CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY

Applicant:	Mountain Communities Healthcare District dba Trinity Hospital ("Trinity") 60 Easter Avenue Weaverville, CA 96093 Trinity County	**Amount Requested:**	$1,000,000
		Requested Loan Term:	5-year fixed
		Authority Meeting Date:	April 30, 2015
		Resolution Number:	HII-292
Project Site:	60 Easter Avenue, Weaverville, CA 96093		
Facility Types:	General Acute Care Hospital and Skilled Nursing Unit		
Eligibility:	Government Code sections 15432(d)(1), 15432(d)(3), and 15432(d)(6)		
Prior HELP II Borrower:	No		

Background: Mountain Health Communities Healthcare District dba Trinity Hospital ("Trinity") is a non-profit public entity formed in 2007 as an independent special district to meet the needs of the entire rural community. It owns and operates the Trinity hospital, a 51-bed facility, which provides acute care, skilled nursing care, 24-hour emergency care, surgery and other inpatient and outpatient services. It also operates two full service rural health designated walk-in clinics and a dental clinic. The hospital has 25 general acute care beds, 10 swing beds[1], and 26 skilled nursing beds. Trinity serves the entire county's population of approximately 13,526 and had approximately 22,488 client visits in FY 2014.

Use of Loan Proceeds: Loan proceeds along with Trinity's internal funds will be used to refinance a private United Healthcare loan, which was used to finance an electronic health record ("EHR") system. This loan will eliminate three balloon payments due on the EHR loan and will result in a rebate of $127,000 in addition to interest rate savings of approximately $32,800 per month.

Financing Structure:

- First lien on the property located at 60 Easter Avenue, Weaverville, CA 96093.
- 5-year fixed rate loan with 60 equal monthly payments of approximately $17,969 (annual payments of $215,624).
- A current appraisal that is acceptable to the Authority (waived if Trinity provides a clean title to the property).
- Corporate gross revenue pledge.
- Loan to value ratio not to exceed 95% (estimated loan to value ratio is 23%).
- Verification of borrower funds to close escrow.

Financial Overview: Trinity's income statement appears to exhibit significantly improving results over the review period. Trinity's financial strength appears sound with a proforma debt service coverage ratio of 3.61x.

Estimated Sources of Funds:		**Estimated Uses of Funds:**	
HELP II loan	$ 1,000,000	Refinance EHR Loan	$ 1,000,000
Borrower funds*	297,562	Balance on EHR loan	282,062
		Financing costs	15,500
Total Estimated Sources	$ 1,297,562	**Total Estimated Uses**	$ 1,297,562

* This amount to be paid from the $426,795 shown under "Cash and cash equivalents" on Balance Sheet for FY 2014.

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: *(Included for the purpose of discerning conflicts of interest)*
United Healthcare Redding Commercial Bank Trinity Title Company

Staff Recommendation: Staff recommends approval of Resolution Number HII-292 for Mountain Communities Healthcare District dba Trinity Hospital in an amount not to exceed $1,000,000 for a term not to exceed 5 years, 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.

[1] Swing beds can be used by Rural Hospitals and Critical Access Hospitals as needed for either acute or skilled nursing care, in an effort to increase access and maximize the efficiency of operations.

(BMS)

I. PURPOSE OF FINANCING:

Trinity is requesting a HELP II loan to refinance a debt obligation that was used to purchase an electronic health record system (EHR) through an equipment loan with United Healthcare. The refinance will allow Trinity to avoid three large balloon payments on the United Healthcare equipment loan, obtain $127,000 in rebate savings, and realize a $32,800 per month in savings resulting from the reduced interest rate with the proposed HELP II loan. The remaining balance of the debt obligation in an amount of approximately $280,000 will be paid off using Trinity's internal funds.

Refinance EHR Loan $1,282,062

In December 2011, Trinity installed and financed an Electronic Health Record (EHR) system throughout its hospital and clinics. Trinity financed the system with United Healthcare for $1.7 million at a 3.75% interest rate, which matures in 2017. This financing requires three significant balloon payments of $689,430, $587,651, and $136,484 respectively, over the next three years. If Trinity pays off the loan in full by June 2015, it will receive a $127,000 rebate. By paying the loan off in full with internal funds along with CHFFA funds, this refinancing will provide a $159,800 in savings to Trinity.

