

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

<p>Applicant: Consolidated Tribal Health Project, Inc. (CTHP) 6991 North State Street Redwood Valley, California Mendocino County</p> <p>Project Site: 6991 N. State Street, Redwood Valley, California</p> <p>Facility Type: Community Clinic</p>	<p>Amount Requested: \$215,000</p> <p>Requested Loan Term: 10 years</p> <p>Date Requested: September 26, 2002</p> <p>Resolution Number: HII-126</p>																				
<p>Policy Issue: Since Russian River Pistachios, Inc. encumbers the property to be renovated as collateral for an installment note, the Authority cannot be in 1st lien position as normally required under the HELP II Loan Program guidelines. However, staff recommends approval due to the relatively low loan to value ratio and 60% equity contribution by the seller, which provides sufficient security for the Authority even in the 2nd lien position.</p>																					
<p>Use of Loan Proceeds: Loan proceeds will be used to expand an existing building to accommodate a new Community Wellness Center. CTHP will save approximately \$8,400 per year in interest payments in comparison to a commercial rate loan.</p>																					
<p>Type of Issue: HELP II Loan.</p> <p>Prior HELP II Borrower: Yes</p> <p>Payments up to date: Yes</p>																					
<p>Financial Overview: CTHP is a financially stable organization, as shown by the positive growth in revenue, and continues to operate with positive results through the current fiscal period. The balance sheet shows strong liquidity, low debt and significant growth in net assets.</p>																					
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<p>* Approved August 27, 2001</p>																					
<p>Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																					
<p>Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan with a second deed of trust for Consolidated Tribal Health Project, Inc. in an amount not to exceed \$215,000 for a term of 10 years, subject to the standard HELP II loan provisions.</p>																					

STAFF SUMMARY AND RECOMMENDATION

CONSOLIDATED TRIBAL HEALTH PROJECT (“CTHP”)

September 26, 2002

Resolution Number: HII-126

POLICY ISSUE: HELP II Loan Program guidelines provide that the Authority is in a 1st lien position on financed property unless there is a prior loan of greater value. CTHP financed the purchase and renovation of the property in fiscal 1997 with a \$350,000 seller carry-back first mortgage and a \$300,000 HELP II loan second mortgage. This proposed HELP II loan will be combined with the existing HELP II loan(which currently has a \$168,000 balance) with the Authority continuing to be in a second lien position for a total outstanding amount of approximately \$383,000. Staff recommends an exception to the HELP II loan policy due to the low combined loan-to-value ratio of 22% (based on the estimated improved property value of \$3,000,000), and the Applicant providing approximately 60% of the funding.

I. PURPOSE OF FINANCING: Loan proceeds are proposed for expansion of an existing building to accommodate a new Community Wellness Center, which will have meeting rooms and a diabetes clinic facility. This project is designed to promote healthy lifestyles for Native Americans and other ethnic groups in Mendocino County by combining Native American and Western preventive health care practices at a convenient community meeting place. The loan for this project will save approximately \$8,400 per year in interest payments in comparison to a commercial rate loan.

Construction **\$1,095,000**

CTHP owns a 5.25-acre parcel of property located at 6991 North State Street in Redwood Valley, California. The two main building structures located on the property have a total area of 15,900 square feet. Building A houses fiscal, administrative, management information systems and community outreach departments while Building B is where primary health care services are provided. Since Building B has no room for expansion, CTHP has selected Building A for the Community Wellness Center Project.

The new Community Wellness Center will enable CTHP’s patients to make lifestyle changes. It will house the diabetes clinic and will have a fully equipped exercise room with treadmills, stairmasters, a weight machine and other equipment designed for cardiovascular improvement. A separate room will facilitate Native American healing methods and provide a place for yoga and meditation. The large assembly room, equipped with kitchen, will be the center of all types of health-related activities and will have capacity to seat over 100 people for seminars, health fairs and other events.

