

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

<p>Applicant: Castle Family Health Centers, Inc. (Castle Family) 3605 Hospital Road Atwater, CA 95301 Merced County</p> <p>Project Site: 1775 3rd Street, Atwater, CA 95301</p> <p>Facility Type: Community clinic</p> <p>Eligibility: Government Code Section 15432(d)(6)</p> <p>Prior HELP II Borrower: Yes, January 2023</p>	<p>Refinance Loan Amount: \$1,191,100</p> <p>Annual Interest Rate: 3% fixed</p> <p>Loan Term: 20 years</p> <p>Authority Meeting Date: June 26, 2025</p> <p>Resolution Number: HII-364</p>
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Background: Castle Family was incorporated as a California non-profit public benefit corporation in 2006, received federal 501(c)(3) status 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 expand an existing medical office building, which Castle Family purchased with a HELP II loan in 2023.

- Financing Structure:**
- Second lien on real property located at 1775 3rd Street, Atwater, CA 95301
 - 20-year, three percent (3%) fixed rate loan
 - 240 equal monthly payments of approximately \$6,606 (\$79,270 annually)
 - A current appraisal that exhibits a combined loan-to-value ratio not to exceed 95%
 - Executed construction contract
 - Corporate gross revenue pledge
 - Verification of borrower funds to close escrow and complete the project

Financial Overview: Castle Family’s income statement appears to exhibit increasing total revenues over the review period. Castle Family appears to display a solid balance sheet with a pro-forma FY 2024 net debt service coverage ratio of 3.6x.

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II loan	\$ 1,191,100	Construction	\$ 4,500,000
Applicant funds	<u>3,328,900</u>	Financing costs	<u>20,000</u>
Total Estimated Sources	<u>\$ 4,520,000</u>	Total Estimated Uses	<u>\$ 4,520,000</u>

Due Diligence: Staff has confirmed the documentation provided by Castle Family satisfies the California Health Facilities Financing Authority’s (Authority) eligibility and legal review requirements.

Staff Recommendation: Staff recommends the Authority approve Resolution No. HII-364 in an amount not to exceed \$1,191,100 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 expand its existing medical office building, known as the Atwater Site. In 2023, Castle Family received a HELP II loan in the amount of \$878,750 for the purchase of the Atwater facility. Castle Family operates three facilities in Atwater, and each has grown to maximum capacity. The expansion project at the Atwater Site will help reduce the maximum capacity issues at all three locations. The Atwater Site provides primary care, women's health, and behavioral health services, and the expansion will allow Castle Family to increase such services to address health disparities in Merced County. Castle Family has applied for a \$2.5 million grant from the Medi-Cal Capacity Grant Program administered through the Central California Alliance for Health. Completion of the expansion project is not contingent on the grant funding as Castle Family has indicated it has ample cash reserves to cover the costs of the project in the event the grant is not approved. Castle Family anticipates receiving the grant in October of this year.

Renovation **\$4,500,000**

Castle Family intends to expand its existing facility located in the central sector of Atwater at 1775 3rd Street. The building was originally built in 1985 and is approximately 6,800 square feet. Castle Family will expand the facility by an additional 7,000 square feet to increase client capacity. The addition will include 15 new primary care exam rooms and one behavioral health group room, enabling Castle Family to accommodate five primary care providers and one behavioral health provider.

The HELP II loan will be secured by a second (2nd) lien position on 1775 3rd Street in Atwater. The Authority currently holds the first lien position on the property. Additionally, Castle Family will provide an appraisal of the real property that exhibits a combined 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 **20,000**

Authority Fees \$14,888
Estimated Escrow/Title Fees 5,112

Total Uses of Funds **\$4,520,000**

II. FINANCIAL STATEMENTS AND ANALYSIS

Castle Family Health Center Statement of Activities (Income Statement)

	For the Years Ended June 30,		
	2024	2023	2022
Revenues and other support			
Net patient service revenue	\$ 23,820,202	\$ 21,700,573	\$ 22,235,830
Grant revenue	744,134	3,750,191	3,043,507
Other operating revenue	6,922,804	4,451,877	3,501,708
Total revenues and other support	31,487,140	29,902,641	28,781,045
Expenses			
Salaries and wages	13,629,056	12,734,304	12,914,122
Employee benefits	3,548,495	3,478,701	3,457,503
Professional fees	3,926,726	3,553,467	3,150,729
Purchased services	2,712,859	2,507,211	2,029,367
Supplies	3,133,739	2,705,587	1,891,400
Repairs and maintenance	-	-	43,951
Utilities	68,492	34,081	28,707
Rental and lease	1,302,961	1,196,065	1,045,368
Depreciation and amortization	877,667	884,784	875,541
Insurance	567,983	466,114	556,056
Other expenses	415,312	584,188	373,898
Total expenses	30,183,290	28,144,502	26,366,642
Excess of revenues over expenses	1,303,850	1,758,139	2,414,403
Non-operating revenue (expense)			
PPP loan forgiveness	-	-	2,000,000
Interest expense	(361,087)	(396,055)	(494,776)
Other non-operating revenue	320,299	148,523	(126,921)
Total non-operating revenue (expense)	(40,788)	(247,532)	1,378,303
Increase in net assets without donor restriction	1,263,062	1,510,607	3,792,706
Net assets at beginning of year	14,901,188	13,390,581	9,597,875
Net assets at end of year	\$ 16,164,250	\$ 14,901,188	\$ 13,390,581