The proposed HELP II loan will be secured by a first lien on the property located at 60 Easter Avenue, Weaverville, CA 96093. This facility is a 34,468 square foot, one-story medical office building. The requirement to provide an appraisal acceptable to the Authority completed before closing will be waived if Trinity provides evidence of clean title to the property. According to Trinity's management, the estimated value of the property is $4.3 million, leading to a loan to value ratio of 23%.

Financing Costs 15,500

Authority Fees	$12,500
Title and Escrow Fees	3,000

Total Uses of Funds $1,297,562

II. FINANCIAL STATEMENTS AND ANALYSIS

Mountain Communities Healthcare District
Statement of Operations

	Period Ending December 31,		
	2014	**2013**	**2012**
Operating revenues			
Net patient service revenue*	$ 11,684,463	$ 10,938,584	$ 11,280,727
Capitation revenue	467,744	59,834	-
Other operating revenue	1,018,777	571,498	477,011
Total operating revenues	13,170,984	11,569,916	11,757,738
Operating Expenses			
Salaries and wages	6,278,007	6,151,565	7,143,620
Professional fees	2,128,896	2,368,811	1,968,138
Employee benefits	1,481,037	1,412,255	1,495,206
Supplies	1,330,921	1,009,585	1,362,531
Depreciation and amortization	1,170,846	1,156,180	618,062
Purchased services	887,836	915,296	868,990
Utilities	322,416	311,183	282,708
Other operating expenses	169,863	209,756	318,429
Repairs and maintenance	142,891	135,330	66,922
Insurance	139,548	131,402	129,046
Lease and rental	75,274	83,108	124,904
Total operating expenses	14,127,535	13,884,471	14,378,556
Operating loss	(956,551)	(2,314,555)	(2,620,818)
Non-operating revenues/(expenses)			
District tax revenue	862,367	867,091	872,547
Grant revenue	158,395	421,814	220,801
Interest expense	(92,075)	(126,737)	(47,549)
Total non-operating revenues/(expenses)	928,687	1,162,168	1,045,799
Excess of revenues over expenses	(27,864)	(1,152,387)	(1,575,019)
Intergovernmental transfers	-	(266,994)	(313,613)
Decrease in net assets	(27,864)	(1,419,381)	(1,888,632)
Net position at beginning of year	3,465,175	4,884,556	6,773,188
Net position at end of year	$ 3,437,311	$ 3,465,175	$ 4,884,556

***Net patient service revenue for FY 2014**

Payor Source	**Percent**
Medicare	75.0
Managed Medi-Cal	16.0
Insurance	6.0
Self-pay	2.0
Medi-Cal	1.0
Total	100.0

Mountain Communities Healthcare District

Statement of Financial Position

	Period Ending December 31,		
	2014	**2013**	**2012**
Assets			
Current assets:			
Cash and cash equivalents	$ 426,795	$ 222,317	$ 546,947
Patient accounts receivable, net of allowances	1,387,429	1,761,689	2,605,252
Other receivables	829,287	741,807	738,924
Estimated third party settlements, net	219,209	-	195,451
Supplies	151,434	159,487	220,225
Prepaid expenses and deposits	186,522	215,333	140,807
Total current assets	3,200,676	3,100,633	4,447,606
Assets limited as to use	35,072	88,323	7,075
Capital assets, net of accumulated depreciation	5,030,616	5,951,726	6,573,447
Total assets	$ 8,266,364	$ 9,140,682	$ 11,028,128
Liabilities and net position			
Current liabilities			
Line of credit	$ 301,150	$ 436,374	$ 431,238
Current maturities of debt borrowing	689,430	802,436	517,148
Accounts payable and accrued expenses	1,704,836	1,112,099	1,715,133
Accrued payroll and related liabilities	580,094	500,152	612,729
Estimated third party settlements, net	-	277,200	-
Deferred revenue	829,408	1,307,851	793,064
Total current liabilities	4,104,918	4,436,112	4,069,312
Debt borrowings, net of current maturities	724,135	1,239,395	2,074,260
Total liabilities	4,829,053	5,675,507	6,143,572
Net position			
Invested in capital assets, net of related debt	3,617,051	4,011,776	4,473,039
Unrestricted	(179,740)	(546,601)	411,517
Total net position	3,437,311	3,465,175	4,884,556
Total liabilities and net position	$ 8,266,364	$ 9,140,682	$ 11,028,128