This \$1.1M construction project has been divided into three phases. Phase 1, costing \$75,880, is the construction of a new wastewater treatment facility, the extension of utilities and the preparation of a building pad for the new Center. Phase II, costing \$474,950, will be the construction of the building envelope, including the exterior shell, foundation, exterior walls, roof, doors, windows and basic mechanical systems. Phase III, costing \$247,240, will finish plumbing, electrical, insulation, drywall, interior walls, and fixtures for its eventual use. Aside from these costs, \$296,930 has been budgeted for project management, architectural and engineering related fees.

On August 27, 2001, the Authority approved a \$250,000 grant (under the Cedillo-Alarcón Community Clinic Investment Act of 2000) for this construction project. The grant funds have been disbursed for Phase I and Phase II of the construction project. This proposed HELP II loan will be used solely for Phase III along with CTHP's own funds.

CTHP's management estimates that once the construction project has been completed, the property's improved value will be \$3,000,000, which provides sufficient security for the proposed HELP II loan. CTHP is currently in the process of having the property appraised. The appraisal must be satisfactory to the Authority's policies, including a loan to value ratio that cannot exceed 95%.

Financing Costs	<u>5,000</u>
1. Authority Closing Fee	\$3,000
2. Title/Escrow/Other	<u>2,000</u>
Total	<u>\$1,100,000</u>

Financing Structure:

The HELP II loan for Consolidated Tribal Health Project, Inc. will be structured as follows:

- 10 year loan term.
- 120 equal monthly payments of approximately \$2,080 (yearly payments of \$24,920).
- Total interest payments of approximately \$34,130.
- 2nd lien on property located at 6991 North State Street, Redwood Valley, CA.
- Maximum combined loan to value ratio of 95%. Expected 22% loan to value ratio (based on the as-improved appraised value of approximately \$3,000,000).
- Corporate gross revenue pledge.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Consolidated Tribal Health Project, Inc.
Statement of Activities
(Unrestricted)

	Nine			
	Months Ended			
	June 30	For the year ended September 30		
	2002	2001	2000	1999
	(Unaudited)			
REVENUE				
Grants and contracts	\$ 3,060,465	\$ 3,466,825	\$2,677,818	\$ 2,317,285
Patient fees	354,389	1,005,401	1,342,624	789,301
Other income	176,044	91,280	93,887	83,362
Total revenues	<u>3,590,898</u>	<u>4,563,506</u>	<u>4,114,329</u>	<u>3,189,948</u>
EXPENSES				
Salaries and related expense	1,804,189	1,938,744	1,958,465	1,851,297
Consultant services	238,786	321,982	233,758	242,831
Contract health services	304,305	607,670	433,998	223,178
Utilities, services and supplies	365,016	351,707	319,262	271,147
Lease, repairs and maintenance	49,494	75,694	99,878	103,386
Administration and training	335,664	349,326	274,010	196,176
Interest	20,133	35,379	33,382	32,992
Depreciation	140,140	186,853	166,718	145,531
Other	-	30,551	25,795	71,446
Total expenses	<u>3,257,727</u>	<u>3,897,906</u>	<u>3,545,266</u>	<u>3,137,984</u>
Change in unrestricted net assets	333,171	665,600	569,063	51,964
Unrestricted net assets at beginning of year	3,960,773	3,295,173	2,620,088	2,501,722
Investment in fixed assets	-	-	106,022	66,402
Unrestricted net assets end of year	<u>\$ 4,293,944</u>	<u>\$ 3,960,773</u>	<u>\$3,295,173</u>	<u>\$ 2,620,088</u>

