

**CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY**

Applicant: Petaluma Health Center, Inc. (“PHC”) 1179 North McDowell Boulevard Petaluma, CA 94954 Sonoma County	Amount Requested - Construction: \$1,800,000 Loan Term - Construction: 20-year fixed Amount Requested - Equipment: \$200,000 Loan Term - Equipment: 5-year fixed Authority Meeting Date: August 4, 2016 Resolution Number: HII-301
Project Site: 1179 North McDowell Blvd., Petaluma, CA 94954	
Facility Type: Community Clinic, a Federally Qualified Health Center (“FQHC”)	
Eligibility: A community clinic pursuant to Government Code section 15432(d) (6)	
Prior HELP II Borrower: No (Issued CHFFA Series 2010A Bonds in the amount of \$5,865,000)	

Policy Exception Request: Under the current guidelines, the maximum loan amount for a construction/renovation project is \$1.5 million with a 2% interest rate over 20 years. PHC is requesting an exception to the maximum loan amount for a total of \$2 million to build out and equip an unused portion of its current property to expand services. A portion of the loan will be financed for construction with a 20-year term and the other portion will be financed for equipment with a 5-year term. Both loans will have a 2% interest rate. The alternative would be to issue the additional \$500,000 as a portion of the bond refunding that PHC will concurrently finance with the proposed HELP II loan. When compared to the closing costs of the HELP II loan, PHC expects a savings of approximately \$50,000 in bond issuance costs alone.

Background: PHC was founded in 1999 as a 501(c) (3) public benefit corporation in response to the unmet healthcare needs of the residents of Sonoma County. PHC is a FQHC that provides primary medical care and mental health services to the residents of Petaluma, Rohnert Park, Cotati, Penngrove and the surrounding areas. PHC has five sites, including the main clinic and administrative offices at 1179 N. McDowell Blvd. in Petaluma (the “McDowell” facility), a homeless clinic, two school-based health centers, and the Rohnert Park Health Center. In FY 2015, PHC served 23,909 clients.

Uses of Loan Proceeds: Loan proceeds will be used to finance the build out and equipping of an unfinished, but shelled in, 6,500 square-foot section of PHC’s 53,000 square-foot medical facility. PHC is experiencing an increasing need for primary care services, and the current facility is not sufficient to adequately meet the growing demand. The new patient care space will allow PHC to increase capacity and expand access to primary care, urgent care and mental health services for an estimated 6,500 additional medically underserved residents annually.

Financing Structure:

- 20-year, two percent (2%) fixed rate for construction.
- 240 equal monthly payments of approximately \$9,106 (annual payments of approximately \$109,271).
- 5-year, two percent (2%) fixed rate for equipment.
- 60 equal monthly payments of approximately \$3,506 (annual payments of approximately \$42,067).
- UCC-1 lien on equipment purchased.
- Corporate gross revenue pledge.
- Second (2nd) lien position on the property located at 1179 N. McDowell Blvd., Petaluma, CA 94954.
- Executed construction contract.
- Verification of Borrower’s funds to close escrow.
- Combined loan to value ratio not to exceed 95% (estimated combined loan to value ratio of 67%).

Financial Overview: PHC’s income statement appears to exhibit strong results with solid growth in income from operations each year from FY 2013 through FY 2015. PHC appears to exhibit a strong balance sheet with an operating pro-forma debt service coverage ratio of approximately 5.13x, which includes the proposed bond refunding issue.

Continues next page

**CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY**

Petaluma Health Center, Inc.
(Continued)

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II Loan	\$ 2,000,000	Construction	\$ 1,800,000
Borrower Funds	103,000	Equipment	275,000
		Financing Costs	28,000
Total Estimated Sources	<u>\$ 2,103,000</u>	Total Estimated Uses	<u>\$ 2,103,000</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 Insurance Company			
Staff Recommendation: Staff recommends approval of Resolution Number HI-301 for Petaluma Health Center, Inc. in an amount not to exceed \$1,800,000 for a term not to exceed 20 years for construction and an amount not to exceed \$200,000 for a term not to exceed 5 years for equipment, contingent upon Cal-Mortgage consent, and financing terms acceptable to the Authority. Macias Gini & O'Connell LLP, the Authority's financial analyst, concurs with the Authority's staff recommendation.			

