

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

Applicant: Alta Family Health Clinic, Inc. (AFHC) 888 North Alta Avenue Dinuba, California Tulare County		Amount Requested: \$237,500	
		Requested Loan Term: 10 years	
		Date Requested: July 25, 2002	
		Resolution Number: HII-120	
Project Site: Same as above			
Facility Type: Community Clinic			
Use of Loan Proceeds: Loan proceeds will be used to complete the final phase of renovations being made at the clinic's newly leased facility, which will accommodate increased services to an expanding client base.			
Type of Issue:		HELP II Loan	
Prior HELP II Borrower:		No	
Financial Overview: AFHC's new management team has significantly improved operations and its financial condition. The income statement has greatly improved from fiscal year 1999 to fiscal year 2001, and further improvement is noted in the most recent fiscal year ending June 30, 2002.			
Sources of Revenue: (FYE 6-30-01)		<u>Amount</u>	<u>Percent</u>
Medi-Cal		\$1,006,833	52%
Grants/Other		327,800	17%
Medicare		192,673	10%
Self-pay		178,393	9%
Insurance		104,333	6%
Miscellaneous		<u>122,115</u>	<u>6%</u>
Total operating revenue		<u>\$1,932,147</u>	<u>100%</u>
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II Loan	\$237,500	Renovation/expansion	\$250,000
Borrower's Funds	<u>17,500</u>	Estimated closing costs	<u>5,000</u>
Total Sources	<u>\$255,000</u>	Total Uses	<u>\$255,000</u>
Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.			
Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$237,500, for a term not to exceed 10 years, for Alta Family Health Clinic, Inc., subject to a final appraised value of the subject property satisfactory to the Authority, receipt of an acceptable 10-year written lease agreement on the property and standard HELP II loan provisions.			

STAFF SUMMARY AND RECOMMENDATION
Alta Family Health Clinic, Inc. (AFHC)

July 25, 2002

Resolution Number: HII-120

- I. PURPOSE OF FINANCING:** AFHC proposes to use loan proceeds to complete the final phase of renovation/expansion at a newly leased facility in Dinuba to meet increased patient demand. Demand for services at the clinic have significantly increased due to the closure of Alta District Hospital (not related to AFHC) during 2001.

Renovation and expansion of its facility in Dinuba\$250,000

AFHC moved to its current location in mid-April of 2001 after a lease conflict with Alta District Hospital. The new location provides better access, improved visibility and an additional 3,000 square feet of usable office space (6,700 sf versus 3,700 sf) at a slightly lower cost per square feet (\$8,000 per month versus \$5,000 per month), resulting in \$1.19 sf versus \$1.35 sf.

To date, AFHC has added a dental suite with 3 operatories, a conference room, office space, a records room and providers' offices, at a total cost of approximately \$315,000. These renovations were paid with internal funds and grant proceeds. This first phase added approximately 1,500 square feet of usable space.

When Alta District Hospital closed in 2001, X-ray and laboratory services became unavailable to patients in the area. Currently, patients must drive anywhere from 15 to 45 minutes to Reedley, Visalia, or Fresno for these services. AFHC plans on adding these services by constructing and renovating the existing office space, which will result in the following:

- X-ray, laboratory and pharmacy rooms
- Enlarged waiting room area
- Five additional exam rooms (from 6 to 11 rooms)
- One additional nurse's station

AFHC has obtained three bids for these planned renovations. The bids range from \$250,000 to \$270,000. AFHC management has indicated that the proposed renovation/expansion will conclude the leasehold improvements to this building in the foreseeable future.

The proposed HELP II loan will be secured by a second lien on the leased property. The first lien is secured by a bank loan with an outstanding loan balance of \$356,000. The estimated current value of the property is \$750,000, leading to a combined loan to value ratio of approximately 79% ($\$356,000 + \$237,500 / \$750,000$), which is below the 95% maximum loan to value ratio allowed under the HELP II Loan Program.

AFHC leased the facility from Kenneth L. Gould on March 31, 2001. Mr. Gould has been the Chief Financial Officer at AFHC since January 1999. The lease amount is \$8,000 per month, with periodic rent increases beginning the third and fifth year of the lease. The term of the lease is for five years ending on March 31, 2006; however, AFHC has requested a 10-year loan term and will renegotiate the terms of the lease to coincide with the proposed loan term of 10 years.

