

**CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY**

Applicant:	Operation Samahan, Inc. ("OS") 2835 Highland Ave., Suite B National City, CA 91950 San Diego County	Amount Requested:	\$222,000
		Requested Loan Term:	5-year fixed (equipment) 15-year fixed (renovation)
		Authority Meeting Date:	October 31, 2013
		Resolution Number:	HII-283
Project Site:	2835 Highland Ave., National City, CA (San Diego County)		
Facility Type:	Community Clinic, Federally Qualified Health Center Look-Alike		
Eligibility:	Government Code Section 15432(d)(6)		
Prior HELP II Borrower:	Yes - combined outstanding balance of \$679,471 and borrower is current.		

Background: OS was founded and incorporated as a nonprofit California corporation in 1973 to help alleviate the health and social problems of the minority and economically disadvantaged communities of San Diego County. OS operates six clinics in National City, Mira Mesa, and Rancho Penasquitos, CA. Services include primary health care, dental care, pediatrics and perinatal care, women's health, behavioral health, social services and health education.

Uses of Loan Proceeds: OS is requesting two HELP II loans to finance the renovation of an existing facility to accommodate a growing number of prenatal patients and to increase capacity for its intended pediatric care program by increasing the number of medical exam rooms from three to seven. In addition, OS plans to use some of the loan proceeds to equip the remodeled space.

Financing Structure:

- 5-year fixed rate for equipment; 60 equal monthly payments of approximately \$665 (annual payments of \$7,978).
- UCC-1 lien on equipment purchased.
- 15-year fixed rate for renovation; 180 equal monthly payments of approximately \$1,278 (annual payments of \$15,331).
- Corporate gross revenue pledge.
- Second lien position (behind existing CHFFA HELP II Loan) on property located 2835 Highland Ave, National City, CA (San Diego County).
- Executed construction contract acceptable to the Authority.
- A current appraisal of the collateralized property acceptable to the Authority.
- Loan to value ratio not to exceed 95% (estimated combined loan to value ratio is 46%).

Financial Overview: OS' income statement appears to exhibit fluctuating operating results during the review period while the balance sheet appears solid with a strong debt service coverage ratio and growing net assets. The proforma debt service coverage ratio for the proposed HELP II loan appears to be a strong 5.58x.

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II Loan	\$ 222,000	Renovation	\$ 140,400
Borrower Funds	17,370	Other costs	54,195
		Equipment	37,000
		Financing costs	7,775
Total Estimated Sources	<u>\$ 239,370</u>	Total Estimated Uses	<u>\$ 239,370</u>

Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through and Community Service Requirement documentation. All documentation satisfies the Authority's requirements.

Parties of Interest: Chicago Title Company; Matalon Architecture Planning, Inc.; and Jacor Construction.

Staff Recommendation: Staff recommends approval of Resolution Number HII-283 for Operation Samahan, Inc. for two loans totaling an amount not to exceed \$222,000 for a term not to exceed 5 years for equipment and 15 years for renovation, 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. PURPOSE OF FINANCING: OS is embarking on an overall plan to meet its growing demand for services by renovating its existing facility to provide additional space for its expanding number of prenatal patients and to increase capacity for its intended pediatric care program.

The financing of the proposed HELP II loan will consist of two separate loans, one for the renovation project and one for the equipment, which may have separate closing dates.

***Expansion and renovation* \$140,400**

OS plans to reconfigure 1,500 square feet of existing space owned and operate by OS which will add three medical exam rooms, one treatment room, two offices, a data and IT room, one bathroom, and a reception/waiting area. This expansion will transform the three-medical exam rooms and the three-dental operatory facility into a seven-medical room and a three-dental operatory clinic. The expansion will allow OS to expand its capacity from 4,120 patient visits per year to 8,240 patient visits per year located at OS' 2835 Highland Avenue, National City, CA. OS anticipates beginning the project in January 2014 with an estimated completion date of August 2014.