**Castle Family Health Center
Statement of Financial Position
(Balance Sheet)**

	As of June 30,		
	2024	2023	2022
Assets			
Current assets			
Cash and cash equivalents	\$ 17,958,618	\$ 14,128,240	\$ 10,890,847
Patient accounts receivable, net of allowances	1,158,546	1,835,330	2,056,564
Other receivables	127,581	891,065	806,998
Assets whose use is limited	761,220	561,534	585,520
Supplies	203,424	218,496	157,326
Prepaid expenses and deposits	338,778	57,150	135,505
Total current assets	<u>20,548,167</u>	<u>17,691,815</u>	<u>14,632,760</u>
Capital assets, net of accumulated depreciation	7,919,109	8,523,841	8,016,773
Right-of-use assets	<u>1,589,602</u>	<u>3,023,865</u>	<u>4,297,697</u>
Total assets	<u>\$ 30,056,878</u>	<u>\$ 29,239,521</u>	<u>\$ 26,947,230</u>
Liabilities and Net Assets			
Current liabilities			
Current maturities of long-term debt	\$ 279,000	\$ 264,041	\$ 241,959
Current operating lease liability	1,589,602	1,434,263	1,273,832
Accounts payable and accrued expenses	742,792	858,075	513,353
Accrued payroll and related liabilities	1,716,296	1,546,451	1,326,432
Deferred revenue	995,139	561,534	585,520
Due to third-party payors	<u>4,116,595</u>	<u>3,476,080</u>	<u>2,598,111</u>
Total current liabilities	9,439,424	8,140,444	6,539,207
Long-term debt, less current maturities	4,453,204	4,608,287	3,993,577
Operating lease liability, less current portion	<u>-</u>	<u>1,589,602</u>	<u>3,023,865</u>
Total liabilities	13,892,628	14,338,333	13,556,649
Net Assets			
Net assets without donor restrictions	<u>16,164,250</u>	<u>14,901,188</u>	<u>13,390,581</u>
Total net assets	<u>16,164,250</u>	<u>14,901,188</u>	<u>13,390,581</u>
Total liabilities and net assets	<u>\$ 30,056,878</u>	<u>\$ 29,239,521</u>	<u>\$ 26,947,230</u>

	Proforma^(a)			
	FYE June 30, 2024	2024	2023	2022
Debt Service Coverage - Net (x)	3.6	4.0	4.4	5.0
Debt to Unrestricted Net Assets (x)	0.4	0.3	0.3	0.3
Margin (%)		4.1	5.9	8.4
Current Ratio (x)		2.2	2.2	2.2

^(a) Recalculates FY 2024 audited results to include the impact of this proposed financing.

Financial Discussion

Castle Family's income statement appears to exhibit increasing total revenues over the review period.

Castle Family's primary revenue source comes from net patient service revenue, which fluctuated over the review period, decreasing from \$22.2 million in FY 2022 to \$21.7 million in FY 2023 but then increased to \$23.8 million in FY 2024. According to Castle Family's management, in FY 2022, Castle Family experienced a substantial increase in patient visits as one of the few COVID-19 testing sites in Merced County. In FY 2023, Castle Family experienced a decrease in patient visits compared to the prior year as the federal COVID-19 Public Health Emergency officially came to an end. In FY 2024, net patient service revenue again increased as Castle Family initiated an outreach campaign aimed at educating and reconnecting patients with their primary care providers. This initiative resulted in a notable increase in patient visits and contributed to the rise in net patient service revenue. Grant revenue significantly decreased from approximately \$3.8 million in FY 2023 to about \$744,000 in FY 2024. According to Castle Family's management, the significant decrease in grant revenue was due to the end of one-time grant funding under the American Rescue Plan Act aimed to bolster COVID-19 response measures. Other operating revenue increased from \$3.5 million in FY 2022 to \$6.9 million in FY 2024. According to Castle Family's management, the main reason for the increase in other operating revenue was \$3.4 million that Castle Family received from the Internal Revenue Service for the Employee Retention Credit in response to the COVID-19 pandemic.

