

**CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: LifeLong Medical Care, Inc. (“LLMC”) 2344 Sixth Street Berkeley, CA 94710 Alameda County</p> <p>Project Site: 2031 Sixth Street Berkeley, CA 94710 (Alameda County)</p> <p>Facility Type: Community Clinic</p> <p>Eligibility: A qualified health facility pursuant to Government Code Section 15432(d)(6)</p> <p>Prior HELP II Borrower: No</p>	<p>Amount Requested: \$1,000,000</p> <p>Requested Loan Term: 5-year fixed</p> <p>Authority Meeting Date: September 27, 2012</p> <p>Resolution Number: HII-274</p>
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Issue to Note: LLMC’s gross revenues for FY 2011 were approximately \$36 million, which exceed the current HELP II gross revenue maximum of \$30 million. Staff recommends the Authority consider the requested financing for the reasons discussed on page two of the executive summary.

Background: As a non-profit community health center, LLMC provides primary health care, dental care, pediatric, adult and geriatric care, and chronic disease and HIV/AIDS treatment in nine locations throughout Berkeley, Oakland and Novato. In FY 2011, LLMC served over 24,000 patients and had over 170,000 patient visits.

Uses of Loan Proceeds: Loan proceeds will be used to furnish and equip the West Berkeley Family Practice that is currently undergoing renovation and expansion. The increased capacity will meet the growing need for primary medical care in the service area.

Financing Structure

- 5-year fixed rate loan.
- 60 equal monthly payments of approximately \$17,969 (annual payments of about \$215,624).
- Corporate gross revenue pledge.
- UCC-1 lien on equipment.

Financial Overview: LLMC’s income statement appears to exhibit improving operating results during the review period from FY 2009 to FY 2011. LLMC’s financials appears solid with a proforma debt service coverage ratio of 1.36x.

Estimated Sources of Funds:

HELP II Loan	\$ 1,000,000
Borrower Funds	65,124

Total Estimated Sources	\$ 1,065,124
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Estimated Uses of Funds:

Purchase equipment	\$ 1,052,624
Financing cost	12,500

Total Estimated Uses	\$ 1,065,124
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Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through, and Community Service Obligation. All documentation satisfies the Authority’s requirements.

Parties of Interest: *(Included for the purpose of discerning conflicts of interest)*

N/A

Staff Recommendation: Staff recommends approval of Resolution Number HII-274 for LifeLong Medical Care, Inc. in an amount not to exceed \$1,000,000 for a term not to exceed 5 years, contingent upon consent from the Office of Statewide Health Planning and Development (OSHDP), and contingent upon financing terms acceptable to the Authority. Macias Gini & O’Connell, LLP, the Authority’s financial analyst concurs with the Authority’s staff recommendations.

I. ISSUE TO NOTE:

Historically, the Authority has generally extended the HELP II Loan program to eligible small health facilities whose annual total gross revenues total less than \$30 million per year. LLMC's audited statement of financial position for FY 2011 reflects gross revenues of approximately \$36 million, 20% above the Authority's gross revenue ceiling. The Authority has previously approved loans for applicants six to seven percent in excess of the gross revenue limitation where applicants provide vital services to lower income individuals because doing so fit squarely within the mission of the HELP II loan program.

Nearly 90% of LLMC's patients live on incomes below 200% of the poverty level and most of the locations serviced by LLMC are designated as Medically Underserved Areas. Although LLMC's revenues are higher than exceptions previously entertained by the Authority, LLMC originally came to the Authority 15 months ago to request financing for the renovation stage of their current on-going project. At the time, LLMC's gross revenues were \$31.8 million, just six percent above the Authority's gross revenue limitation.

LLMC could have then applied for funding, but since the completion time of the project was more than 24 months out, staff felt more comfortable recommending financing for the equipment rather than the construction and recommended LLMC apply for an equipment financing loan once the project was 10 to 12 months from completion.

Staff recommends the Authority consider this financing notwithstanding LLMC's gross revenues given LLMC's service area, the patients LLMC serves and the reality that LLMC's revenues were within the Authority's revenue limitations and historical exceptions thereto when LLMC first consulted with and was considered by staff.