CHFFA was concerned about any potential conflict of interest since Mr. Gould is the Chief Financial Officer and also the lessor of the building, which the clinic is expanding and renovating with the internal funds and the proceeds of this loan. Because Mr. Gould is a senior officer in the clinic corporation and would benefit as lessor of the building, staff requested the State Treasurer's Office Legal Staff to review the potential conflict of interest issues. After reviewing the issues, the staff counsel has opined that no conflict of interest exists. Essentially, the staff counsel believes that because the decision to enter into the lease agreement with Mr. Gould was made independently by Alta's Board of Directors, of which Mr. Gould is not a member, and the board exercised its independent judgement and discretion in approving the lease.

Additionally, while Mr. Gould will benefit from renovations to his property, the renovations are clearly being made to accommodate the clinic's, not Mr. Gould's needs. Lastly, Mr. Gould has agreed to extend the term of the lease to 10 years to match the term of the HELP II loan, thus allowing the clinic to realize the benefit of the financed renovations.

<i>Estimated Closing Costs</i>	<u>5,000</u>
Authority Fee	2,969
Estimated title/escrow fees	2,031
 <i>Total</i>	 <u><u>\$255,000</u></u>

Financing structure:

- 10-year fully amortized loan term upon receipt of an acceptable 10-year lease agreement.
- 120 equal monthly payments of approximately \$2,293 (total annual payments of \$27,520).
- Total interest payments of approximately \$37,698.
- A second lien on the property located at 888 North Alta Avenue, Dinuba, California. This loan will be in a subordinate position the existing first lien on the property with California Stockmen's Bank, which has an outstanding loan balance of approximately \$356,000.
- Corporate gross revenue pledge.
- Maximum combined loan to value ratio of 95% (estimated CLTV is 79%).
- LP 10 title policy insurance to be paid by AFHC prior to closing (required since construction has already begun and this policy will protect the Authority against mechanic's liens on the previous construction).

II. FINANCIAL STATEMENTS AND ANALYSIS:

ALTA FAMILY HEALTH CLINIC, INC.

STATEMENTS OF ACTIVITIES

(UNRESTRICTED)

	For the Year Ended June 30			
	2002	2001	2000	1999
Revenue:	(Unaudited)			
Net Patient Revenues	\$ 2,326,445	\$ 1,604,347	\$ 1,649,516	\$ 1,821,560
Grants & Other	249,970	327,800	2,255	2,168
Total Revenues	<u>2,576,415</u>	<u>1,932,147</u>	<u>1,651,771</u>	<u>1,823,728</u>
Expenses:				
Salaries & Benefits	853,648	697,057	704,607	1,013,636
Employee Benefits	106,605	89,694	93,714	130,613
Professional Fees	620,357	449,512	266,407	322,526
Purchased Services	29,879	28,490	18,183	47,442
Supplies	143,001	105,669	155,162	139,124
Repairs and Maintenance	7,373	32,423	31,832	36,429
Rent	106,436	95,583	78,230	75,391
Insurance	12,702	32,430	24,414	34,196
Utilities	39,261	12,418	12,000	12,000
Provisions for Bad Debts	125,000	124,798	88,764	240,023
Depreciation	50,000	62,224	77,786	23,892
Interest	13,224	4,632	29,200	1,882
Other	19,921	50,687	50,438	30,364
Total expenses	<u>2,127,407</u>	<u>1,785,617</u>	<u>1,630,737</u>	<u>2,107,518</u>
Change in unrestricted net assets Before extraordinary item	449,008	146,530	21,034	(283,790)
Extraordinary gain from Forgiveness of debt	<u>-</u>	<u>556,961</u>	<u>-</u>	<u>-</u>
Change in unrestricted assets	449,008	703,491	21,034	(283,790)
Unrestricted Net Assets Beginning of Year	<u>(80,121)</u>	<u>(783,612)</u>	<u>(804,646)</u>	<u>(520,856)</u>
Unrestricted Net Assets, End Of Year	<u>\$ 368,887</u>	<u>\$ (80,121)</u>	<u>\$ (783,612)</u>	<u>\$ (804,646)</u>

ALTA FAMILY HEALTH CLINIC, INC.

