**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**
**THE HELP II PROGRAM**
**EXECUTIVE SUMMARY**

**Applicant:** Seneca Healthcare District ("Seneca")
130 Brentwood Drive
Chester, California, 96129
Plumas County

**Amount Requested:** $750,000
**Requested Loan Term:** 15 years
**Date Requested:** March 25, 2010
**Resolution Number:** HII-247

**Project Site:** 199 Reynolds Road, Chester, California 96020 (Plumas County)
**Facility Type:** General Acute Care Hospital
**Prior HELP II Borrower:** No (Prior Medi-Cal loan bridge program recipient)

**Background:** Established in 1952 for the residents of Plumas County, Seneca operates three facilities including acute care, skilled nursing and a rural health clinic. Revenues for this organization are derived from Medicare, Medi-Cal, Health Maintenance Organizations (HMOs), Preferred Provider Organizations (PPO's) and various tax revenues.

**Uses of Loan Proceeds:** Loan proceeds will be used to refinance a portion of an existing variable rate loan, which currently has a balance of approximately $920,000. The refinance of this loan will reduce the variable interest rate from 6.5% to 3%, resulting in a monthly savings of approximately $11,000.

**Financing Structure**

- 15-year fixed rate loan. 180 equal monthly payments of approximately $5,179 (yearly payments of approximately $62,148)
- First (1st) lien position on the property located at 199 Reynolds Road, Chester, California 96020
- A current appraisal of the collateralized property acceptable to the Authority
- Loan to value ratio not to exceed 95% (estimated loan to value ratio of 33%).
- Corporate gross revenue pledge.

**Financial Overview:** Seneca's income statement appears to exhibit an improvement in operating results during CHFFA's review period. The proforma debt service coverage ratio is a sound 3.56x, indicating Seneca should be able to repay the proposed HELP II loan.

**Parties of Interest:**
Plumas Bank
Cal-Sierra Title Company
*(Included for the purpose of discerning Conflicts of Interest)*

| **Sources of Funds** | | **Uses of Funds** | |
|---|---|---|---|
| HELP II Loan, (1st) | $750,000 | Refinance loan | $920,000 |
| Plumas Bank, (2nd) | 132,500 | Financing costs | 11,375 |
| Borrower Funds | 37,500 | Total Uses | $931,375 |
| Loan Fees | 11,375 | | |
| Total Sources | $931,375 | | |

**Legal Review:** No information was disclosed to question the financial viability or legal integrity of the Applicant.

**Staff Recommendation:** Staff recommends approval of Resolution Number HII-247 for Seneca Healthcare District in an amount not to exceed $750,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority. Macias Gini & O'Connell, LLP., the Authority's financial analyst, has reviewed all relevant financial documentation submitted by Seneca and has advised of its concurrence with the Authority's staff recommendations.

**STAFF SUMMARY AND RECOMMENDATION**
**THE HELP II PROGRAM**
March 25, 2010
Seneca Healthcare District ("Seneca")
Resolution Number: HII-247

**I. PURPOSE OF FINANCING:** Seneca plans to refinance an existing loan in order to lower its interest rate from an existing 6.5% to 3%. According to the borrower, this refinancing will enable Seneca to increase its cash flow and redirect the cost savings toward improvement of services and projects.

***Refinance loan with Plumas Bank*** ..... ***$ 920,000***

Seneca intends to refinance an existing loan of $920,000 with Plumas Bank. The original loan was obtained in August 1995 and was used for the construction of the current Seneca location at 199 Reynolds Road, Chester, California 96020. This loan has a current variable interest rate of 6.5% with a monthly payment of $16,207 and is secured by the aforementioned real property which includes an 18,000 square foot building. The facility is used to provide services for general acute care and skilled nursing for 26 adults and is licensed as a general acute care hospital.

The refinance of this existing loan will reduce the variable interest rate as mentioned above, saving Seneca approximately $11,000 in monthly payments. In addition, this refinance will provide Seneca a stable interest rate, eliminating the uncertainty of a variable interest rate loan.