II. PURPOSE OF FINANCING:

LLMC will use the loan proceeds to furnish and equip the West Berkeley Family Practice facility. The West Berkeley Family Practice will expand its services to address the needs of its socially and ethnically diverse patient population. In order to meet the increased demands from patients, LLMC started the renovations and remodel of the West Berkeley Family Practice in 2009. Currently, services are provided to 117 patients a day in a clinic area designed for 80 patients. The current size, layout, and condition of the building compromise patient care and limit the number of patients that can be served. The increased capacity will meet the growing need for primary medical care in the service area.

Equipment/Furnishings..... \$1,052,624

LLMC seeks to purchase medical exam tables and physician chairs, patient chairs, desks, computers, scanners, workstations, exam lamps, wall mounted systems, a defibrillator, eye wash equipment, adult and child weight scales, a diagnostic system for infectious diseases, and a digital panoramic machine.

LLMC aims to improve its quality of care by enhancing the outdated primary care clinic, which is the only primary care provider in the neighborhood. While the current clinic is ideally located to provide healthcare access to Berkeley's low income residents, the size, layout, and condition of the building compromise patient care and limit the number of patients served. The new structure under

construction includes 27 exam rooms, mental health counseling areas, a pharmacy, and two health education rooms with a demonstration kitchen for nutrition education. The expanded site will accommodate over 9,000 patients annually, and 40,000 patient visits. LLMC will use the HELP II loan proceeds to fully furnish and add new clinical and office equipment to the West Berkeley Family Practice.

Financing Costs **12,500**

Authority Fees \$12,500

Estimated Uses of Funds **\$1,065,124**

I. FINANCIAL STATEMENTS AND ANALYSIS

LifeLong Medical Care, Inc. Statement of Activities (Unrestricted)

Revenues and Other Support:	For the year ended June 30,		
	2011	2010	2009
Patient and third party fees	\$ 23,421,162	\$ 20,872,200	\$ 19,762,700
Grants and contributions	10,990,692	9,549,100	8,406,700
Interest and other income	1,438,885	481,600	559,700
Contributions in-kind	333,561	916,700	689,100
Total revenue and support	<u>36,184,300</u>	<u>31,819,600</u>	<u>29,418,200</u>
Expenditures:			
Program & Support Services			
Salaries and wages	16,049,488	18,071,500	16,915,900
Payroll taxes and benefits	4,251,555	4,591,300	4,476,700
Consultant and contracted services	1,331,234	1,800,100	1,657,500
Rent and utilities	1,061,582	1,399,800	1,353,300
Medical, dental, and other supplies	755,717	613,700	577,600
Depreciation	332,521	312,500	374,900
Program expenses	307,007	322,600	284,200
Building maintenance and repairs	279,688	296,400	305,000
Office supplies and expenses	271,911	377,700	338,100
Laboratory and radiology	264,560	210,100	267,600
Bad debt expense	261,878	357,800	340,500
Equipment lease and maintenance	222,563	307,500	280,800
Equipment supplies	218,190	159,400	99,500
Telephone	146,500	189,200	174,800
Miscellaneous and other expenses	95,156	325,900	173,900
Insurance and property taxes	77,433	88,700	105,400
Travel and conference	73,159	133,600	131,500
Membership and licenses	62,077	212,800	240,700
Pharmaceuticals	39,030	738,200	459,500
Interest expense	23,243	114,800	125,800
Postage and printing	13,053	104,000	88,800
Event expenses	221	24,900	9,300
Total expenses	<u>26,137,766</u>	<u>30,752,500</u>	<u>28,781,300</u>
Increase in Unrestricted Net Assets	2,400,798	971,500	726,600
Unrestricted Net Assets			
Unrestricted Net assets, beginning of year	<u>8,653,400</u>	<u>7,681,900</u>	<u>6,955,300</u>
Unrestricted Net assets, end of year	<u>\$ 11,054,198</u>	<u>\$ 8,653,400</u>	<u>\$ 7,681,900</u>