I. POLICY EXCEPTION REQUEST:

Under the current guidelines, the maximum loan amount for a construction/renovation project is \$1.5 million with a 2% interest rate over 20 years. PHC is requesting an exception to the maximum loan amount for a total of \$2 million to build-out an unused portion of its current property to expand services. The alternative would be to issue the additional \$500,000 as a portion of the bond refunding that PHC will concurrently finance with the proposed HELP II loan. Issuing the \$500,000 through the bond financing would incur additional costs including Cal-Mortgage fees and expenses, underwriter’s fees, and maintaining a debt service reserve account. When compared to the closing costs of the HELP II loan, PHC expects a savings of approximately \$50,000 in bond issuance costs.

II. PURPOSE OF FINANCING:

PHC issued bonds through CHFFA in 2010 to purchase and renovate a portion of the McDowell facility. PHC is now experiencing an increasing need for primary care services, and the facility is not sufficient to adequately meet the growing demand. PHC seeks to expand access to its patient-centered primary care, urgent care, and mental health services with the expansion of this facility. The expansion will improve access to team-based, patient-centered coordinated care, address the increased demand for primary care, urgent care, and mental health, and continue to reduce barriers to healthcare utilization within the low-income, medically underserved population in PHC’s service area. PHC anticipates the newly expanded facility will increase capacity to provide services for an additional 6,500 patients in the first year and every year thereafter.

Construction **\$1,800,000**

PHC is requesting a HELP II loan to finance the build out of an unfinished, but shelled in, 6,500 square-foot section of PHC’s 53,000 square-foot medical facility. The facility expansion will provide 16 exam rooms, two consultation rooms, a nutrition evaluation room, an imaging suite, a team room for providers and support staff, reception and waiting space and a group acupuncture room. PHC anticipates beginning construction in December 2016 with a completion date of June 2017. Prevailing wages will be paid and the language will be included in the construction contract.

The HELP II loan will be secured by a second (2nd) lien position on the property located at 1179 North McDowell Blvd., Petaluma, CA 94954 as Cal-Mortgage will hold the first lien position through the bond financing. The property value is estimated at \$13,000,000 leading to a combined loan-to-value ratio of approximately 67%. An appraisal acceptable to the Authority will be completed prior to closing.

Equipment..... **275,000**

The equipment will include various furniture, exam tables and vital sign equipment for every exam room, EKG machines, an ultrasound machine, x-ray equipment for the imaging suite, patient zero-gravity chairs for acupuncture, furniture for the team room and consultation and evaluation rooms. PHC will also contribute funds in excess of the loan amount for the purchase of equipment.

Financing Costs..... **28,000**

Authority Fees \$25,000
Title and Escrow Fees 3,000

Total Uses of Funds..... **\$2,103,000**

III. FINANCIAL STATEMENTS AND ANALYSIS:

Petaluma Health Center, Inc.
Statement of Activities
(Unrestricted)