STATEMENT OF FINANCIAL POSITION

	As of June 30			
	2002	2001	2000	1999
ASSETS	(Unaudited)			
Current Assets:				
Cash & cash equivalents	\$ 26,650	\$ 61,596	\$ 768	\$ 29,103
Patients accounts receivables, net	131,180	111,952	78,072	156,216
Other	16,000	18,500	-	4,529
Total Current Assets	173,830	192,048	78,840	189,848
Equipment, net	10,253	49,078	94,198	164,947
Construction in progress	314,356	64,112	-	-
Other	3,676	3,676	3,676	3,676
TOTAL ASSETS	\$ 502,115	\$ 308,914	\$ 176,714	\$ 358,471
LIABILITIES				
Current Liabilities:				
Accounts payable & accrued expenses	\$ 60,410	\$ 143,947	\$ 129,410	\$ 81,342
Accrued payroll & related liab	41,340	41,340	31,557	75,160
Estimated third-party payor	31,478	190,000	200,000	350,000
Current maturities-note payable	-	-	151,142	106,266
Other	-	13,748	28,650	9,568
Total Current Liabilities	133,228	389,035	540,759	622,336
Lease payable less current	-	-	13,748	26,244
Note payable less current	-	-	405,819	514,537
TOTAL LIABILITIES	133,228	389,035	960,326	1,163,117
NET ASSETS				
Unrestricted	368,887	(80,121)	(783,612)	(804,646)
TOTAL LIABILITIES & NET ASSETS	\$ 502,115	\$ 308,914	\$ 176,714	\$ 358,471
Financial Ratios:				
	Proforma (a)(b)			
	FYE 2001			
Debt Service Coverage (x)	4.89	N/A	0.88	(53.06)
L.T. Debt/Unrestricted Net Assets (x)	N/A	N/A	(0.69)	(0.82)
Margin (%)		7.58	1.27	(15.56)
Current Ratio (x)		0.49	0.15	0.31

(a) Recalculates 2001 audited results to include impact of this proposed financing.

(b) Proforma for unaudited 2002:

Debt Service Coverage = 12.57x; L.T. Debt/Unrestricted Net Assets = 0.64x; Current Ratio = 1.30x

Financial Discussion:

AFHC's new management team has significantly improved operations and its financial condition. The income statement has improved from fiscal year June 1999 to June 2001, and further improvement is noted in most recent fiscal year ending June 30, 2002.

AFHC's new management team has improved operating results over the past two fiscal years. During fiscal year 1999, prior management posted a \$284,000 operating loss. AFHC's new management (new CFO started in January 1999 and Executive Director in April 2001) reversed this deficit and posted a \$21,000 operating gain during fiscal year 2000. Operating results further improved during fiscal year 2001, with \$146,000 in net income. The improvement is a result of the new management team's ability to secure various new grants, resulting in increased revenues in excess of \$250,000 during fiscal year 2001 and 2002, as well as their ability to reduce expenses. Fiscal year 2001 operational expenses are \$300,000 lower than fiscal year 1999. Salaries and benefits costs have been significantly reduced, dropping from \$1.14 million in 1999 to \$780,000 in 2001.

During the most recent fiscal year ending June 30, 2002, expenses have increased as a direct result of significantly higher patient utilization numbers. AFHC has experienced an increase of over 50% in the number of patient encounters during the past two fiscal years. These higher utilization numbers correlate in significantly higher net patient revenue numbers shown on the income statement. The clinic has recently added several providers and services, including a pediatrician, dermatologist, podiatrist, mental health counselor, and certified health educator to meet this increased patient demand. The 2002 unaudited financials show net patient revenues in excess of \$2.3 million, compared to \$1.6 million in the most recent fiscal year, an impressive 43% increase.

AFHC management is optimistic about future operations. They have indicated that with the proposed capital improvements, they expect patient utilization to increase by 20% to 30% over the next two years and that operating results will remain positive. Medi-Cal revenues provide over 50% of AFHC net patient revenues and Alta has managed its cost structure well under the new Prospective Payment System. Actual costs per visit have been reduced to slightly below \$100 while AFHC receives \$122 per visit for its Medi-Cal patients.

AFHC balance sheet has improved over the past three fiscal years.

AFHC's balance sheet has improved over the past three fiscal years. In addition to its operational efficiencies and associated revenue growth, there were two significant occurrences that added to this improvement.

