

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

<p><b>Applicant:</b> Sonoma Valley Health Care District (Sonoma Valley) 347 Andrieux Street Sonoma, CA 95476 Sonoma County</p>	<p><b>Loan Amount:</b> \$2,000,000 <b>Loan Term:</b> 5 years <b>Annual Interest Rate:</b> 2% fixed <b>Authority Meeting Date:</b> January 26, 2023 <b>Resolution No.</b> HII-342</p>																
<p><b>Project Site:</b> 347 Andrieux Street, Sonoma, California 95476 <b>Facility Type:</b> General Acute Care Hospital <b>Eligibility:</b> Government Code Section 15432(d)(1) <b>Prior HELP II Borrower:</b> No</p>																	
<p><b>Background:</b> Sonoma Valley is a district hospital established in 1957 to improve, maintain, and restore the health of the Sonoma Valley community. The hospital has 24 acute care beds and maintains a 27-bed skilled nursing facility. In 2018, Sonoma Valley affiliated with the University of California at San Francisco (UCSF) Health and this relationship allows the Sonoma Valley community access to additional resources and specialty physicians to care for the community’s outpatient and emergency needs.</p>																	
<p><b>Use of Proceeds:</b> Loan proceeds will be used to purchase equipment/information technology (IT) to replace an inefficient electronic health record (EHR) system to achieve improved operational efficiencies to bolster productivity and to increase patient satisfaction.</p>																	
<p><b>Financing Structure:</b></p> <ul style="list-style-type: none"> <li>• 5-year, two percent (2%) fixed rate loan</li> <li>• 60 equal monthly payments of approximately \$35,056 (annual payments of approximately \$420,666)</li> <li>• UCC-1 lien on equipment/IT purchased</li> <li>• Corporate gross revenue pledge</li> <li>• Verification of borrower funds to close escrow</li> </ul>																	
<p><b>Financial Overview:</b> Sonoma Valley’s income statement appears to exhibit an increasing end-of-year net financial position in each year of the review period. Sonoma Valley appears to display a solid balance sheet with a pro-forma FY 2021 net debt service coverage ratio of 1.9x.</p>																	
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: left;"><u>Estimated Sources of Funds:</u></th> <th colspan="2" style="text-align: left;"><u>Estimated Uses of Funds:</u></th> </tr> </thead> <tbody> <tr> <td>HELP II loan</td> <td style="text-align: right;">\$ 2,000,000</td> <td>Purchase Equipment/IT</td> <td style="text-align: right;">\$ 2,978,801</td> </tr> <tr> <td>Applicant funds</td> <td style="text-align: right;">1,003,801</td> <td>Financing costs</td> <td style="text-align: right;">25,000</td> </tr> <tr> <td><b>Total Estimated Sources</b></td> <td style="text-align: right;"><b>\$ 3,003,801</b></td> <td><b>Total Estimated Uses</b></td> <td style="text-align: right;"><b>\$ 3,003,801</b></td> </tr> </tbody> </table>		<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>		HELP II loan	\$ 2,000,000	Purchase Equipment/IT	\$ 2,978,801	Applicant funds	1,003,801	Financing costs	25,000	<b>Total Estimated Sources</b>	<b>\$ 3,003,801</b>	<b>Total Estimated Uses</b>	<b>\$ 3,003,801</b>
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<p><b>Due Diligence:</b> Staff has confirmed the following documentation satisfies the California Health Facilities Financing Authority’s (Authority) requirements: Eligibility, Legal Review, and Religious Affiliation Due Diligence. Sonoma Valley did not disclose any information regarding its financial viability or legal integrity.</p>																	
<p><b>Staff Recommendation:</b> Staff recommends the Authority approve Resolution No. HII-342 in an amount not to exceed \$2,000,000 for Sonoma Valley Health Care 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.</p>																	

**STAFF SUMMARY, ANALYSIS, AND RECOMMENDATION**

**I. PURPOSE OF FINANCING**

Since the early 2000’s, Sonoma Valley has expanded, replaced, and upgraded many of its facilities. Most recent modernizations include the addition of a new outpatient diagnostics and surgery center. Furthering its modernization plans, Sonoma Valley is requesting a HELP II loan to purchase and implement a new Epic EHR system to replace the current EHR system that has reached the end of its useful life. The new Epic EHR system will improve operational efficiencies by bolstering productivity and patient satisfaction. The replacement of the EHR system is a part of Sonoma Valley’s five-year strategic plan to offer high quality, compassionate health care for its community.