The HELP II loan will be secured by OS' real property located at 2835 Highland Ave., National City, CA 91950, which according to management, has an estimated current fair market value of \$1.2 million. This property is already secured by the existing HELP II 2012 loan with a current loan balance \$321,882, in the first lien position. Thus, the proposed HELP II loan will be in a second lien position. The proposed HELP II loan combined with the existing HELP II 2012 loan will lead to a combined loan to value ratio of roughly 46%. OS is in the processes of having the property appraised and will submit an appraisal acceptable to the Authority prior to closing.

According to the OS management, the contractor will pay prevailing wage for the project and comply with the requirements of the California Environmental Quality Act, if applicable.

***Other costs* 54,195**

Architectural fees	\$28,080
Permit, testing, and inspection fees	8,425
Contingency	<u>17,690</u>

***Purchase equipment* 37,000**

OS plans to purchase various medical and office equipment to furnish its renovated facility. The equipment consists of medical equipment such as exam tables, vital sign monitor, defibrillator, EKG, mini-generator, power table, sterilizer, freezer, IT system equipment consisting of both hardware and software, and non-medical equipment which includes furniture and chairs.

***Financing Costs* 7,775**

Authority Fee.....	\$2,775
Title and escrow	<u>5,000</u>

***Estimated Uses of Funds* \$239,370**

II. FINANCIAL STATEMENTS AND ANALYSIS

Operation Samahan, Inc. Statements of Operations (Unrestricted)

	Period Ending June 30,		
	2013	2012	2011
Unrestricted support and revenue:			
Contributions and fundraising	\$ 6,332	\$ 11,519	\$ 27,426
Interest revenue	3,009	157	3,677
Grants and contracts	834,794	385,307	318,594
Third party billing*	6,516,420	4,781,650	5,054,152
Patient medical fees	345,807	428,014	530,899
Other income	45,492	118,786	164,115
Total unrestricted support and revenue	<u>\$ 7,751,854</u>	<u>\$ 5,725,433</u>	<u>\$ 6,098,863</u>
Expenses:			
Program services:			
Salary, wages & benefits	\$ 4,383,804	\$ 3,807,613	\$ 3,434,084
Bad debt	832,192	330,390	11,472
Consulting	437,629	522,498	574,265
Other	273,785	289,800	206,934
Clinic supplies	232,013	167,094	190,446
Rent	212,840	195,050	150,204
Outside lab services	123,304	75,958	85,321
Depreciation	105,732	100,558	98,960
Outside services - other	97,739	30,957	68,065
Telephone	80,691	68,496	71,991
Utilities	58,012	62,306	51,646
Insurance	54,836	79,879	62,363
Equipment lease	43,672	52,328	61,725
Office supplies	40,510	24,594	32,708
Interest expense	17,807	49,366	46,654
Computer accessories	14,966	12,718	63,822
Total program expenses	<u>7,009,532</u>	<u>5,869,605</u>	<u>5,210,660</u>
Changes in unrestricted net assets	742,322	(144,172)	888,203
Unrestricted net assets at beginning of year	<u>2,745,878</u>	<u>2,890,050</u>	<u>2,001,847</u>
Unrestricted net assets end of year	<u>\$ 3,488,200</u>	<u>\$ 2,745,878</u>	<u>\$ 2,890,050</u>

***Third Party Billing for FYE June 30, 2012**

<u>Payor Source</u>	<u>Percent</u>
Medi-Cal	61.0
Uninsured	26.0
Medicare	10.0
Other (County, State insurance)	2.0
Private insurance	1.0
Total	<u>100.0</u>

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Operation Samahan, Inc.
Balance Sheet