According to Seneca's management, the estimated value of the facility is $2.25 million. Seneca is in the process of having the property appraised. CHFFA will close this loan, contingent upon receipt of a full appraisal demonstrating satisfaction of the Authority's maximum loan to value ratio of 95%.

As part of the transaction, Plumas Bank will hold a second ($2^{nd}$) lien position for the balance of the loan with the current terms, which includes a variable interest rate (presently at 6.5%) that does not exceed more than .50% over the Index Rate (Plumas Bank Base Rate) or an increase/decrease more than 1%. The loan is due to mature August, 2015 and will be paid in full.

| | | |
|---|---|---|
| ***Financing Costs*** ..... | | ***11,375*** |
| Authority Fees..... | $9,375 | |
| Title and Escrow ..... | 2,000 | |
| ***Total Uses of Funds*** ..... | | ***$ 931,375*** |

## II. FINANCIAL STATEMENTS AND ANALYSIS

**Seneca Healthcare District**
**Statement of Activities**

| | For the Year Ended June 30, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| **Revenue and Support:** | | | |
| Net patient revenue | $ 11,831,044 | $ 11,488,473 | $ 11,321,501 |
| Other operating revenue | 99,744 | 113,445 | 146,530 |
| Total revenue and support | 11,930,788 | 11,601,918 | 11,468,031 |
| **Operating Expenses:** | | | |
| Salaries and wages | 4,033,169 | 4,073,178 | 3,967,722 |
| Employee benefits | 1,023,222 | 1,058,898 | 1,145,705 |
| Professional fees | 3,213,157 | 2,809,228 | 2,744,771 |
| Purchased services | 1,064,945 | 1,030,075 | 813,945 |
| Supplies | 797,981 | 815,718 | 851,767 |
| Rapairs and maintenance | 174,206 | 192,043 | 108,449 |
| Utilities and telephone | 229,360 | 247,980 | 281,181 |
| Rentals and leases | 148,575 | 142,398 | 153,903 |
| Insurance | 100,816 | 105,362 | 122,490 |
| Depreciation and amortization | 400,838 | 426,802 | 462,717 |
| Provision for bad debts | 678,807 | 1,144,320 | 1,468,880 |
| Other operating expenses | 105,564 | 89,238 | 109,292 |
| Total operating expenses | 11,970,640 | 12,135,240 | 12,230,822 |
| Operating loss | (39,852) | (533,322) | (762,791) |
| **Non-operating revenue (expenses):** | | | |
| District tax revenues | 568,941 | 1,037,693 | 979,393 |
| Non-capital grant revenues | 1,628 | 675 | 9,401 |
| Investment income | 12,134 | 13,151 | 9,944 |
| Interest expenses | (138,889) | (174,692) | (187,952) |
| Total non-operating revenue (expenses) | 443,814 | 876,827 | 810,786 |
| Excess of revenue (expenses) | 403,962 | 343,505 | 47,995 |
| Capital grants and contributions | 180,523 | 23,580 | 75,246 |
| **Increase in net assets** | 584,485 | 367,085 | 123,241 |
| Net assets, beginning of year | 2,946,565 | 2,579,480 | 2,456,239 |
| Net assets, end of year | $ 3,531,050 | $ 2,946,565 | $ 2,579,480 |