***Purchase Equipment/IT* ..... \$2,978,801**

The new Epic EHR system will allow Sonoma Valley to manage patients’ ongoing care using a centralized and uniform technology while enhancing security and productivity by improving physician collaboration and reducing patient wait times. Sonoma Valley intends to purchase and implement the Epic EHR system (IT), as well as various computer equipment to be used in connection with the Epic EHR system, such as document scanners, printers, e-signature pads, web cameras, power supplies and adapters, and charging stations.

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

***Financing Costs* ..... 25,000**

Authority Fee ..... \$25,000

***Total Estimated Uses of Funds*..... \$3,003,801**

## II. FINANCIAL STATEMENTS AND ANALYSIS

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

**Sonoma Valley Health Care District**  
**Statements of Revenues, Expenses and Change in Net Position**  
**(Income Statement)**

	<b>For the Years Ended June 30,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Operating revenues			
Net patient service revenue	\$ 48,979,099	\$ 46,618,700	\$ 57,553,690
Capitation revenues	245,100	287,390	755,801
Total operating revenues	<u>49,224,199</u>	<u>46,906,090</u>	<u>58,309,491</u>
Operating expenses			
Salaries and wages	23,740,884	23,077,573	26,834,013
Employee benefits	5,575,741	5,565,682	6,104,110
Purchased services	5,227,906	4,589,543	4,867,261
Professional fees, medical	5,802,960	5,418,479	6,669,310
Professional fees, non-medical	770,008	304,758	658,575
Supplies	6,665,341	6,119,489	6,898,410
Facilities and equipment	644,186	622,096	668,684
Utilities	1,353,824	1,188,966	1,172,033
Insurance	540,199	466,482	441,380
Depreciation and amortization	3,056,269	3,108,248	3,392,233
Other expenses	3,465,064	3,457,769	3,438,909
Total operating expenses	<u>56,842,382</u>	<u>53,919,085</u>	<u>61,144,918</u>
Loss from operations	<u>(7,618,183)</u>	<u>(7,012,995)</u>	<u>(2,835,427)</u>
Nonoperating income (expenses)			
General obligation bond tax assessment revenues	3,259,264	3,264,864	3,273,235
Parcel tax assessment revenues	3,777,872	3,771,152	3,781,005
General obligation bond interest	(1,083,722)	(1,151,759)	(1,217,171)
Interest expense	(207,077)	(312,663)	(657,499)
Gain on sale of assets	4,600	2,005,303	5,512
Provider relief funds	-	5,572,969	-
Contributions to Prima Medical Foundation	-	(133,171)	(452,439)
Investment income	24,912	111,196	99,989
Other income, net	996,855	661,394	246,028
Total nonoperating income, net	<u>6,772,704</u>	<u>13,789,285</u>	<u>5,078,660</u>
Capital contributions	<u>5,923,121</u>	<u>2,461,360</u>	<u>1,995,220</u>
Change in net position	5,077,642	9,237,650	4,238,453
Net position, beginning of year	<u>29,316,935</u>	<u>20,079,285</u>	<u>15,840,832</u>
Net position, end of year	<u>\$ 34,394,577</u>	<u>\$ 29,316,935</u>	<u>\$ 20,079,285</u>