	As of June 30,		
	2015	2014	2013
Revenues and Other Support			
Net patient service revenues*	\$ 20,028,022	\$17,562,997	\$ 15,186,751
Provision for bad debts	(252,439)	(275,075)	(245,407)
Net patient service revenues less provision for bad debts	19,775,583	17,287,922	14,941,344
Grant revenue	2,919,530	1,821,472	1,140,075
Other revenue	2,465,176	1,290,477	1,200,130
Total revenues and other support	<u>25,160,289</u>	<u>20,399,871</u>	<u>17,281,549</u>
Expenditures			
Salaries and benefits	17,096,594	14,116,731	12,404,690
Purchased services	1,356,974	1,120,797	1,034,944
Rents and leases	153,694	115,066	76,316
Medical supplies and drugs	793,616	668,796	596,085
Professional fees	750,045	575,246	481,364
Office supplies	461,213	338,112	286,554
Depreciation	1,001,880	1,048,780	1,082,029
Insurance	136,758	124,321	130,402
Dues and subscriptions	113,592	126,784	105,681
Utilities and communication	294,931	267,837	253,836
Interest	404,603	411,107	411,873
Other expenses	488,949	323,577	240,862
Total expenditures	<u>23,052,849</u>	<u>19,237,154</u>	<u>17,104,636</u>
Excess of revenues and other support over expenditures	2,107,440	1,162,717	176,913
Capital grants and contributions	174,533	19,741	46,939
Change in net assets	2,281,973	1,182,458	223,852
Net assets, beginning of year	<u>13,210,125</u>	<u>12,027,667</u>	<u>11,803,815</u>
Net assets, end of year	<u>\$ 15,492,098</u>	<u>\$13,210,125</u>	<u>\$ 12,027,667</u>

***Net patient service revenues for FYE June 30,**

Payor Source	2015	2014
Medi-Cal	78%	76%
Medicare	11%	11%
Insurance and other third party payers	10%	10%
Private pay patients	1%	3%
ACA	N/A	N/A
Total	100%	100%

Petaluma Health Center, Inc.
Statement of Financial Position
(Unrestricted)

	As of June 30,		
	2015	2014	2013
Assets			
Current Assets			
Cash and cash equivalents	\$ 4,369,095	\$ 5,723,288	\$ 3,876,040
Assets limited as to use, current portion	290,359	302,457	314,555
Patient accounts receivable	2,215,061	1,787,097	1,282,028
Grants and other receivables	1,282,159	535,901	571,360
Inventory	106,545	40,726	25,691
Prepaid expenses and other	458,928	324,012	145,913
Total Current Assets	8,722,147	8,713,481	6,215,587
Assets limited as to use, less current portion	413,733	413,733	413,742
Bond issuances costs, net of accumulated amortization	267,506	278,652	289,798
Property, buildings, and equipment, net of accumulated depreciation	18,654,014	15,103,278	15,133,857
Total Assets	<u>\$ 28,057,400</u>	<u>\$ 24,509,144</u>	<u>\$ 22,052,984</u>
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	\$ 1,403,796	\$ 906,367	\$ 353,831
Accrued expenses	2,041,125	1,124,056	1,513,555
Deferred revenue	550,203	645,770	293,417
Current portion of long-term debt	261,414	252,967	240,276
Line of credit	-	-	-
Estimated amounts due to third-party payers	1,789,706	1,587,969	588,060
Interest payable	24,489	24,800	177,532
Total Current Liabilities	6,070,733	4,541,929	3,166,671
Long - Term Debt less current portion	6,494,569	6,757,090	6,858,646
Total Liabilities	12,565,302	11,299,019	10,025,317
Unrestricted Net Assets	<u>15,492,098</u>	<u>13,210,125</u>	<u>12,027,667</u>
Total Liabilities and Net Assets	<u>\$ 28,057,400</u>	<u>\$ 24,509,144</u>	<u>\$ 22,052,984</u>

	Proforma^(a)			
	FYE June 30, 2015	2015	2014	2013
Debt Service Coverage - Net (x)	5.13	5.61	4.06	3.32
Debt to Unrestricted Net Assets (x)	0.56	0.44	0.53	0.59
Margin (%)		8.38	5.70	1.02
Current Ratio (x)		1.44	1.92	1.96

^(a) Recalculates FY 2015 audited results to include the impact of this proposed financing and includes the proposed bond issuance of \$5,525,000.

Financial Discussion – Statement of Activities (Income Statement)

PHC's income statement appears to exhibit strong results with a solid growth in income from operations each year from FY 2013 through FY 2015, the review period.

