022	2021	2020
Revenues			
Net imaging service revenue	\$ 6,024,265	\$ 3,445,841	\$ 2,773,960
Radiochemistry services revenue	872,290	1,116,375	590,101
Research revenue	472,672	319,034	66,274
Government grant revenue	-	278,777	-
Other operating revenue	32,688	18,558	14,949
Contributions	-	-	229,100
Total revenues	7,401,915	5,178,585	3,674,384
Expenses			
Salaries and benefits	2,218,642	1,954,572	1,594,126
Professional fees	879,351	597,629	977,561
Clinical supplies	2,332,984	852,915	610,140
Building and equipment rent	380,282	440,968	333,092
Depreciation and amortization	382,878	395,054	437,165
Repairs and maintenance	479,451	463,654	444,398
Mobile operations	135,433	177,693	100,841
Occupancy	237,399	276,272	235,555
Other operating expenses	226,060	177,784	137,608
Total expenses	7,272,480	5,336,541	4,870,486
Gain (loss) from operations	129,435	(157,956)	(1,196,102)
Other Income			
Sublease rental income	629,553	1,015,145	891,884
Interest income	42,442	41,281	29,452
Net realized and unrealized gains (losses) on investments	(278,470)	19,991	55,143
Other income	289,741	122,039	-
Total other income	683,266	1,198,456	976,479
Changes in net assets	812,701	1,040,500	(219,623)
Net Assets Without Donor Restrictions, beginning of the year	4,816,694	3,776,194	3,995,817
Net Assets Without Donor Restrictions, end of year	\$ 5,629,395	\$ 4,816,694	\$ 3,776,194

**Northern California PET Imaging Center
Statement of Financial Position
(Balance Sheet)**

	As of December 31,		
	2022	2021	2020
Assets			
Current Assets			
Cash and cash equivalents	\$ 2,866,609	\$ 1,543,308	\$ 1,222,538
Investments	1,636,870	1,845,008	1,220,881
Imaging accounts receivable	662,589	573,493	343,391
Other receivables	440,805	503,224	462,907
Prepaid expenses and deposits	82,386	40,557	46,209
Total current assets	5,689,259	4,505,590	3,295,926
Noncurrent Assets			
Property and equipment, net	455,669	853,147	1,216,740
Right-of-use assets - operating	1,557,633	-	-
Total noncurrent assets	2,013,302	853,147	1,216,740
Total assets	7,702,561	5,358,737	4,512,666
Liabilities and Net Assets			
Current liabilities			
Accounts payable	\$ 265,269	\$ 188,142	\$ 175,276
Accrued expenses	176,245	267,533	446,941
Lease liability - operating	262,925	-	-
Total current liabilities	704,439	455,675	622,217
Noncurrent liabilities			
Lease liability - operating, net of current portion	1,368,727	-	-
Other long term liabilities	-	86,368	114,255
Total noncurrent liabilities	1,368,727	86,368	114,255
Total liabilities	2,073,166	542,043	736,472
Net Assets			
Without donor restrictions	5,629,395	4,816,694	3,776,194
Total Liabilities and net assets	\$ 7,702,561	\$ 5,358,737	\$ 4,512,666

	Proforma			
	FYE 12/31/2022^(a)	2022	2021	2020
Debt Service Coverage - Net (x)	4.8	NA	NA	NA
Debt to Unrestricted Net Assets (x)	0.5	0.3	0.0	0.0
Margin (%)		1.7	(3.1)	(32.6)
Current Ratio (x)		8.1	9.9	5.3

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

Financial Discussion

NCPIC's income statement appears to exhibit improving operating results over the review period.

NCPIC demonstrates improved operating margins each year, from a negative 32.6% in fiscal year (FY) 2020 to negative 3.1% in FY 2021 and most recently posting a positive operating margin of 1.7% in FY 2022. To continue its improving operations, NCPIC is adopting strategies to maneuver in a competitive marketplace, including developing links to physicians to ensure patient referrals are easily transitioned and providing high quality diagnostic reports to maintain loyalty of referring physicians. NCPIC is also negotiating reduced pricing for high-cost supplies and services. Total revenues grew from approximately \$3.7 million in FY 2020 to nearly \$7.4 million in FY 2022, primarily from increases in net imaging service revenues. According to NCPIC's management, the increase in imaging service revenue was largely due to a new service NCPIC offered in FY 2022, molecular imaging for prostate cancer screening. In FY 2020, prostate studies had 40 scans and in FY 2022 it increased to 250 scans. Radiochemistry services revenue, which is NCPIC's second largest source of operating revenue, fluctuated over the review period, from over \$590,000 in FY 2020 to more than \$1.1 million in FY 2021, and then down to approximately \$872,000 in FY 2022. NCPIC's radiochemistry division, which provides specific radiopharmaceuticals for clinical trial research studies, was significantly impacted by COVID-19 in FY 2020. The clinical trial studies increased in FY 2021, but then the volume decreased in FY 2022 as one of the contracts ended.

NCPIC also receives a significant amount of revenue from its sublease rental income, which decreased from approximately \$1 million in FY 2021 to nearly \$630,000 in FY 2022. According to NCPIC management, the decrease in FY 2022 was due to the sublease being terminated in June 2022 as the sublessee contracted a lease directly with UC Davis.