During 2001, AFHC was relieved of a \$550,000 long-term debt owed to Alta District Hospital. Per the independent audit report dated September 30, 2001 for fiscal year 2001, this debt was forgiven by the CEO of the hospital and was removed as a liability from the balance sheet. Alta District Hospital filed for bankruptcy in the summer of 2001. Upon closer staff review of this long term debt and clarification from the auditor and legal counsel to the hospital, it appears the debt was the result of a dispute between the clinic and the hospital regarding certain costs that the hospital charged the clinic while the clinic was still associated with the hospital. Staff has also received a letter from the counsel to the hospital that indicates that although the bankruptcy proceedings have not been finalized, it seems unlikely that any claims would be pursued against AFHC regarding repayment of the funds. This forgiveness of the long-term debt significantly reduced AFHC's negative net asset balance to \$80,000.

In fiscal year 2002, AFHC received approximately \$440,000 from Medi-Cal to reimburse the clinic for past underpayments related to the implementation of the Medi-Cal Prospective Payment System (PPS). The clinic's approved reimbursement rate is \$122 per Medi-Cal visit, however Medi-Cal only paid the clinic \$84 per visit for the first five months of calendar year 2001 and \$105 per visit for the remaining seven months of calendar year 2001 and the first six months of calendar year 2002. This lump sum payment eliminated the negative net assets position and combined with positive net income, resulted in net assets of \$368,000.

During fiscal year 2002, AFHC cash and cash equivalent position continues to be minimal. However, AFHC has used the \$440,000 in funds from Medi-Cal to pay for construction costs for the clinic's first phase of renovation. In addition, funds were also used to pay down accounts payable. Consequently, the clinic's current ratio has improved to 1.30x during fiscal year 2002. AFHC currently does not maintain any long-term debt and with the proposed HELP II loan, the debt to net assets ratio will be a favorable 0.64x on a proforma basis. Proforma debt service coverage is a strong 4.89x, indicating that AFHC should be able to handle the proposed loan repayments.

III. UTILIZATION STATISTICS:

**Alta Family Health Clinic, Inc.
(Number of patients/encounters)**

**Annual Units of Service Provided – Various Programs
Period Ended
June 30**

<u>Type of Service</u>	<u>Fiscal Year Ending June 30</u>							
	<u>2002</u>		<u>2001</u>		<u>2000</u>		<u>1999</u>	
Medicare	271	952	355	1,258	461	2,051	601	2,600
Medi-cal	3,951	15,343	3,635	11,869	2,857	8,606	4,907	14,798
CHDP	327	354	259	286	153	171	175	203
Expanded access	815	1,606	0	0	0	0	101	191
Self pay & private ins	452	1,190	308	687	186	406	61	114
Other	821	1,695	1,372	2,747	1,351	2,441	2,081	3,680
Total Visits	6,637	21,140	5,929	16,847	5,008	13,675	7,926	21,586

IV. ORGANIZATION:

Background: AFHC was started as a hospital-based Rural Health Clinic. On June 16, 1995, Alta successfully separated its clinic from Alta District Hospital and organized itself as an independent non-profit corporation. On August 23, 1995, Alta was certified as a Federally Qualified Health Center (FQHC). AFHC offers a wide array of medical services, including primary care, pediatric, dental OB/GYN, podiatry, mental health, gastroenterology, dermatology and pharmacy services to the residents of Tulare County.

AFHC also assists patients with Healthy Families program applications and currently employs a Healthy Families Program Certified Application Assistant. The majority of AFHC's staff is bilingual, and is trained in providing culturally competent services to the diverse populations of the region. Most of the patients were raised in the area, and many come from families who have worked in the agricultural industry as farm workers. The staff of AFHC has a solid understanding of the special needs of their patients.

Licenses: AFHC is currently licensed by the Department of Health Services (DHS) as a Community Clinic. AFHC is also approved for Dental Services.

Contracts: AFHC has multiple contracts with various governmental entities including Medi-Cal and Medicare.

Competition: There are three health clinics in the Dinuba area. AFHC is the only clinic with two pediatricians, OB/GYN, dental and dermatology services. AFHC has approximately 56% of the market. The other two facilities, Dinuba Medical Center and Dr. Mehtsa's clinic, are approximately one mile from AFHC.

V. SECTION 15438.5 OF THE ACT:

Savings realized through the use of a low interest loan will be directly passed on to the consuming public through the consolidation of clinic services and programs, as well as the addition of new services.

VI. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

VII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$237,500 for a term not to exceed 10 years for Alta Family Health Clinic Inc., subject to a final appraised value of the subject property satisfactory to the Authority, receipt of an acceptable 10 year lease agreement on the property and standard HELP II loan provisions.