

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

Applicant: Castle Family Health Centers, Inc. (Castle Family)
3605 Hospital Road
Atwater, CA 95301
Merced County

Loan Amount: \$878,750
Loan Term: 20-year fixed
Annual Interest Rate: 2%
Authority Meeting Date: January 26, 2023
Resolution No. HII-343

Project Site: 1775 3rd Street, Atwater, CA 95301
Facility Type: Nonprofit corporation operating community clinics
Eligibility: Government Code Section 15432(d)(6)
Prior HELP II Borrower: No

Background: Castle Family was incorporated as a California non-profit public benefit corporation in 2006, received federal 501(c)(3) non-profit designation in 2007, and in 2010 was designated as a Federally Qualified Health Center (FQHC) look-alike program. Castle Family is one of three FQHC providers in Merced County, providing care for the low income, medically indigent, and uninsured populations.

Use of Proceeds: Loan proceeds will be used to finance the purchase of an existing medical office building located adjacent to one of Castle Family’s existing clinics that has reached its maximum capacity. The purchase of the new medical building will allow Castle Family to increase its capacity and expand its services.

Financing Structure:

- First lien on real property located at 1775 3rd Street, Atwater, CA 95301
- 20-year, two percent (2%) fixed rate loan
- 240 equal monthly payments of approximately \$4,445 (annual payments of approximately \$53,345)
- A current appraisal that exhibits a loan-to-value ratio not to exceed 95%
- Corporate gross revenue pledge
- Executed purchase contract
- Verification of borrower funds to close escrow

Financial Overview: Castle Family’s income statement appears to exhibit increasing operating results over the review period. Castle Family appears to display a solid balance sheet with a pro-forma FY 2022 net debt service coverage ratio of 13.1x.

Estimated Sources of Funds:

HELP II loan	\$ 878,750
Applicant funds	<u>387,250</u>
Total Estimated Sources	<u>\$ 1,266,000</u>

Estimated Uses of Funds:

Purchase real property	\$ 1,250,000
Financing costs	<u>16,000</u>
Total Estimated Uses	<u>\$ 1,266,000</u>

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. Castle Family did not disclose any information regarding its financial viability or legal integrity.

Staff Recommendation: Staff recommends the Authority approve Resolution No. HII-343 in an amount not to exceed \$878,750 for Castle Family Health Centers, Inc., 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:

Castle Family is requesting a HELP II loan to purchase an existing medical office building to be used as an extension to one of its current facilities known as the Bloss Site. The Bloss Site provides primary care, women's health, and behavioral health services, and has grown to its maximum capacity. The building Castle Family intends to purchase is adjacent to the Bloss clinic and will allow Castle Family to hire more providers in order to increase its capacity and expand services to address health disparities in Merced County, such as heart and respiratory diseases, cancers, stroke, diabetes, behavioral health, and dental and vision care.

***Purchase Real Property*..... \$1,250,000**

Castle Family intends to purchase an existing medical office building located in the central sector of Atwater at 1775 3rd Street. The building was originally built in 1985, is approximately 6,800 square feet, and is adjacent to one of Castle Family's existing clinics. The clinic has 13 exam rooms, a treatment room, an X-ray room, a minor surgery room, and a laboratory. Once purchased, Castle Family will refresh the facility with some cosmetic work and minor renovations.

The HELP II loan will be secured by a first (1st) lien position on 1775 3rd Street in Atwater. Additionally, Castle Family 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.

***Financing Costs*..... 16,000**

Authority Fees	\$10,985
Estimated Escrow/Title Fees	<u>5,015</u>

Total Uses of Funds \$1,266,000

II. FINANCIAL STATEMENTS AND ANALYSIS:

Castle Family Health Centers, Inc.
Statement of Activities
(Income Statement)

	For the Years Ended June 30,		
	2022	2021	2020
Operating Revenues			
Net patient service revenue	\$ 22,235,830	\$ 22,619,949	\$ 19,674,338
Grants revenue	3,043,507	1,209,850	835,740
Other operating revenue	3,501,708	3,460,003	3,962,608
Total operating revenue	<u>28,781,045</u>	<u>27,289,802</u>	<u>24,472,686</u>
Operating Expenses			
Salaries & wages	12,914,122	13,025,765	11,881,769
Employee benefits	3,457,503	3,387,425	2,981,498
Professional fees	3,150,729	2,902,823	3,013,009
Purchased services	2,029,367	1,811,309	1,741,421
Supplies	1,891,400	2,208,754	2,199,925
Repairs and maintenance	43,951	65,060	56,156
Utilities	28,707	31,581	56,538
Rental and lease	1,291,592	1,271,831	1,190,354
Depreciation an amortization	875,541	738,895	670,953
Insurance	556,056	486,721	456,080
Other operating expenses	373,898	240,699	302,034
Total operating expenses	<u>26,612,866</u>	<u>26,170,863</u>	<u>24,549,737</u>
Excess (deficit) of revenues over expenses	<u>2,168,179</u>	<u>1,118,939</u>	<u>(77,051)</u>
Non-Operating Revenues			
PPP loan forgiveness	2,000,000	2,309,350	-
Sale of asset	-	35,000	-
Interest expense	(248,552)	(200,799)	(189,859)
Other non-operating revenue	120,397	165,831	67,202
Other non-operating expenses	(247,318)	(18,084)	-
Total non-operating revenues	<u>1,624,527</u>	<u>2,291,298</u>	<u>(122,657)</u>
Increase (decrease) in net assets without donor restriction	<u>3,792,706</u>	<u>3,410,237</u>	<u>(199,708)</u>
Net assets at beginning of the year	<u>9,597,875</u>	<u>6,187,638</u>	<u>6,387,346</u>
Net assets at end of the year	<u>\$ 13,390,581</u>	<u>\$ 9,597,875</u>	<u>\$ 6,187,638</u>