Total expenses increased each year, but overall grew at a slower rate than total revenues, which also contributed to the improving operating results. Total expenses grew 49% from FY 2020 to FY 2022, while total revenues increased 101% over the same period. Salaries and benefits increased from approximately \$1.6 million in FY 2020 to, about \$2.2 million in FY 2022. Salaries and benefits increased due to the increased patient volumes along with annual increases to retain highly skilled technicians to perform the PET/CT scans and manufacture the radiochemistry compounds. Clinical supplies increased significantly from approximately \$610,000 in FY 2020 to about \$2.3 million in FY 2022. This expense jumped from 13% of the total expenses in FY 2020 to 32% in FY 2022. According to NCPIC management, clinical supply cost increased primarily due to the higher cost of the new radiopharmaceuticals, which are used in conjunction with prostate and other specialty scans.

The COVID-19 pandemic impacted NCPIC's revenues in FY 2020 as patient volumes dropped by nearly 800 visits from the previous year. As part of the Coronavirus Aid, Relief, and Economic Security Act, NCPIC received Provider Relief Funds (PRF) to be used for economic support of health care entities in connection with health care-related expenses or lost revenues attributable to COVID-19 and for the treatment of uninsured COVID-19 patients. NCPIC received PRF funds totaling nearly \$279,000, which was recognized as government grant revenue in FY 2021. NCPIC also received funding of approximately \$229,000 in May 2020 under the Paycheck Protection Program, which was fully forgiven in June 2021.

NCPIC appears to display a solid balance sheet with a proforma FY 2022 net debt service coverage ratio of 4.8x.

NCPIC had no long-term debt for FYs 2020 – 2022; therefore, the debt service coverage ratio is not applicable for those years. NCPIC appears to demonstrate a strong ability to repay the new HELP II loan with a proforma FY 2022 net debt service coverage ratio of 4.8x. Considering the addition of the new scanner, NCPIC expects operations will continue to improve with increased patient volumes and revenue, which will contribute to NCPIC's ability to repay the loan. NCPIC's proforma FY debt-to-unrestricted net assets ratio of 0.5x demonstrates a continued low reliance on debt financing in relation to its unrestricted net assets.

NCPIC appears to demonstrate a strong current ratio, an indicator of financial liquidity, of 5.3x in FY 2020, 9.9x in FY 2021, and 8.1x in FY 2022. The strong ratio in FY 2022 can be attributed to a significant increase in cash and cash equivalents from \$1.2 million in FY 2020 to approximately \$2.9 million in FY 2022. The increase in cash and cash equivalents came from various COVID-19 funding and proceeds from the sale of NCPIC's Optimal Tracers division, which was not a profitable business line for NCPIC.

III. UTILIZATION STATISTICS

Patient Visits
Fiscal Year Ending December 31,

	2022	2021	2020
Totals	2,041	1,453	1,253

IV. OUTSTANDING DEBT

	Original Amount	Amount Outstanding as of December 31, 2022	Estimated Amount Outstanding after Proposed Financing
EXISTING LONG-TERM DEBT			
No existing long-term debt	NA	NA	NA
PROPOSED NEW DEBT			
HELP II Loan (2023)			\$ 1,175,000
TOTAL DEBT		\$ -	\$ 1,175,000

V. BACKGROUND AND LICENSURE

Background

Founded in 1992, NCPIC is a nonprofit 501(c)(3) special health care facility, having a duly constituted governing board with administrative and professional responsibility and medical staff that provides outpatient, nonacute care. NCPIC is an independent molecular imaging center providing diagnostic information to evaluate cancer, neurologic, and cardiac conditions. NCPIC also plays a role in the emergence of new drugs used in the diagnosis of these diseases by providing clinical and preclinical radiotracers to researchers in academic and pharmaceutical settings. NCPIC provides specialized positron emission tomography and computed tomography imaging and diagnostic services to patients in the greater Sacramento area at its main office in Midtown Sacramento. NCPIC also provides mobile imaging and diagnostic services at locations in Roseville, Vacaville, and Auburn. NCPIC offers new molecular imaging technologies by expanding the use of PET to provide scans to evaluate recurrent prostate cancer, detect the presence of amyloid plaque in patients with suspected Alzheimer's disease, and to evaluate neuroendocrine tumors.

NCPIC's mission is the commitment to remain at the apex of technology in the industry and the ongoing dedication to research and innovation, not only utilizing the latest advances in molecular imaging, but forging those advances.

Licensure, Certification and Accreditation

Northern California PET Imaging Center is accredited by the American College of Radiology.

VI. STAFF RECOMMENDATION:

Staff recommends the Authority approve Resolution No. HII-347 in an amount not to exceed \$1,175,000 for Northern California PET Imaging Center, 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-347

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, **Northern California PET Imaging Center** (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 **\$1,175,000** 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:

1. UCC-1 lien on equipment purchased
 2. 5-year, two percent (2%) fixed rate loan
 3. Corporate gross revenue pledge
- 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 February 29, 2024.

Date of Approval: _____

EXHIBIT A

USE OF HELP II LOAN PROCEEDS FOR RESOLUTION NO. HII-347

- Purchase a PET/CT imaging scanner