	Period Ending June 30,		
	2013	2012	2011
ASSETS			
Current assets:			
Cash	\$ 1,379,626	\$ 1,248,575	\$ 1,525,464
Contract receivables	857,920	661,766	487,923
Prepaid expenses	48,298	48,629	32,215
Other assets	69,710	39,501	35,077
Total current assets	<u>2,355,554</u>	<u>1,998,471</u>	<u>2,080,679</u>
Property and equipment:			
Land & building	225,416	225,416	225,416
Office equipment	261,004	216,365	198,548
Medical equipment	296,146	296,145	296,145
Building expansion project	938,973	938,973	938,973
Building improvements/fixtures	32,210	30,800	19,776
Office complex	742,672	739,775	739,775
Leasehold improvements	435,913	61,063	61,063
Depreciation	(941,112)	(835,377)	(734,930)
Total property and equipment	<u>1,991,222</u>	<u>1,673,160</u>	<u>1,744,766</u>
Total assets	<u>\$ 4,346,776</u>	<u>\$ 3,671,631</u>	<u>\$ 3,825,445</u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable	20,478	12,091	5,061
Accrued vacation	135,601	120,388	115,300
Deferred revenue	24,300	-	-
Mortgage loan payable, current portion	50,903	114,092	81,165
Total current liabilities	<u>231,282</u>	<u>246,571</u>	<u>201,526</u>
Mortgage loan payable, less current portion	<u>627,294</u>	<u>679,182</u>	<u>733,869</u>
Total liabilities	<u>858,576</u>	<u>925,753</u>	<u>935,395</u>
Net assets	<u>3,488,200</u>	<u>2,745,878</u>	<u>2,890,050</u>
Total liabilities and net assets	<u>\$ 4,346,776</u>	<u>\$ 3,671,631</u>	<u>\$ 3,825,445</u>

Financial Ratios:

	Proforma ^(a)			
	<u>FYE June 30, 2013</u>			
Debt Service Coverage - Operating (x)	5.58	6.56	0.04	8.72
Debt to Unrestricted Net Assets (x)	0.27	0.19	0.29	0.28
Margin (%)		9.58	(2.52)	14.56
Current Ratio (x)		10.18	8.11	10.32

^(a) Recalculates FY 2013 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

OS' income statement appears to exhibit fluctuating operating results during the review period.

During the review period, OS appears to exhibit fluctuating operating results from \$888,203 in FY 2011 to a negative \$144,172 in FY 2012 and rebounding to a strong \$743,322 in FY 2013. According to OS' management, the decline in revenue in FY 2012 was largely due to the clinic transitioning to an electronic medical record system, which decreased provider productivity despite an increased demand for services. OS' strategy to improve operating margins was to streamline operational expenses, subcontract staff and personnel and develop a realistic and manageable budget per clinic, including assigning a compliance officer to oversee budget requirements.

Particular Facts to Note:

- OS appears to have experienced a 35% increase in revenues from \$5.7 million in FY 2012 to \$7.7 million in FY 2013. This increase in revenues is mostly attributed to a sharp increase in third party billing and an influx of renewed and new grants, according to OS' management. The third party billing increased as a result of an enhanced reimbursement rate received from the federal government after a federal audited cost report. In addition, the opening of two satellite clinics increased OS' utilization rate. The new satellite clinics are located in National City and Rancho Penasquitos, CA.
- According to OS' management, the 17% increase in salary, wages and benefits from approximately \$3.4 million in FY 2011 to approximately \$4 million in FY 2013 was due to OS' effort to adjust salaries of its employees based on salary comparison with other Federally Qualified Health Centers in order to be competitive and retain staff. OS also increased the number of staff and providers to accommodate the growing demand for its services.
- Bad debt increased from \$11,472 in FY 2011 to \$832,192 in FY 2013 due to the implementation of a new billing system, which resulted in a disruption of collectibles in FY 2012 and FY 2013, according to OS' management. In addition, the clinic has been serving an increasing number of patients who have chronic medical needs and are unable to pay for services. Currently, OS plans to seek grants and private donations to pay for the uninsured and develop policies and procedures to effectively collect payments from clients.