LifeLong Medical Care, Inc.
Statement of Financial Position

	As of June 30,		
	2011	2010	2009
Assets			
Current assets:			
Cash and cash equivalent	\$ 4,157,537	\$ 4,594,800	\$ 4,012,200
Patients accounts receivable	2,309,466	2,783,300	2,676,100
Estimated third-party payor settlements	1,240,496	1,060,000	1,082,500
Grants and contracts receivable	1,255,798	1,248,900	1,175,800
Risk pool receivable	214,420	90,700	60,100
Other receivables	279,999	175,400	114,700
Inventory	84,259	72,500	82,000
Prepaid expenses	566,274	178,300	200,300
Other assests	36,099	596,000	116,000
Total current assets	<u>10,144,348</u>	<u>10,799,900</u>	<u>9,519,700</u>
Noncurrent assets:			
Property, equipment and leasehold improvements, net	7,096,740	3,492,800	3,066,400
Long-term estimated third-party payor settlements	1,892,593	1,879,500	1,084,500
Total noncurrent assets	<u>8,989,333</u>	<u>5,372,300</u>	<u>4,150,900</u>
Total assets	<u>\$ 19,133,681</u>	<u>\$ 16,172,200</u>	<u>\$ 13,670,600</u>
Liabilities & net assets			
Current liabilities:			
Accounts payable	\$ 1,285,461	\$ 614,600	\$ 665,500
Accrued liabilities	2,241,677	2,766,000	1,937,700
Deferred revenue	14,580	86,100	14,500
Other current liabilities	234,108	438,800	342,500
Current portion of long-term obligations	57,306	645,200	110,800
Total current liabilities	<u>3,833,132</u>	<u>4,550,700</u>	<u>3,071,000</u>
Long-term obligations, net of current portion	2,329,535	1,793,600	1,838,800
Other liabilities	1,082,567		
Total liabilities	<u>7,245,234</u>	<u>6,344,300</u>	<u>4,909,800</u>
Net assets			
Unrestricted net assets	11,054,198	8,653,400	7,681,900
Temporarily restricted net assets	834,249	1,174,500	1,078,900
Total net assets	<u>11,888,447</u>	<u>9,827,900</u>	<u>8,760,800</u>
Total liabilities & net assets	<u>\$ 19,133,681</u>	<u>\$ 16,172,200</u>	<u>\$ 13,670,600</u>

Financial Ratios:

	Proforma (a)			
	<u>FYE June 30, 2011</u>			
Debt Service Coverage (x)	1.36	3.85	6.20	5.34
Debt/Unrestricted Net Assets (x)	1.18	0.21	0.21	0.24
Margin (%)		6.57	3.06	2.46
Current Ratio (x)		2.06	2.37	3.10

(a) Recalculates FY 2011 audited results to include the impact of this proposed financing.

<u>Payor Source*</u>	<u>Percent</u>
Medi-Cal	61.00%
Medicare	17.00%
Third Party	22.00%
Total	100%

Financial Discussion – Statement of Activities (Income Statement)

LLMC's income statement appears to exhibit improving operating results during the review period FY 2009 through FY 2011. LLMC has successfully operated with an increase in unrestricted net assets ranging from \$636,000 to \$2.06 million.

During the review period, LLMC expanded its operations and clients served from 22,053 in FY 2009 to 24,344 in FY 2011. According to LLMC, it has grown steadily over the past three years, largely through acquisitions of other practices that include the West Berkeley Family Practice and the Marin Adult Day Health Care. LLMC managed to post increases of unrestricted net assets ranging from approximately \$726,000 in FY 2009 to \$2.4 million in FY 2011. According to LLMC, the increase over the review period is largely attributed to grant revenues and patient and third party fees. From FY 2009 to FY 2011, LLMC's grant revenue increased 29% and patient and third party fees increased 18%.

Particular Facts to Note:

- Revenue increased by approximately 22% from approximately \$29.5 million in FY 2009 to approximately \$36 million in FY 2011. LLMC states the increase in revenue was due to the increase in patient volume and the addition of new programs and sites.
- Approximately 30% of LLMC's revenue is derived from grants and contributions. LLMC states they will continue to aggressively seek funding from government and private sources. LLMC recently expanded its planning/grants staff from three to four full time employees. The employees work collaboratively with private and public funders to identify community priorities and develop programs to address them.
- Expenses increased by approximately 18% over the review period from approximately \$28.7 million in FY 2009 to approximately \$34.1 million in FY 2011 roughly in line with revenues, which increased 22%. According to LLMC, the increase in expenses was due to growth in sites and services in FY 2009, including a new primary care site, an adult day health center, and two school-based sites.