Financial Ratios:

	Proforma [(a)]			
	FYE December 31, 2014			
Debt Service Coverage - Net (x)	3.61	1.38	0.20	(1.60)
Debt to Unrestricted Net Assets (x)	0.33	0.41	0.59	0.53
Margin (%)		(0.20)	(8.96)	(12.26)
Current Ratio (x)		0.78	0.70	1.09

[(a)] Recalculates FY 2014 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities

Trinity's income statement appears to exhibit significantly improving results over the review period.

Trinity's financial performance appears to improve significantly, with an increase in net assets from approximately a negative $1.8 million in FY 2012 to approximately a negative $28,000 in FY 2014. According to Trinity's management, this increase was a result of a one-time high depreciation expense of a new EHR system.

Particular Facts to Note:

- Trinity has undergone turnover several times in the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) positions, which resulted in changing directions for the facility. At the end of FY 2014, a new CEO was hired and started working on key business development initiatives to appropriately improve swing bed utilization, and to identify and provide billable preventative healthcare services as a new source of revenue.

- According to Trinity's management, other operating revenue fluctuates from approximately $477,000 in FY 2012 to $1 million in FY 2014, due to the recording of Meaningful Use[2] payments from Medicare for the implementation of the EHR system.

- As indicated by Trinity's management, depreciation and amortization increased significantly from $618,062 in FY 2012 to $1,174,846 in FY 2014 mainly due to the installation of the EHR system and the recording of Meaningful Use payments from Medicare being matched up to the depreciation expense on the EHR system.

- According to Trinity's management, operating expenses have stayed relatively flat, only growing with inflation, with an overall increase of 1.75% from $13.9 million in FY 2013 to $14.1 million in FY 2014. The expenses are closely monitored, including payroll, in order to drive efficiency in cost.

[2] Achieving Meaningful Use means using certified EHR technology to improve quality, safety, efficiency, and reduce health disparities. It is intended to improve care coordination, population and public health. The successful installation of a system like this is now a national requirement for hospitals and physicians.

Financial Discussion – Statement of Financial Position

Trinity's financial strength appears solid with a proforma debt service coverage ratio of 3.61x.

Trinity's total unrestricted net assets appear to have fluctuated notably from $411,517 in FY 2012 to a negative $546,604 in FY 2013 and to a negative $179,740 in FY 2014. According to Trinity's management, the changes in unrestricted net assets reflect the financial challenges during the review period, but Trinity appears to be on a track of steady improvement. The main challenges were a decline in inpatient volume and improper disposition of patients for observation, inpatient or swing bed utilization. Trinity is trying to compensate with aggressive outreach, lots of training, and close management of new revenues and expenses. The proforma debt service coverage ratio is a solid 3.61x with this proposed financing, indicating Trinity should likely be able to repay the HELP II loan.

Particular Facts to Note:

- Cash and cash equivalents declined from $546,947 in FY 2012 to $426,795 in FY 2014 mainly due to normal monthly fluctuations and timing of incoming and outgoing payments. According to Trinity's management, while cash reserves remain tight on a monthly basis (12 days cash on hand), the new hospital leadership is monitoring daily cash flow closely, and is determined to make sure that Trinity fulfills the community needs as the provider of choice for healthcare services.

- Assets limited as to use are comprised of assets held by Trinity in trust accounts for current patients, scholarship fund and assets segregated and restricted by debt agreements, which fluctuated from $7,075 in FY 2012 to $88,323 in FY 2013 and to $35,072 in FY 2014 mainly due to scholarship fund contributions received.