**Sonoma Valley Health Care District  
Statements of Net Position  
(Balance Sheet)**

	<b>As of June 30,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 10,682,617	\$ 11,054,230	\$ 5,651,697
Patient accounts receivable	4,880,570	3,920,682	5,856,145
Estimated third-party payor settlements	191,797	94,987	445,220
Property tax receivable	6,745,740	7,195,321	7,004,881
Other receivables	1,517,831	1,272,442	544,948
Inventories	934,048	864,337	901,652
Prepaid expenses and other current assets	871,738	764,658	1,116,921
Total current assets	<u>25,824,341</u>	<u>25,166,657</u>	<u>21,521,464</u>
Capital assets, net	<u>52,581,236</u>	<u>49,267,897</u>	<u>50,868,937</u>
Noncurrent investments			
Restricted for debt service	5,935,165	5,528,299	5,016,479
Total noncurrent investments	<u>5,935,165</u>	<u>5,528,299</u>	<u>5,016,479</u>
Total assets	<u>\$ 84,340,742</u>	<u>\$ 79,962,853</u>	<u>\$ 77,406,880</u>
<b>LIABILITIES AND NET POSITION</b>			
Current liabilities			
Accounts payable and accrued expenses	\$ 6,065,424	\$ 4,968,824	\$ 6,510,167
Accrued payroll and related liabilities	3,482,666	3,389,085	3,150,043
Deferred tax revenue	6,581,749	7,109,173	6,904,781
Line of credit	5,473,734	5,473,734	6,723,734
Bonds payable, current portion	1,862,000	1,743,000	1,631,000
Capital lease obligations, current portion	263,030	82,652	344,477
Notes payable, current portion	186,787	252,342	2,419,733
Total current liabilities	<u>23,915,390</u>	<u>23,018,810</u>	<u>27,683,935</u>
Long-term liabilities			
Accrued workers' compensation liability	973,000	707,000	650,000
Bonds payable, net of current portion	24,664,000	26,526,000	28,269,000
Capital lease obligations, net of current portion	354,392	171,018	279,128
Notes payable, net of current portion	39,383	223,090	445,532
Total long-term liabilities	<u>26,030,775</u>	<u>27,627,108</u>	<u>29,643,660</u>
Total liabilities	<u>49,946,165</u>	<u>50,645,918</u>	<u>57,327,595</u>
Net position			
Net investment in capital assets	19,737,910	14,796,061	10,756,333
Restricted			
For debt service	5,935,165	5,528,299	5,016,479
Expendable for capital assets	-	-	2,337,205
Total restricted	<u>5,935,165</u>	<u>5,528,299</u>	<u>7,353,684</u>
Unrestricted	<u>8,721,502</u>	<u>8,992,575</u>	<u>1,969,268</u>
Total net position	<u>34,394,577</u>	<u>29,316,935</u>	<u>20,079,285</u>
Total liabilities and net position	<u>\$ 84,340,742</u>	<u>\$ 79,962,853</u>	<u>\$ 77,406,880</u>

	<b>Proforma <sup>(a)</sup> FYE 6/30/2021</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>
Debt Service Coverage - Net (x)	1.9	2.8	2.4	1.4
Debt to Unrestricted Net Assets (x)	0.9	0.8	1.0	1.7
Margin (%)		(15.5)	(15.0)	(4.9)
Current Ratio (x)		1.1	1.1	0.8

<sup>(a)</sup> Recalculates FY 2021 audited results to include the impact of this proposed financing.

## **Financial Discussion**

**Sonoma Valley's income statement appears to exhibit an increasing end-of-year net financial position in each year of the review period.**

Sonoma Valley's income statement shows operating expenses exceeding operating revenues in each year of the review period. As Sonoma Valley's policy is to assist all Sonoma Valley residents despite their income or insurance status, much of the costs associated with providing uncompensated care, community benefits, and uncollectible accounts result in yearly operating losses. Additionally, over 20% of Sonoma Valley's patients are insured by Medi-Cal, which does not fully cover the actual costs of providing care. Sonoma Valley relies on the consistent receipt of tax assessment revenues and capital contributions to counterbalance the yearly operating losses. In each year of the review period, Sonoma Valley's parcel tax assessment revenues were nearly \$3.8 million, and the general obligation bond tax assessment revenues were nearly \$3.3 million. Capital contributions increased from approximately \$2 million in FY 2019 to approximately \$5.9 million in FY 2021. These steady income sources have resulted in a positive change in net position each year of the review period. Sonoma Valley residents recently voted to continue paying the parcel tax assessments for an additional 10 years, until July 2033, and Sonoma Valley expects to maintain its capital contributions with plans to continue fundraising through its Sonoma Valley Hospital Foundation to assist in funding other needed capital improvement projects.

In FY 2020, Sonoma Valley transferred the management of its skilled nursing facility to a third-party nurse's registry, which resulted in a 14% decrease in salaries and wages, a 9% decrease in employee benefits, and a 19% reduction in medical professional fees from FY 2019 to FY 2020. However, the savings were offset by decreases in patient visits due to the COVID-19 pandemic. A portion of the COVID-19 related costs were covered by the Coronavirus Aid, Relief, and Economic Securities Act provider relief funds and a one-time gain on the sale of land. In FY 2021, Sonoma Valley continued to experience lower patient visits due to the COVID-19 pandemic, which decreased revenues in their most profitable areas – outpatient services and the emergency department. Additionally, COVID-19 related expenses, such as test processing, personal protective equipment, screen installations to protect both staff and visitors, and an increase in the hourly cost of hiring nurses through the nursing registry expanded operating expenses by almost 9%. Sonoma Valley did not receive any provider relief funds in FY 2021.