Statement of Financial Position

	As of June 30		As of September 30	
	2002	2001	2000	1999
<u>Assets</u>	(Unaudited)			
Current Assets:				
Cash	\$ 2,519,770	\$ 1,227,143	\$ 1,810,821	\$ 946,968
Investments	994,222	1,054,222	-	-
Accounts and grants receivable	37,559	926,133	486,432	388,850
Other current assets	164,212	7,931	9,161	26,369
Total Current Assets	<u>3,715,763</u>	<u>3,215,429</u>	<u>2,306,414</u>	<u>1,362,187</u>
Noncurrent Assets:				
Land, building and equipment, net	1,888,221	2,028,361	2,321,487	2,382,183
Total Assets	<u><u>\$ 5,603,984</u></u>	<u><u>\$ 5,243,790</u></u>	<u><u>\$ 4,627,901</u></u>	<u><u>\$ 3,744,370</u></u>
<u>Liabilities & Net Assets</u>				
Current Liabilities:				
Accounts payable	\$ 50,870	\$ 348,394	\$ 452,980	\$ 177,857
Accrued payroll - other liabilities	855,146	471,939	363,709	384,279
Current portion - notes payable	50,000	53,355	45,981	43,716
Total Current Liabilities	<u>956,016</u>	<u>873,688</u>	<u>862,670</u>	<u>605,852</u>
Long Term Portion - notes payable	354,024	409,329	470,058	518,430
Total Liabilities	<u>1,310,040</u>	<u>1,283,017</u>	<u>1,332,728</u>	<u>1,124,282</u>
Total Unrestricted Net Assets	4,293,944	3,960,773	3,295,173	2,620,088
Total Liabilities & Net Assets	<u><u>\$ 5,603,984</u></u>	<u><u>\$ 5,243,790</u></u>	<u><u>\$ 4,627,901</u></u>	<u><u>\$ 3,744,370</u></u>

Financial Ratios:

**Proforma (a)
6/30/02**

Debt Service Coverage (x)	<u>5.35</u>	6.71	10.91	9.98	3.10
Debt/Unrestricted Net Assets (x)	0.14	0.09	0.12	0.16	0.21
Margin (%)		9.28	14.59	13.83	1.63
Current Ratio (x)		3.89	3.68	2.67	2.25

(a) Recalculates 2002 interim period unaudited results to include the impact of this proposed financing.

Financial Discussion:

CTHP is a financially stable organization, as shown by the positive growth in revenue and continues to operate with positive results through the current fiscal period.

CTHP provides medical, dental, public health nursing, mental health, alcohol prevention and contract health services to the Native American population of Mendocino County. Its main sources of revenue are grant and contract support, primarily from the U.S. Department of Health and Human Services (DHHS) and California Department of Health Services (DHS). Patient fees are comprised of Medi-Cal, Medicare, private insurance and self-pay.

Total revenues have increased approximately 50% on an annualized basis over our review period, primarily due to a 76% increase in grant and contract funds. Patient fee revenues have decreased in the interim 2002 period due to insufficient staffing in patient fee billing, but CTHP now has the staff in place to bring all patient billings current.

Like other health care facilities, CTHP has experienced a shortage of health care workers, which impacted expenses. Since many positions were vacant in fiscal 2001, CTHP was forced to pay higher consultant fees by using outside physicians, a dentist and other medical professionals. Consultant fees increased 38% in fiscal 2001 compared to fiscal 2000. In addition, contract health services fees nearly tripled over our review period, due to increases in the contract price. In February 2002, CTHP increased salaries ranging from 2% to 15% to retain and attract a stable workforce. Also in fiscal 2002, some vacant positions such as the Executive Director, various physicians and other medical professionals have now been filled. By the end of fiscal 2002, CTHP's management expects that contract health services fees and consulting fees will be consistent with fiscal 2001. However, as a result of the higher salaries and lower staff vacancies, salary-related expenses are expected to increase approximately 24% for fiscal 2002.

Despite the overall increases in expenses, CTHP continues to post positive operating results through the current fiscal period. Positive revenue growth has provided strong operating margins ranging from 1% to 14% during the past three fiscal years. Management anticipates maintaining an operating margin of approximately 9% for fiscal 2002. CTHP has had positive growth in unrestricted net assets from fiscal 1999 through fiscal 2001 and anticipates a \$420,000 increase in unrestricted net assets for fiscal 2002.