PHC experienced solid growth in revenue of 46% from FY 2013 to FY 2015 while expenses increased approximately 35% over the same period. Operating income grew from approximately \$224,000 in FY 2013 to \$1.2 million in FY 2014, and then to \$2.3 million in FY 2015. According to PHC's management, PHC has experienced substantial growth in patient visits with the opening of the Rohnert Park Health Center facility ("RPHC") in calendar year ("CY") 2015, the San Antonio High school-based health center in CY2013, and the McDowell facility in CY2011. RPHC is a 35,000 square foot facility of leased useable space that houses two medical teams, provides expanded mental health services and added 15 dental chairs. In FY 2013, dental services increased 31% at the McDowell facility. Patient visits increased 18% in FY 2013, and then increased another 13% in FY 2014. According to PHC's management, improved Medi-Cal reimbursement rates beginning in FY 2014 also contributed to the growing revenues and margins.

Particular Facts to Note:

- Grant revenue increased 156% from approximately \$1.1 million in FY 2013 to approximately \$2.9 million in FY 2015. According to PHC's management, due to the implementation of the Affordable Care Act, PHC has experienced an increase in utilization at all of its facilities, which led to a corresponding increase in PHC's Federal 330 Grant Program. The Federal 330 Grant Program provides PHC funding for treating uninsured patients. In addition, PHC continues to maximize its grant revenues through the utilization of other grant programs, including Cal-Fresh, Tides, and Blue Shield of California Foundation.
- Other revenue increased 105% from approximately \$1.2 million in FY 2013 to approximately \$2.5 million in FY 2015. According to PHC's management, the increase was due to a growth in patient visits and an ongoing effort to qualify for quality improvement performance incentives and bonuses for cost savings. The quality improvement programs are recognized by Medi-Cal and measured by the Redwood Communities Health Coalition.
- Salaries and benefits increased from approximately \$12.4 million in FY 2013 to approximately \$17.1 million in FY 2015. According to PHC's management, the increase was due to the opening of RPHC and the additional high school based clinics. PHC increased its number of employees from 155 in FY 2013 to 214 in FY 2015.
- Purchased services increased from approximately \$1.0 million in FY 2013 to approximately \$1.4 million in FY 2015, an increase of approximately 31%. According to PHC's management, the increase was due to the significant growth of information technology and security staff required to operate a newly implemented Electronic Medical Records System.

Financial Discussion – Statement of Financial Position (Balance Sheet)

PHC appears to exhibit a strong balance sheet with an operating pro-forma debt service coverage ratio of 5.13x.

PHC appears to exhibit a strong balance sheet due to the construction and opening of the new RPHC. According to PHC's management, cash and cash equivalents decreased due to construction costs for tenant improvements and the purchase of equipment and supplies. Accounts receivable increased as Medi-Cal and Medicare claims were initially slow to be processed after the opening of the RPHC, and accounts payable also increased due to initial startup costs. PHC has demonstrated a strong ability to service its debt with an operating debt service coverage ratio of 3.32x, 4.06x, and 5.61x in fiscal years 2013, 2014, and 2015, respectively. With the proposed new HELP II loan and the bond refunding, PHC's pro-forma debt service coverage ratio appears to stay strong at approximately 5.13x, indicating PHC appears to be able to manage the additional debt. PHC's has steadily decreased its debt load as its debt-to-unrestricted net assets ratio has decreased from 0.59x in FY 2013 to 0.44x in FY 2015. With the new \$2 million HELP II loan and the \$5,525,000 bond refunding, PHC's pro-forma debt-to-unrestricted net assets ratio increases to 0.56x, as would be expected with the issuance of new debt.

Particular Facts to Note:

- Accrued expenses fluctuated from approximately \$1.5 million in FY 2013 to approximately \$1.1 million in FY 2014, and then to approximately \$2 million in FY 2015. According to PHC's management, this fluctuation was due to the payroll cycle, which builds accruals on a roughly quarterly basis and then clears them when the accrual period becomes shorter. Payroll payables can reach as much as \$750,000 in any period, thus creating swings in accrued expenses from year to year.
- Estimated amounts due to third-party payers increased 170% from FY 2013 to FY 2014, starting at approximately \$588,000 in FY 2013 to approximately \$1.6 million in FY 2014. According to PHC's management, the increase was due to overpayment of the Prospective Payment System ("PPS"), a method of reimbursement in which Medicare payment is made based on a predetermined, fixed amount. The overpayment is later cleared with the PPS reconciliation. Many community health clinics face challenges with the current reimbursement systems that are creating greater liabilities due to an increasing number of wrap-around payments and dual Medi-Cal/Medicare payments.

