

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
STAFF SUMMARY AND RECOMMENDATION**

HELP II Loan Program

**Innovative Health Care Services, Inc
dba Peg Taylor Center for Adult Day Care Center**

Amended Resolution Number HII-161

March 28, 2013

PURPOSE OF REQUEST:

Innovative Health Care Services (“IHCS”) dba Peg Taylor Center for Adult Day Care Center requests an eight year extension of the remaining term of its loan which will have the effect of reducing IHCS’ monthly debt service payments from \$2,800 to \$1,500. This modification will likely improve IHCS’ cash flow by alleviating some of its ongoing substantial fiscal challenges caused, in part, by (1) the elimination of annual grant funding (i.e., approximately \$71,000 in FY 2009) from the State of California (State’s response to severe budget constraints) which IHCS had annually received since 1987, (2) the State’s reduction and elimination of the Adult Day Health Center (“ADHC”) program over the last several years, (3) the overall reduction of referrals associated with the uncertainty of whether the ADHC Medi-Cal benefit would remain in place which led to a drop in IHCS’ average daily attendance, and (4) the March 2012 replacement of the ADHC program with a new and imperfectly implemented (substantially delayed reimbursements) program called the Community Based Adult Services (“CBAS”) program.

BACKGROUND:

Established in 1986, IHCS provides comprehensive services for elderly and disabled adults with a wide range of health problems. The programs focus on adult day health care which incorporate physical, occupational, and speech therapies, nursing, social services, therapeutic activities and support for adults with serious chronic illness. IHCS provides services primarily in the rural regions of Butte, Glenn and Tehama Counties. There are no other adult day health care programs serving in these three county areas. Over 90% of the participants and their families served at the centers are low income or below the 100% poverty level. In FY 2012, IHCS served approximately 98 patients.

In FY 2004, the Authority approved a 15-year loan for IHCS in the amount of \$400,000 to refinance the Authority’s 1992 Series A STARTS¹ bonds. The current outstanding balance is \$200,000 with a remaining term of seven years. IHCS is presently current on its HELP II loan payments and also has a history of timely payments.

The HELP II loan is secured by a first lien position on a 6,258 square foot building located at 124 Parmac Road, Chico, California. There is a second lien on this property which secures IHCS’ line of credit with Tri Counties Bank with a remaining outstanding balance of approximately \$153,000. IHCS has submitted an appraisal dated August 2012 which estimates the value of the property to be \$650,000, leading to an acceptable estimated combined loan to value ratio of 58%.

¹ 1992 Series A STARTS bonds was originated from the initial STARTS program that provided pool financing to eligible borrowers to reduce their borrowing costs.

The funding for adult day health care programs has been adversely impacted for the past several years through the elimination or reduction of program grants and the proposed elimination of adult day health care as a Medi-Cal benefit. In FY 2012, a settlement agreement was signed on December 1, 2011, with the U.S District Court to resolve a lawsuit regarding the elimination of the ADHC benefit. The agreement ended the ADHC benefit on February 29, 2012, and replaced it with the new CBAS program on March 1, 2012. The new program retained the basic components of the adult day health care program as a Medi-Cal managed care benefit, while creating a new way of describing eligibility. All of the IHCS' clients who were served through the Medi-Cal ADHC benefit have continued to be served through the new CBAS program, but cash flow challenges were caused in FY 2012 by a significant slowdown in approval of Medi-Cal Treatment Authorization Requests (TARs) by the Department of Health Care Services (DHCS) due to the State's transition of the ADHC Medi-Cal benefits to the CBAS benefit. ADHC TARs are reapproved every 6 months, based on the participant's enrollment date, and Medi-Cal billing cannot occur until a TAR is approved. Therefore, IHCS has been unable to timely bill for services rendered for a portion of its Medi-Cal participants. The slow collections created cash flow challenges, but as of November 2012, collections have normalized to a substantial degree.

The State of California's budget challenges also impacted IHCS through the loss of annual State grant funding (approximately \$71,000) which had been critical to bridging the difference between the level of Medi-Cal reimbursement and the actual cost per day of services. In addition, there was confusion over whether the ADHC Medi-Cal benefit would remain in place, which led to a drop in the average daily attendance and further impacted the program fee income.