**Seneca Healthcare District**
**Financial Position**

| | As of June 30, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| **ASSETS** | | | |
| **Current Assets:** | | | |
| Cash and cash equivalents | $ 128,022 | $ 116,229 | $ 81,236 |
| Patient accounts receivable, net of allowances | 2,368,766 | 2,175,453 | 2,373,919 |
| Other receivables | 56,136 | 77,270 | 122,841 |
| Estimated third party payor settlements | 150,778 | 251,512 | - |
| Supplies | 291,371 | 277,591 | 267,849 |
| Prepaid expenses and deposits | 5,610 | 10,415 | 17,250 |
| Total current assets | 3,000,683 | 2,908,470 | 2,863,095 |
| Assets limited as to use | 160,630 | 150,418 | 148,931 |
| Capital assets, net of accumulated depreciation | 3,163,053 | 3,171,859 | 3,417,073 |
| Other assets | 16,497 | 19,068 | 21,639 |
| Total assets | 6,340,863 | 6,249,815 | 6,450,738 |
| **LIABILITIES AND NET ASSETS:** | | | |
| Current liabilities: | | | |
| Current maturities of long-term debt | $ 299,133 | $ 309,264 | $ 310,593 |
| Accounts payable and accrued expenses | 933,801 | 1,180,577 | 1,461,856 |
| Accrued payroll and related liabilities | 317,173 | 243,856 | 249,444 |
| Estimated third party payor settlements | - | - | 82,703 |
| Total current liabilities | 1,550,107 | 1,733,697 | 2,104,596 |
| Long-term debt, net of current maturities | 1,259,706 | 1,569,553 | 1,766,662 |
| Total liabilities | 2,809,813 | 3,303,250 | 3,871,258 |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 1,604,214 | 1,293,042 | 1,339,818 |
| Unrestricted | 1,926,836 | 1,653,523 | 1,239,662 |
| Total net assets | 3,531,050 | 2,946,565 | 2,579,480 |
| **TOTAL LIABILITIES AND NET ASSETS** | $6,340,863 | $6,249,815 | $6,450,738 |

| Financial Ratios: | Proforma (a) FYE June 30, 2009 | 2009 | 2008 | 2007 |
|---|---|---|---|---|
| Debt service coverage (x) | 3.56 | 2.51 | 2.00 | 1.55 |
| Debt/Unrestricted Net Assets (x) | 0.67 | 0.81 | 1.14 | 1.68 |
| Margin (%) | | 3.12 | 2.61 | 0.23 |
| Current Ratio (x) | | 1.94 | 1.68 | 1.36 |

(a) Recalculates FY 2009 audited results to include the impact of this proposed financing.

**Financial Discussion:**

**Seneca's income statement appears to exhibit improved operating results during the review period.**

During the review period, net assets appear to have increased from approximately $123,000 in FY 2007 to $584,000 in FY 2009. According to the borrower, this increase is a result of higher patient revenues combined with cost containment measures implemented by Seneca.

*Particular Facts to Note:*

- Net patient revenue (includes Medicare, Medi-Cal, HMOs and PPOs constitutes of approximately 99% of Seneca's revenues. Other operating revenue, (which consists of revenue from non patient food sales, medical record copy fees, collection agency recoveries, physician rent and health fairs) experienced a decrease from FY 2007 to 2009. According to the borrower, this reduction was due to a decrease in revenue from collection agencies and physicians rent as well as an absence of a health fair in FY 2008. Seneca also experienced a decrease in district revenue tax due to the expiration of a special assessment tax in June 2008. Professional fees increased by 17% due to additional services offered in orthopedics and pain management beginning in December 2009.

- According to the borrower, Seneca has received revenues derived from two separate county taxes including perpetuity property tax and a special assessment property tax, each worth approximately $500,000 annually. The special assessment property tax was a 5-year tax that expired during FY 2008/2009 year, but Seneca will continue to receive the perpetuity property tax. According to Seneca during the FY 2008/2009 year, Seneca did not receive the special assessment property tax and maintained operations adequately.

- Seneca's patient visits have modestly declined while revenues have gradually increased. According to the borrower, Seneca was certified as a Critical Access Hospital in September 2007. Overall, this has helped with revenue and cash flow for Medicare patients. Due to an expansion of services, total inpatient volumes have increased from FY 2007 to FY 2009 by 12.5% or 105 patient days. The combination of both has increased Seneca's Medicare Net Revenue by approximately $500,000.