- While cash remains tight, evidence of better billing and collections outcomes can be seen in the reduction of accounts receivables from approximately $2.6 million in FY 2012 to approximately $1.4 million in FY 2014. Meanwhile, accounts payable remain stable at approximately $1.7 million in FY 2014 as it was in FY 2012. According to Trinity's management, the accounts payable situation will improve soon with expected revenues from various Intergovernmental Transfer funds potentially increasing the cash position by a net of $1 million during FY 2015, in addition to cash savings from refinancing debt, and expected growth in the business. Trinity's new CFO's goal is to advance service and financial growth throughout the organization, with a current focus on improving Swing Bed utilization.

EXHIBIT 1

UTILIZATION STATISTICS

Clients Served / (Patients Visits)
for Fiscal Year Ended December 31,

	2014	2013	2012
Totals	**13,526 / (22,488)**	**13,526 / (21,437)**	**13,526 / (23,287)**

EXHIBIT 2

OUTSTANDING DEBT

Date Issued	Original Amount	Amount Outstanding [(a)] As of December 31, 2014	Estimated Amount Outstanding after Proposed Financing
-EXISTING LONG-TERM DEBT:			
United Healthcare - December 2011	$ 1,700,000	$ 1,290,546	$ -
Redding Bank of Commerce - Bank note	350,000	102,151	102,151
- PROPOSED NEW DEBT:			
CHFFA, HELP II Loan			***1,000,000***
- TOTAL DEBT		**$ 1,392,697**	**$ 1,102,151**

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

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

Mountain Communities Healthcare District dba Trinity Hospital ("Trinity") is a non-profit public entity formed in 2007 as an independent special district to meet the needs of the entirely rural community. The hospital facility was donated to Trinity by Trinity County, who was the former owner and operator of the hospital, in June 2007. Trinity hospital is a critical access hospital[3] with 25 general acute care beds, 10 swing beds, and 26-bed skilled nursing unit. Trinity also operates a dental clinic and two full service rural health designated walk-in clinics located in Weaverville and Hayfork.

The mission of Trinity is to ensure availability of and access to emergency medical, primary, and preventive healthcare, delivered with high quality and attention to patient safety in a cost-effective and fiscally responsible manner to the people in the communities they serve. The services Trinity provides are inpatient acute care, skilled nursing, emergency services, general surgical procedures, endoscopies, colonoscopies, laboratory, diagnostic imaging, X-ray computed tomography, and ultrasound, physical therapy, telemedicine and home health.

Trinity as a public entity was approved by the voters residing in Trinity County in November 2006 and began operations in January 2007. It is governed by a Board of Directors comprised of five members, elected from within the healthcare district to specified terms of office.

Licensure, Certification and Accreditation

Trinity is licensed by the California Department of Public Health (CDPH) to operate and maintain a general acute care hospital, which is located at 60 Easter Avenue, Weaverville, CA 96093. It is also licensed by the CDPH to operate a dental and two rural health clinics.

[3] Critical Access Hospital is a hospital certified under a set of Medicare Conditions of Participation, which are structured differently than for acute care hospitals. Some of the requirements include: no more than 25 inpatient beds, maintaining an average length of stay of no more than 96 hours for acute inpatient care, offering 24hours, 7-day-a-week emergency care, and being located in a rural area, at least a 35 mile drive away from any other hospital.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-292

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, **Mountain Communities Healthcare District dba Trinity Hospital** (the "Borrower"), a California district hospital 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 **$1,000,000** for a term not to exceed **5 years** 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. 5-year fixed rate loan;

2. First lien position on the property located at 60 Easter Avenue, Weaverville, CA 96093;

3. Corporate gross revenue pledge;

4. Verification of Borrower's funds to close escrow;

5. A current appraisal that is acceptable to Authority staff (waived by the Authority if the Borrower provides evidence of clean title to the property); and

6. Loan to value ratio not to exceed 95%.

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 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: _____