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FINANCIAL ANALYSIS:

IHCS's income statement appears to exhibit negative operating results over the review period. Total revenues decreased from approximately \$942,000 in FY 2010 to \$843,000 in FY 2012. According to IHCS' management, the funding for ADHC programs has been adversely impacted for the past several years due to the State of California's economic crisis and reduction/elimination of ADHC benefits. As a result of these reductions in revenues, IHCS responded by reducing total expenses from approximately \$1 million in FY 2010 to \$907,000 in FY 2012 primarily in salaries, wages, benefits, staff hours, and transportation costs. In addition, to address the ongoing fiscal challenges, IHCS' Board of Directors has been continuously implementing an ongoing strategic plan and effort to recover from the economic downturn dated back to FY 2009 by:

- (1) Increasing its fundraising efforts;
- (2) Seeking private grants;
- (3) Increasing outreach to generate additional clients; and,
- (4) Reducing various operational expenses such as personnel service dollars and transportation costs while preserving the program services.

IHCS's balance sheet appears to have exhibited a diminished fiscal position with a negative proforma debt service coverage ratio of 1.22x and 19 days cash on hand. Total unrestricted net assets of the organization decreased from approximately \$195,000 in FY 2010 to \$106,000 in FY 2012. IHCS strategically obtained a revolving line of credit with Tri Counties Bank in an amount of approximately \$153,000 with a variable interest rate to finance its short-term liabilities. Tri Counties Bank has renewed the revolving line of credit from June 2012 to September 2013. If the board approves IHCS' request to extend the term of its HELP II loan, Tri Counties Bank will subordinate its loan and the Authority will continue to remain in the first lien position.

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STAFF RECOMMENDATION:

Overall, IHCS appears to exhibit diminished fiscal position during the review period. Staff and the Authority's financial analyst, Macias, Gini & O'Connell, LPP conclude that it is the best interest of the Authority, IHCS and the patients IHCS services to help alleviate some of IHCS's ongoing fiscal challenges. Staff recommends extending the remaining loan term by an additional eight years predicated upon the below conditions.

1. IHCS must prepare and submit a comprehensive annual business plan acceptable to the Authority within six months after approval of the amended resolution.
2. IHCS must provide the Authority unaudited quarterly financials, financial reports, a brief summary of its financial condition, and its progress towards its business plan for the remainder of the loan or other time period as the Authority staff may permit.
3. IHCS' failure to comply with any of the above conditions shall cause the extension of the loan term to be revoked, the loan to be re-amortized back to the original maturity date with a balloon payment due at maturity so that the balance can be wholly retired.

All other conditions set forth in the resolution remain the same and in full effect. Macias, Gini & O'Connell, LLP, the Authority's financial analyst, concurs with Authority's staff recommendation.

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FINANCIAL STATEMENTS:

Innovative Health Care Services, Inc
dba Peg Taylor Center for Adult Day Health Care
Statements of Operations
(Unrestricted)

	As of June 30,		
	2012	2011	2010
Program revenue			
Medi-Cal	\$ 595,494	\$ 614,848	\$ 663,808
Private	83,142	88,111	91,739
Veterans	23,903	20,745	18,909
Food Program	23,451	23,777	25,076
Grant revenue	26,594	38,749	95,728
Donations	27,381	77,811	-
Fundraising	37,079	37,125	34,841
Contributed services	1,839	2,450	-
Miscellaneous income	2,654	2,707	988
Investment income	3,059	2,751	2,910
Emergency food and shelter program	2,000	-	-
Realized losses on investments	(1,384)	-	2,723
Unrealized losses on investments	(118)	5,486	-
Net assets released from restrictions	18,203	2,413	4,826
Total revenue*	<u>843,297</u>	<u>916,973</u>	<u>941,548</u>
Operating expenses:			
Salaries	541,040	555,797	601,446
Employee benefits	60,788	63,629	83,206
Payroll taxes	38,084	38,691	42,316
Other personal costs	10,145	10,412	(4,063)
Transportation	82,667	96,967	108,749
Meals for clients	37,274	37,692	40,867
Other direct client costs	12,533	12,415	15,503
Fundraising	4,455	3,640	642
Insurance	6,908	6,940	7,340
Professional services	13,257	13,622	13,236
Others	18,176	18,587	19,399
Interest - line of credit	6,705	7,150	2,429
Interest - other	46	46	46
Depreciation and amortization	22,827	24,199	26,517
Facility	29,156	30,036	29,210
Interest - building loan	7,440	7,681	8,432
Utilities	15,568	14,186	14,036
Total operating expenses	<u>907,069</u>	<u>941,690</u>	<u>1,009,311</u>
Decrease in unrestricted net assets	(63,772)	(24,717)	(67,763)
Unrestricted net assets - beginning of year	<u>169,775</u>	<u>194,492</u>	<u>262,255</u>
Unrestricted net assets - end of year	<u>\$ 106,003</u>	<u>\$ 169,775</u>	<u>\$ 194,492</u>