Financial Discussion – Statements of Financial Position (Balance Sheet)

LLMC's financial strength appears solid, though they appear leveraged with a proforma debt to unrestricted net assets ratio of 1.18x. The proforma debt service coverage ratio of 1.36x shows LLMC appears be able to make the payments on the loan.

Particular Facts to Note:

- LLMC's cash position appears very strong with approximately \$4.1 million in cash and cash equivalents as of June 30, 2011, resulting in 59 days cash on hand. LLMC states they maintain clear communication with the California Department of Health Care Services to receive timely payments on prior year Medicare and Medi-Cal rate settlements for Federally Qualified Health Care services, maximize opportunities related to meaningful use incentives (Medicare and Medi-Cal), and monitor Medi-Cal managed care payments to obtain higher payments from the California Department of Health Care Services.
- LLMC explains that its third party receivables have increased because of slower reconciliation and payments of amounts due to LLMC from the Medi-Cal payment vendor. In addition, third party receivables have increased due to the initiation of new sites that include the West Berkeley Family Practice and the Marin Adult Day Health Care. As a result, cash has declined by approximately \$437,000; however, days cash on hand remains a solid 59 days.
- During the review period, LLMC reports that its total liabilities have increased from approximately \$4.9 million in FY 2009 to approximately \$7.2 million in FY 2011 because of the purchase of the West Berkeley Family Practice and the Marin Adult Day Health Center building.

EXHIBIT 1

UTILIZATION STATISTICS

**Clients Served/ (Patient Visits)
Ended June 30**

	2011	2010	2009
Totals	24,344/ (174,953)	22,857/ (170,101)	22,053/ (170,098)

EXHIBIT 2

**OUTSTANDING DEBT
LifeLong Medical Care, Inc.**

<u>Date Issue:</u>	<u>Original Amount</u>	<u>Amount Outstanding as of 06/30/2011*</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
NCBCI/New Markets Tax Credit Loan, 2011	\$9,750,000	\$9,750,000	\$9,750,000
National Cooperartive Bank, 2006	2,000,000	1,793,557	1,793,557
Marin Community Foundation	600,000	593,284	593,284
Proposed:			
CHFFA HELP II Loan, 2012			1,000,000
Total		<u>\$12,136,841</u>	<u>\$13,136,841</u>

* Includes current portion of long-term debt.

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

LLMC was founded in 1976 and is a nonprofit community health center with nine locations which include Berkeley, Oakland and Novato. LLMC provides primary health care, dental care, pediatric, adult and geriatric care, and chronic disease and HIV/AIDS treatment to over 24,000 patients who make over 174,000 visits each year. In addition, LLMC offers a supportive housing program that provides medical care at eight centers, school-based health services, and mobile dental services for the homeless.

Licensing:

LLMC is licensed by the California Department of Public Health to operate and maintain the primary care community health center located at 2031 Sixth Street, Berkeley, California 94710.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-274

**RESOLUTION APPROVING EXECUTION AND DELIVERY OF
HELP II LOAN PROGRAM 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 (the “Act”) to provide secured or unsecured loans to participating health institutions to finance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing, or equipping of a health facility;

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

WHEREAS, **LifeLong Medical Care, Inc.** (the “Borrower”), a California nonprofit corporation and 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;

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 the amount of **\$1,000,000** for a term not to exceed **5 years** for the purpose described in the application filed with the Authority and Exhibit A attached hereto (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 fixed rate loan;
2. Corporate gross revenue pledge; and
3. UCC-1 lien on equipment.

Section 2. The Executive Director is 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 said officer shall deem appropriate and authorized under the Act (provided that the amount of the loan may 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). Nothing in this resolution shall 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 is 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 is 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 funds.

Section 4. The Executive Director of the Authority is hereby authorized and directed to do any and all things and to execute and deliver any and all documents which the Executive Director deems necessary or advisable in order to effectuate the purposes of this resolution and the transactions contemplated hereby, and which have heretofore been approved as to form by the Authority.

Section 5. This resolution expires one year from the date of approval.

Date of Approval: _____

EXHIBIT A

PROJECT DESCRIPTION

Loan proceeds will be used to furnish and equip the West Berkeley Family Practice that is currently undergoing renovation and expansion. The increased capacity will meet the growing need for primary medical care in the service area.

Project Site: 2031 Sixth Street, Berkeley, CA 94710