Castle Family Health Centers, Inc.
Statement of Financial Position
(Balance Sheet)

	As of June 30,		
	2022	2021	2020
Assets			
Current Assets			
Cash and cash equivalents	\$ 10,890,847	\$ 8,129,484	\$ 5,029,588
Patient accounts receivable, net of allowances	2,056,564	3,181,265	1,745,803
Other receivable	806,998	640,525	243,014
Assets limited as to use	585,520	911,126	750,728
Supplies	157,326	163,777	155,183
Prepaid expenses and deposits	135,505	359,259	239,771
Total current assets	<u>14,632,760</u>	<u>13,385,436</u>	<u>8,164,087</u>
Capital assets, net of accumulated depreciatio	<u>8,016,773</u>	<u>8,273,586</u>	<u>8,752,502</u>
Total assets	<u>22,649,533</u>	<u>21,659,022</u>	<u>16,916,589</u>
Liabilities and Net Assets			
Current Liabilities			
Current maturities of long-term debt	\$ 87,635	\$ 73,061	\$ 1,452,172
Accounts payable and accrued expenses	513,353	518,611	429,876
Accrued payroll and related liabilities	1,326,432	1,340,462	1,113,955
Deferred revenue	585,520	911,126	750,728
Due to third party payors	2,598,111	2,858,708	1,603,727
Total current liabilities	<u>5,111,051</u>	<u>5,701,968</u>	<u>5,350,458</u>
Noncurrent Liabilities			
SBA PPP Loan	-	2,000,000	1,293,475
Debt borrowings, net o current maturities	4,147,901	4,359,179	4,085,018
Total noncurrent liabilities	<u>4,147,901</u>	<u>6,359,179</u>	<u>5,378,493</u>
Total liabilities	<u>9,258,952</u>	<u>12,061,147</u>	<u>10,728,951</u>
Net Assets			
Net assets with donr restrictions	-	2,000,000	2,309,350
Net assets without donor resitrictions	13,390,581	7,597,875	3,878,288
Total net assets	<u>13,390,581</u>	<u>9,597,875</u>	<u>6,187,638</u>
Total liabilities and net assets	<u>\$ 22,649,533</u>	<u>\$ 21,659,022</u>	<u>\$ 16,916,589</u>

	Proforma			
	FYE June 30, 2022	2022	2021	2020
Debt Service Coverage - Net (x)	13.1	15.3	2.6	1.5
Debt to Unrestricted Net Assets (x)	0.4	0.3	0.8	1.8
Margin (%)		7.5	4.1	(0.3)
Current Ratio (x)		2.9	2.3	1.5

Financial Discussion

Castle Family's income statement appears to exhibit increasing operating results over the review period.

Castle Family demonstrates increased operating margins each year, from a negative 0.3% in FY 2020 to 4.1% in FY 2021 and most recently posting a margin of 7.5% in FY 2022. Total revenues grew from approximately \$24.5 million in FY 2020 to nearly \$28.8 million in FY 2022, primarily from increases in grant revenue. Grant revenue increased from approximately \$836,000 in FY 2020 to over \$3 million in FY 2022. Castle Family received a grant through the federal Affordable Care Act from the federal Health Resources and Services Administration (HRSA) to assist in providing staffing and supplies to provide COVID-19 testing and vaccinations. The grant also supported costs to expand and provide additional health care services. Net patient service revenue increased 15% from FY 2020 to FY 2021 but experienced a slight dip of 1.7% from FY 2021 to FY 2022. According to Castle Family management, net patient service revenue increased in FY 2021 as Castle Family became a testing and treatment site in response to the COVID-19 pandemic, with providers testing and treating over 22,000 patients. As vaccines became available in FY 2022, the need for COVID-19 testing and treatment declined, which led to the slight decrease in patient revenue.

Total operating expenses increased at a slower rate than operating revenues in each year of the review period, which also contributed to the improving operating results. Salaries and wages fluctuated from \$11.9 million in FY 2020 to over \$13 million in FY 2021, and then decreased to about \$12.9 million in FY 2022. According to Castle Family's management, salaries & wages increased in FY 2021 due to the increased COVID-19 testing and treatment, which required additional healthcare workers and overtime pay. As testing and treatment subsided in FY 2022, overtime pay decreased, and salaries and wages correspondingly decreased as well.