**Sonoma Valley appears to display a solid balance sheet with a pro-forma FY 2021 net debt service coverage ratio of over 1.9x.**

Over the three-year review period, Sonoma Valley appears to have demonstrated a solid ability to repay its debts with a net debt service coverage ratio of 1.4x in FY 2019 and strengthening to 2.8x in FY 2021. With the new HELP II loan, Sonoma Valley's pro-forma net debt service coverage ratio decreases to 1.9x. Sonoma Valley has consistently decreased its total long-term debt as reflected by its improving debt to unrestricted net assets ratio of 1.7x in FY 2019 to 0.8x in FY 2021. Including the additional debt from the new HELP II loan, Sonoma Valley's debt to unrestricted net assets ratio increases slightly to 0.9x.

On May 11, 2022, Sonoma Valley received a \$308,000 loan from the Authority's first Nondesignated Public Hospital (NDPH) Bridge Loan Program and recently received an additional \$779,000 from the second NDPH Bridge Loan Program. Although these zero-interest rate loans are secured by Sonoma Valley's Medi-Cal reimbursements, as a conservative measure, both loans have been included in the debt service coverage ratio calculation since they must be repaid in two years.

**III. UTILIZATION STATISTICS**

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

	<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Totals</b>	21,719 / 57,648	21,624 / 55,713	24,425/62,524

**IV. OUTSTANDING DEBT**

	<u>Original Amount</u>	<u>Amount Outstanding as of June 30, 2021<sup>(a)</sup></u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
<b>EXISTING LONG-TERM DEBT</b>			
General Obligation bonds	\$ 28,262,000	\$ 26,526,000	\$ 26,526,000
Notes payable	NA	226,170	226,170
Nondesignated Public Hospital Bridge Loans <sup>(b)</sup>	1,087,000		1,087,000
<b>PROPOSED NEW DEBT</b>			
<b>HELP II Loan</b>			2,000,000
<b>TOTAL DEBT</b>		<u><u>\$ 26,752,170</u></u>	<u><u>\$ 29,839,170</u></u>

<sup>(a)</sup> Includes current portion of long-term debt

<sup>(b)</sup> Sonoma Valley received two Nondesignated Public Hospital Bridge loans through the Authority. One for \$308,000 in February 2022 and one for \$779,000 in December 2022.

## **V. BACKGROUND AND LICENSURE**

### **Background**

Sonoma Valley is a district hospital established in 1957 to improve, maintain, and restore the health of residents of the Sonoma Valley community. Since its creation, Sonoma Valley has grown from a small, independent hospital that offered general healthcare services from a core physician group to operating 24 general acute care beds and 27 skilled nursing beds, offering a 24-hour emergency room, outpatient clinical testing and treatment, inpatient services with an intensive care unit, nuclear medicine, physical therapy, and respiratory care services. In March 2018, Sonoma Valley and UCSF Health signed an affiliation agreement to create an integrated health care network, which allows Sonoma Valley patients access to additional resources and specialty physicians to care for the community's outpatient and emergency needs. In 2021, Sonoma Valley served 21,719 patients with 57,648 visits.

### **Licensure and Accreditation**

Sonoma Valley is licensed by the State Department of Public Health to operate a general acute care hospital.

## **VI. STAFF RECOMMENDATION**

Staff recommends the Authority approve Resolution No. HII-342 in an amount not to exceed \$2,000,000 for Sonoma Valley Health Care 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 No. HII-342**

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, **Sonoma Valley Health Care 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 a HELP II loan to the Borrower in an amount not to exceed **\$2,000,000** 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. 5-year, two percent (2%) fixed-rate loan
2. UCC-1 lien on equipment/information technology purchased
3. Corporate gross revenue pledge
4. Verification of Borrower’s funds to close escrow



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. 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 July 31, 2023.

Date of Approval: \_\_\_\_\_

**EXHIBIT A**

**USE OF HELP II LOAN PROCEEDS FOR RESOLUTION NO. HII-342**

- Purchase equipment and information technology