EXHIBIT 1

UTILIZATION STATISTICS

Clients Served / (Patient Visits)

**Petaluma Health Center
Fiscal Year Ended June 30,**

2015	2014	2013
23,909 / (117,636)	22,664 / (112,939)	21,182 / (100,120)

EXHIBIT 2
OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding As of June 30, 2015^(a)</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
<i>-EXISTING LONG-TERM DEBT:</i>			
CHFFA Series 2010A Insured Revenue Bonds	\$ 5,865,000	\$ 5,535,000	\$ -
Petaluma Health Care District Subordinated Loan (2013)	1,700,000	1,220,983	1,220,983
<i>- PROPOSED NEW DEBT:</i>			
<i>CHFFA HELP II Loan (2016)</i>			2,000,000
<i>CHFFA Series 2016A Insured Revenue Bonds</i>			5,525,000
<i>- TOTAL DEBT</i>		<u>\$ 6,755,983</u>	<u>\$ 8,745,983</u>

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

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

PHC was founded in 1999 as a 501(c)(3) public benefit corporation in response to the unmet healthcare needs of the residents of Sonoma County. PHC is a Federally Qualified Health Center (FQHC) that provides primary medical care and mental health services to residents of Petaluma, Rohnert Park, Cotati, Penngrove and the surrounding areas. PHC has five sites, including the main clinic and administrative offices at 1179 N. McDowell Blvd. in Petaluma, a homeless clinic, two school-based health centers, and the Rohnert Park Health Center.

PHC's mission is to provide high quality health care with access for all in Southern Sonoma County through collaborative, innovative programs, services and referral resources to meet the economic needs of the entire community. PHC's vision is to foster a healthy community where all individuals reach their highest potential for physical, mental and spiritual well-being.

PHC's service area population consists of 535,706 individuals, of which about 27 percent (149,800 individuals) live at or below 200 percent of the Federal Poverty Level (FPL). This group makes up PHC's target population, which struggles with high levels of poverty and unemployment, and low levels of educational attainment and health insurance coverage. According to PHC's 2014 Uniform Data System report, nearly 95 percent of PHC patients live at or below 200 percent of the FPL, with slightly over 63 percent of those patients living at or below 100 percent of FPL. Approximately 40 percent of PHC patients are uninsured, a decrease from approximately 49 percent in 2013. PHC's service area experiences a number of health disparities, with higher than average rates of heart disease, diabetes, cancer, stroke, asthma, mental illness, low birth weight, births to teen mothers, and tooth decay.

Licensure, Certification and Accreditation

PHC is licensed by the State of California Department of Public Health to operate and maintain community clinics. In August 2015, PHC earned Joint Commission Accreditation in Ambulatory Care, Behavioral Care, and Patient-Centered Medical Home Care.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-301

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, **Petaluma Health Center** (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; 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 a loan to the Borrower in an amount not to exceed **\$1,800,000** for a term not to exceed **20 years** for the purpose of construction and an amount not to exceed **\$200,000** for a term not to exceed **5 years** for the purpose of purchasing equipment as 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. 20-year, two percent (2%) fixed rate for construction;
2. 5-year, two percent (2%) fixed rate for equipment;
3. Second (2nd) lien position on property located at 1179 North McDowell Boulevard, Petaluma, CA 94954;
4. UCC-1 lien on equipment purchased;
5. A current appraisal acceptable to Authority staff;
6. Executed construction contract;
7. Combined loan to value ratio not to exceed 95%;
8. Corporate gross revenue pledge;
9. Verification of Borrower’s funds to close escrow; and
10. Cal-Mortgage consent.

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 12 months from the date of approval.

Date of Approval: _____