Financial Discussion – Statement of Financial Position (Balance Sheet)

OS' balance sheet appears to be financially healthy, with a debt service coverage ratio of 6.56x in FY 2013.

With the proposed financing, OS' proforma debt service coverage ratio appears to be a solid 5.58x, suggesting OS has the capacity to meet its new debt obligations. During FY 2013, OS exhibited solid liquidity with a 10.18x current ratio and was supported by significant cash of approximately \$1.4 million, an average of 73 days cash on hand, well above the health industry target of 30 days.

Important Facts to Note:

- OS carries minimal long term debt with debt to unrestricted net assets of 0.27x, which indicates OS is not highly leveraged. As of June 30, 2013, the outstanding long term debt is two existing HELP II loans, one with an outstanding balance of \$357,589 originated in FY 2008 and the other, with an outstanding balance of \$321,882 originated in FY 2012. Upon approval, OS will have a combined outstanding balance of no more than \$902,000 in HELP II loans.

EXHIBIT 1

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

	2013	2012	2011
Totals	23,543 / (68,828)	21,403 / (62,571)	20,712 / (62,417)

EXHIBIT 2
OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding ^(a) As of June 30, 2013</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
-EXISTING LONG-TERM DEBT:			
CHFFA, HELP II Loan 2008	\$ 500,000	\$ 351,449	\$ 357,589
CHFFA, HELP II Loan 2012	350,000	326,695	321,882
- PROPOSED NEW DEBT:			
<i>CHFFA, HELP II Loan</i>			222,000
- TOTAL DEBT		\$ 678,144	\$ 901,471

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

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

OS was founded and incorporated as a nonprofit California corporation in 1973 to help alleviate the health and social problems of the minority and economically disadvantaged communities of San Diego County. OS operates three stand-alone clinics and three satellite clinics in National City, Mira Mesa, and Rancho Penasquitos, CA.

OS' mission is to promote better health and living conditions for all members of the community particularly among the indigent, low-income, uninsured and underserved individuals and families, by providing high quality, affordable and culturally accessible primary health care, health promotion and education, and multi-faceted social services.

Support for OS' mission comes from private paying clients, state and federal reimbursements, private and community foundations, companies who believe in giving back to the community and they provide yearly direct health services to 21,000 individuals, with outreach and education to at least 8,000 people during public neighborhood events.

Licensure, Certification and Accreditation

OS is licensed by the State of California Department of Public Health as a community clinic, and is also licensed to provide dental services at the project site facility in National City, CA.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-283

**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 refinance existing debt and 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, **Operation Samahan, Inc.** (the “Borrower”), a California nonprofit corporation and participating health institution, has applied to the Authority for two loans through the Program, and the application has been reviewed by the staff of the Authority; and

WHEREAS, approval of the loans 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 two loans to the Borrower, which may have separate closing dates, in an amount not to exceed **\$222,000** for a term not to exceed **15 years (5 years for equipment; 15 years for renovation)** for the purpose described in the application filed with the Authority (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. One 5-year fixed rate loan for equipment;
2. One 15-year fixed rate loan for renovations;
3. UCC-1 lien on equipment;
4. Corporate gross revenue pledge;
5. Second lien position (behind existing CHFFA HELP II loan) on property located at 2835 Highland Ave., National City, CA (San Diego County) for the loan for renovation;
6. Verification of Borrower’s funds to close escrow;

7. Executed construction contract acceptable to the Authority;
8. Adequate assurance that the licensing application for the renovated location has been submitted to the appropriate agency;
9. Proof of licensing shall be provided to the Authority within 90 days after the completion of construction;
10. Combined loan to value ratio not to exceed 95%; and
11. A current appraisal of the collateralized property acceptable to the Authority.

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 loans, 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 loans may 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). 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 six months from the date of approval.

Date of Approval: _____