The balance sheet shows good liquidity, low debt and significant growth in net assets.

CTHP has maintained positive cash flows with adequate liquidity as demonstrated by a strong current ratio ranging from 2.25x to 3.89x for the review period. With continued positive operating results, the net assets have grown 64% from fiscal 1999 to the nine months ending June 30, 2002. CTHP has low debt and a growing net asset balance, providing a positive proforma debt-to-unrestricted net assets ratio of 0.14x. With this proposed loan, management anticipates meeting all of its debt obligations as evidenced by a strong proforma debt service coverage ratio of 5.35x.

III. UTILIZATION STATISTICS:

Encounters and (Number of Patients)

Type of Services	Nine Months Ended June 30		Fiscal Year Ended September 30					
	2002		2001		2000		1999	
Medicare	631	(130)	800	(165)	352	(71)	522	(8)
Medi-Cal	2,340	(719)	2,967	(909)	3,618	(804)	3,287	(735)
CHDP	254	(23)	322	(29)	202	(18)	115	(10)
EAPC	581	(28)	737	(36)	908	(32)	600	(28)
Grants & Contracts	3,107	(539)	3,939	(682)	3,638	(446)	4,241	(1,083)
Self Pay-Insurance	2,961	(1,383)	3,754	(1,749)	3,186	(1,057)	2,527	(550)
Total	9,874	(2,823)	12,519	(3,570)	11,904	(2,428)	11,292	(2,414)

CHDP: Child Health Disability Prevention program

EAPC: Expanded Access to Primary Care program

IV. ORGANIZATION:

Background:

CTHP is a non-profit, ambulatory health clinic established in 1983 to provide a multi-disciplinary holistic health care service to Native Americans in Mendocino County. CTHP, a consortium of 8 Native American Tribes, is governed by a 16-member Board of Directors, with 2 representatives from each of the 8 federally recognized tribes. CTHP is located in Redwood Valley, close to Ukiah, and offers perinatal, outreach, medical, dental and behavioral health services.

Licenses:

CTHP is licensed as community clinic by the California Department of Health Services.

Competition:

CTHP predominately serves the Native American population of Mendocino County. However, its services are available to all patients. CTHP has a small market share of approximately 6% (3,600 patients) since its Native American patient base is in the minority.

Other clinics in the service area control a significant share of the market as estimates are shown in the table below.

Clinics	Patients	Market Share (%)	Distance Away
Mendocino Community Clinic	29,600	50%	7 Miles
Mountain Lake Medical Clinic	6,000	10%	30 Miles
Lower Lake Medical Clinic	6,000	10%	35 Miles
Lakeside Health Clinic	6,000	10%	30 Miles

V. OUTSTANDING DEBT:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 9/30/01 (a)</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
Russian River Pistachios, Inc.(Saving Bank of Mendocino County), 1997	\$350,000	\$272,030	\$272,030
CHFFA HELP II Loan, 1997	300,000	190,654	167,867(b)
Proposed:			
CHFFA HELP II Loan, 2002	215,000		215,000
TOTAL DEBT		<u>\$462,684</u>	<u>\$654,897</u>

(a) Includes current portion.

(b) The balance as of 7/31/02 is \$167,867.

VI. SECTION 15438.5 OF THE ACT:

With the proposed HELP II Loan, CTHP will save approximately \$8,400 per year in interest expense compared to a conventional rate loan. CTHP will use these savings to offset its costs of uncompensated care for indigent patients, allowing it to maintain or expand its existing level of services without raising rates. This project will foster preventive measures that will ultimately lower the cost of health care and improve patient outcomes.

VII. 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.

VIII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan with a second deed of trust for Consolidated Tribal Health Project, Inc. in an amount not to exceed \$215,000 for a term of 10 years, subject to the standard HELP II loan provisions.