- According to the borrower, in recent years Seneca has improved its cash collection process, collecting 13% more cash or $1,325,522. Through January FY 2010, projected total cash is about $12 million. After expenses, this has allowed Seneca to reduce their Accounts Payable by 45% or $661,293. Seneca's long term Accounts Payable goal is $650k, which they anticipate reaching by June 2010. Once the Account Payable goal is met, Seneca plans to focus on restoring cash reserves. In addition, Seneca has deposited an additional $35,000 in their cash reserves, which is a board restricted account. Seneca also plans on restoring their cash reserves shortly through their increased business due to an expansion in services.

**Seneca's financial strength appears sound with a proforma debt service coverage ratio of 3.56x.**

Seneca's cash position has increased from approximately $81,000 in FY 2007 to $128,000 in FY 2009. This increase was a result of a one-time cash donation received in 2009 for the purchase of medical equipment. Seneca's proforma debt-to-unrestricted net assets ratio is an acceptable .67x, while Seneca maintains adequate liquidity with a current ratio of 1.94x.

The existing debt service coverage ratio is 2.51x and the proforma debt service coverage ratio improves to 3.56x, indicating Seneca should be able to repay the HELP II loan.

## III. UTILIZATION STATISTICS

**Patient Visits**
**Fiscal Year Ended June 30,**

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| **Totals** | 28,576 | 30,556 | 33,315 |

## IV. ORGANIZATION

**Background**
Seneca Healthcare District was established in 1952 to meet the healthcare needs of the Plumas area residents. The agency is governed by a volunteer Board of Directors and employs a staff of 116+ individuals to administer and provide the hospital's general acute care and skilled nursing services.

**Licensing:**
Seneca is licensed by the California Department of Public Health to operate and maintain a general acute care hospital, which is located at 130 Brentwood Drive, Chester, CA 96020.

## V. OUTSTANDING DEBT

| Date Issued | Original Amount | Amount Outstanding* As of June 30, 2009 | Estimated Amount Outstanding after Proposed Financing |
|---|---|---|---|
| **Existing Long-Term Debt:** | | | |
| USDA Loan #1, 2007 | $39,500 | $35,507 | $35,507 |
| USDA Loan #2, 2007 | 27,070 | 24,332 | 24,332 |
| USDA Loan #3, 2007 | 5,392 | 4,800 | 4,800 |
| Siemens Medical, 2008 | 25,412 | 17,357 | 17,357 |
| Siemens Medical, 2008 | 13,000 | 9,086 | 9,086 |
| Siemens Medical, 2008 | 105,927 | 72,415 | 72,415 |
| C.I.T. Financial, 2006 | 65,712 | 20,339 | 20,339 |
| Simens Medical SVC, 2007 | 403,903 | 178,585 | 178,585 |
| Plumas Bank Loan, 1995 | *2,017,317 | *919,957 | -0- |
| Enloe Notes Payable, 2005 | 212,230 | 133,538 | 133,538 |
| **Proposed** | | | |
| CHFFA HELP II, 2010 | | N/A | **750,000** |
| Plumas Bank, 2010 | | N/A | **132, 457** |
| **TOTAL DEBT** | | **$1,415,916** | **$1,378,416** |

* Includes current portion of long-term debt.

## VI. DUE DILIGENCE

Due diligence has been completed with regard to the following items:

- **Section 15438.5(a) of the Act (Savings Pass Through)**: Seneca properly completed and submitted the "Pass-Through Savings Certification," in addition to a narrative explaining how it intends to pass through savings.
- **Section 15491.1 of the Act (Community Service Requirement)**: Seneca properly completed and submitted this certification and indicated that Medi-Cal and Medicare patients are accepted.
- Religious Due Diligence
- Legal Review

## VII. STAFF RECOMMENDATION

Staff recommends approval of Resolution Number HII-247 for Seneca Healthcare District in an amount not to exceed $750,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.