Castle Family experienced challenges due to the COVID-19 pandemic as patient visits declined in FY 2020 as some services such as dental, vision, and mammography, were only allowed for emergency procedures. In FY 2021, Castle Family implemented drive up COVID-19 testing and received grant funding from the HRSA to assist in offsetting the expenses. During FY 2022, Castle Family applied for HRSA funds of \$4.4 million to continue testing in the surrounding areas and expand its services. As of December 2022, Castle Family has received about \$3.3 million of the funds and will receive the remaining amount by June 2023. Castle Family also received Payment Protection Program (PPP) loans of \$2.3 million in FY 2020 and \$2 million in FY 2021, each of which was fully forgiven in the fiscal year after it was received.

Castle Family appears to display a solid balance sheet with a pro-forma FY 2022 net debt service coverage ratio of 13.1x.

Over the three-year review period, Castle Family appears to demonstrate a strong ability to repay its debts with a net debt service coverage ratio of 1.5x in FY 2020, 2.6x in FY 2021, and 15.3x in FY 2022. With the new HELP II loan, Castle Family's pro-forma FY 2022 net debt service coverage ratio remains strong at 13.1x. Castle Family also shows a decreasing reliance on debt as its debt to unrestricted net assets ratio decreases from 1.8x in FY 2020 to 0.3x in FY 2022. With the additional debt, the pro-forma FY 2022 debt to unrestricted net assets ratio increases slightly to 0.4x.

Castle Family’s indicators of financial liquidity appear to be strong, posting a current ratio of 2.9x in FY 2022. The strong ratios are attributed to their cash and cash equivalents that increased significantly from just over \$5 million in FY 2020 to approximately \$10.9 million in FY 2022. According to Castle Family management, the increase in cash and cash equivalents was from the two PPP loans as well as the increased patient revenue in FY 2021.

[INTENTIONALLY LEFT BLANK]

III. UTILIZATION STATISTICS:

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

	2022	2021	2020
Totals	31,844 / (158,604)	30,031 / (171,117)	30,484 / (139,238)

IV. OUTSTANDING DEBT:

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding as of June 30, 2022 ^(a)</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
EXISTING LONG-TERM DEBT:			
Note payable	\$4,400,000	\$4,022,211	\$4,022,211
Various notes payable	366,257	213,325	213,325
PROPOSED NEW DEBT			
<i>HELP II Loan (2023)</i>			878,750
TOTAL DEBT		<u>\$4,235,536</u>	<u>\$5,114,286</u>

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

V. BACKGROUND AND LICENSURE:

Background

Castle Family was incorporated as a California non-profit public benefit corporation in 2006, received federal 501(c)(3) non-profit designation in 2007, and in 2010 was designated as an FQHC look-alike program, with the Bloss Memorial Healthcare District (BMHD) as a co-applicant. In the early 1990s, BMHD managed two rural health clinics and the Bloss Memorial Hospital, which was established in 1936. While the clinics flourished, the Bloss Memorial Hospital closed in 1998 as it encountered aggressive competition from neighboring hospitals, low occupancy rates, and cost-cutting reforms in federal programs and managed care insurance plans. In 1999, BMHD established another rural health clinic, and the facilities then operated as Castle Family Health Centers under the ownership of BMHD until Castle Family completed its designation and licensures in June 2010.

Castle Family operates three clinics that are known as Castle Site, Bloss Site, and Winton Site. Castle Site provides primary care with 53 exam rooms, urgent care, specialty health care services, radiology, laboratory, pharmacy, and health education. Bloss Site houses nine exam rooms, women's health with seven dedicated exam rooms, and behavioral health with three dedicated rooms. Winton Site has 18 exam rooms, five dental operatories, and three behavioral health offices. Today, Castle Family is one of three FQHC providers in Merced County, providing care for the low income, medically indigent and remaining uninsured populations.

Licensure, Certification and Accreditation

Castle Family is licensed by the State Department of Public Health to operate and maintain its three facilities as community clinics.

VI. STAFF RECOMMENDATION:

Staff recommends the Authority approve Resolution No. HII-343, in an amount not to exceed \$878,750 for Castle Family Health Centers, Inc., 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-343

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, **Castle Family Health Centers, Inc.** (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 **\$878,750** for a term not to exceed **20 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. First lien on real property located at 1775 3rd Street, Atwater, CA 95301
2. 20-year, two percent (2%) fixed-rate loan
3. A current appraisal that exhibits a loan-to-value ratio not to exceed 95%
4. Corporate gross revenue pledge
5. Executed purchase contract
6. 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 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 July 31, 2023.

Date of Approval: _____

EXHIBIT A

USE OF HELP II LOAN PROCEEDS FOR RESOLUTION NO. HII-343

- Purchase real property located at 1775 3rd Street, Atwater, CA 95301