*Program Revenue for FYE June 30, 2012

<u>Payors Source</u>	<u>Percent</u>
Medi-Cal	72
Private	10
Veterans	3
Food Program	3
Grant revenue	3
Donations	3
Fundraising	5
Others	<u>1</u>
Total	<u><u>100</u></u>

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Innovative Health Care Services, Inc
dba Peg Taylor Center for Adult Day Health Care
Balance Sheet

	As of June 30,		
	2012	2011	2010
Current assets:			
Cash and cash equivalents	\$ 46,354	\$ 50,564	\$ 44,833
Receivables, net	77,648	31,334	77,408
Prepays and deposits	4,804	6,964	20,337
Refundable advance	151	4,252	-
Health care tax credit receivable	2,184	4,068	-
Total current assets	131,141	97,182	142,578
Property and equipment, net of depreciation	489,099	511,538	535,349
Endowment fund	-	56,200	48,934
Other assets	8,773	9,161	9,801
Total assets	\$ 629,013	\$ 674,081	\$ 736,662
Current liabilities:			
Accounts payable	\$ 26,085	\$ 38,752	\$ 48,575
Payroll liabilities	66,440	77,582	89,667
Accrued liabilities	4,744	5,728	6,793
Line of credit	173,570	83,400	86,200
Current maturities of long-term debt	24,805	26,247	25,472
Total current liabilities	295,644	231,709	256,707
Long-term debt:			
Net of current maturities	188,756	215,784	242,027
Total liabilities	484,400	447,493	498,734
Net assets:			
Unrestricted	106,003	169,775	194,492
Temporarily restricted	38,610	56,813	43,436
Total net assets	144,613	226,588	237,928
Total Liabilities and Net Assets	\$ 629,013	\$ 674,081	\$ 736,662

Financial Ratios:

	Proforma^(a)			
	FYE June 30, 2012			
Debt Service Coverage - Total	(1.22)	(0.69)	0.36	(0.85)
Debt to Unrestricted Net Assets	1.89	2.01	1.43	1.38
Margin (%)		(7.56)	(2.70)	(7.20)
Current Ratio		0.44	0.42	0.56

^(a) Recalculates FY 2012 audited results to include the impact of this proposed financing.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Amendment to Resolution Number HII-161

**APPROVAL OF CERTAIN MODIFICATIONS FOR
INNOVATIVE HEALTH CARE SERVICES, INC
DBA PEG TAYLOR CENTER FOR ADULT DAY CARE
EXISTING HELP II LOAN TERMS**

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 or refinance 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, on February 26, 2004 Innovative Health Care Services Inc., dba Peg Taylor Center for Adult Day Care (the "Borrower"), a California nonprofit corporation and participating health institution, was approved for a Program loan in the amount of \$400,000, of which approximately \$200,000 remains outstanding (Resolution No. HII-161);

WHEREAS, Borrower has requested a modification of its Program loan, and the Authority staff recommends the Authority to amend Resolution No. HII-161 as hereinafter set forth; and

NOW THEREFORE BE IT RESOLVED by the California Health Facilities Financing Authority, as follows:

Section 1. The Authority approves the modification of the existing Program loan for the Borrower and amendment to Resolution No. HII-161 to extend the maturity date by an additional eight years. This approval is contingent upon the following conditions:

1. The Borrower must prepare and submit a comprehensive annual business plan acceptable to the Authority within six (6) months after approval of this amendment to Resolution No. HII-161.
2. The Borrower must provide the Authority unaudited quarterly financials, financial reports, a brief summary of its financial condition, and its progress towards its business plan for the remainder of the loan or other time period as Authority staff may permit.
3. The Borrower's failure to comply with any of the above conditions shall cause the extension of the loan term to be revoked, the loan to be re-amortized back to the original maturity date with a balloon payment due at maturity so that the balance can be wholly retired.

Section 2. All other provisions of Resolution No. HII-161 shall remain the same.

Date Approved: _____