While Castle Family's operating margins were solid throughout the review period, it declined from 8.4% in FY 2022 to 5.9% in FY 2023 and ended at 4.1% in FY 2024. This downward trend reflects increasing operational costs during and after the pandemic; a key factor included heightened expenses associated with workforce shortages and rising costs for contracted clinical services. Salaries and wages fluctuated over the review period, decreasing from about \$12.9 million in FY 2022 to approximately \$12.7 million in FY 2023, but then increased to more than \$13.6 million in FY 2024. According to Castle Family's management, the fluctuations were due to staffing modifications aligned with service demand. In FY 2023, a reduction in personnel, including two optometrist providers, a dentist, and other medical staff, resulted in the decrease in salary expenses. In FY 2024, Castle Family increased its staffing to meet the increasing demand of rising patient visits. Purchased services increased from approximately \$2 million in FY 2022 to about \$2.5 million in FY 2023, which Castle Family explains was to sustain operations amid the reduction in staff in FY 2023 as temporary workers were brought into support areas impacted by the shortage of medical assistants and nursing and clerical staff.

Castle Family appears to display a solid balance sheet with a pro-forma FY 2024 net debt service coverage ratio of 3.6x.

Castle Family appears to show a solid ability to repay its debt with a net debt service coverage ratio of 5x in FY 2022, 4.4x in FY 2023, and 4x in FY 2024. With the new HELP II loan, Castle Family's pro-forma FY 2024 net debt service coverage ratio remains solid at 3.6x. Castle Family's debt to unrestricted net assets ratio has remained steady at 0.3x during the review period. With the new HELP II loan, Castle Family's pro forma FY 2024 debt to unrestricted net assets ratio increases slightly to demonstrate a manageable debt load of 0.4x.

III. UTILIZATION STATISTICS

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

	2024	2023	2022
Totals	32,923 / 160,730	31,254 / 148,125	31,283 / 158,604

IV. OUTSTANDING DEBT

	Original Amount	Amount Outstanding as of June 30, 2024	Estimated Amount Outstanding after Proposed Financing
EXISTING LONG-TERM DEBT			
HELP II Loan (2023)	\$ 878,750	\$ 842,650	\$ 842,650
Bank Note Payable	4,400,000	3,700,526	3,700,526
Various Notes Payable	NA	189,028	189,028
PROPOSED NEW DEBT			
HELP II Loan (2025)		1,191,082	1,191,802
TOTAL DEBT		\$ 5,923,286	\$ 5,924,006

V. BACKGROUND AND LICENSURE

Background

Castle Family was incorporated as a California non-profit public benefit corporation in 2006, received federal 501(c)(3) 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 Department of Public Health to operate and maintain its facilities as community clinics.

VI. STAFF RECOMENDATION

Staff recommends the Authority approve Resolution No. HII-364 in an amount not to exceed \$1,191,100 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.

RESOLUTION NO. HII-364

RESOLUTION OF THE CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY APPROVING EXECUTION AND DELIVERY OF HEALTHCARE EXPANSION LOAN PROGRAM II (HELP II) AGREEMENTS WITH CASTLE FAMILY HEALTH CENTERS, INC.

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 that term is defined in the Act) as authorized by the Act; and

WHEREAS, **Castle Family Health Centers** (the “Borrower”), a California participating health institution, has applied to the Authority for a loan through the Program, the application has been reviewed by the staff of the Authority, and the staff of the Authority has determined that the Borrower is eligible for a Program loan; and

WHEREAS, the Borrower now seeks approval of a loan by the Authority in the amount of \$1,191,100;

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 (the “Loan”) to the Borrower, in an amount not to exceed **\$1,191,100** for a term not to exceed **20 years** for the purposes described in Exhibit A of this resolution (the “Project”) as determined pursuant and subject to Section 2 hereof, but solely to the extent there are available proceeds of the Program. This approval is further contingent upon the following terms and conditions:

1. Second lien on real property located at 1775 3rd Street, Atwater, CA 95301
2. 20-year, three percent (3%) fixed-rate loan
3. A current appraisal that exhibits a combined loan-to-value ratio not to exceed 95%
4. Executed construction contract
5. Corporate gross revenue pledge
6. Verification of borrower funds to close escrow and complete the project

Section 2. The Executive Director and/or the Deputy Executive Director of the Authority 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.

Section 3. The Executive Director and/or the Deputy Executive Director of the Authority are hereby authorized and directed, for and on behalf of the Authority, to draw money from the Program fund in a sum not to exceed those amounts approved by the Authority for the Loan. The Executive Director and/or 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/or 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 and/or the Deputy Executive Director deems necessary or advisable to document the Loan and to otherwise effectuate the purposes of this resolution and the transactions contemplated hereby, and that have previously been approved as to form by the Authority.

Section 5. This resolution is repealed on December 31, 2025

Date of Approval: _____

EXHIBIT A

USE OF HELP II LOAN PROCEEDS FOR RESOLUTION NO. HII-364

- Expansion of existing medical office building located at 1775 3rd Street, Atwater, CA 95301