

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

**The HELP II Program
EXECUTIVE SUMMARY**

Applicant:	National Health Services, Inc. ("NHS") 659 S. Central Valley Hwy Shafter, California Kern County	Amount Requested:	\$300,000
		Requested Loan Term:	15 years
		Date Requested:	August 24, 2006
		Resolution Number:	HII-187
Project Site:	161 North Mills Street, Tehachapi, California		
Facility Type:	Community Clinic		
Policy Issue: NHS's gross revenues are \$21.2 million, which are in excess of the maximum allowable under the HELP II guidelines of \$20 million. Staff recommends approval for the reasons outlined on the following page.			
Use of Loan Proceeds: Loan proceeds will be used to refinance an existing line of credit, and loan will be secured by a newly renovated Tehachapi Community Health Center property. NHS will save approximately \$128,000 in interest payments over the life of the loan.			
Type of Issue:	HELP II Loan		
Prior HELP II Borrower:	Yes		
Payments up to date:	Yes		
Financial Overview: NHS is a financially stable organization with growing revenues, and strong demand for its services. The balance sheet remains strong with good liquidity, a growing net asset balance and ability to manage the increased loan obligation.			
Sources of Revenue:			
		<u>Amount</u>	<u>Percent</u>
(FYE 3-31-06)	Net patient revenue	\$16,641,007	79%
	Grant revenue	4,070,519	20%
	Other income	150,052	0%
	Net assets released from restriction	<u>343,454</u>	<u>1%</u>
	Total Revenue and Support	<u>\$21,205,032</u>	<u>100%</u>
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II Loan	\$300,000	Refinance	\$300,000
Equity Contribution	<u>5,750</u>	Financing Costs	<u>5,750</u>
Total Sources	<u>\$305,750</u>	Total Uses	<u>\$305,750</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 for National Health Service in an amount not to exceed \$300,000 for a term of 15 years subject to the standard HELP II loan provisions.			

STAFF SUMMARY AND RECOMMENDATION

NATIONAL HEALTH SERVICES, INC. (“NHS”)

August 24, 2006

Resolution Number: HII-187

POLICY ISSUE: NHS’s gross revenues are \$21.2 million, which are in excess of the maximum allowable under the HELP II guidelines of \$20 million. Staff recommends a waiver of the cap on the maximum gross revenues, since the gross revenues only exceed the maximum by a very small percentage (6%), and the financing would otherwise further the purposes of the program.

I. PURPOSE OF FINANCING: Loan proceeds will be used to refinance an existing line of credit provided by Washington Mutual Bank (WMB), which was used as a short-term loan to partially finance renovation of the Tehachapi Community Health Center located at 161 North Mills Street, in the City of Tehachapi. With the HELP II loan, NHS expects to save approximately \$128,000 in interest payments over the life of the loan.

***Refinance Existing Loan*..... \$300,000**

The existing line of credit is a \$500,000 business line of credit from WMB, which was executed on April 26, 2005, and replaced a WestAmerica Bank line of credit, which had an interest rate of 6.75% per annum. The interest rate on the WMB line of credit is currently 6.00% per annum with a current principal balance outstanding of \$300,000.

This refinancing is projected to save NHS approximately \$8,500 in annual payments, based on paying 3% compared to the existing commercial real estate loan rate of 7.5%, resulting in an improvement in their cash flow. The HELP II loan will be secured by a lien in a newly renovated facility property at 161 North Mills Street. An estimated improved value of the property of \$1,200,000 results in a loan to value ratio of 25%.

***Financing Costs* 5,750**

Authority Closing Fee \$3,750

Title/Escrow/Other..... 2,000

***Total*..... \$305,750**

Financing Structure: The NHS financing will be structured as follows:

- 15 year loan term.
- 180 equal monthly payments of roughly \$2,071 (yearly payments of \$24,860).
- Total interest payments of approximately \$72,910.
- 1st lien on property located at 161 North Mills Street, Tehachapi, CA.
- Maximum loan to value of 95%. Expected 25% loan to value ratio (based on an estimated value of \$1,200,000).
- 1st lien on corporate gross revenue pledge.

II. FINANCIAL STATEMENTS AND ANALYSIS:

National Health Services, Inc.
Statement of Activities
(Unrestricted)

	For the year ended March 31			
	2006	2005	2004	2003
<u>REVENUE</u>				
Net patient revenue	\$ 16,641,007	\$ 16,435,291	\$ 14,878,499	\$ 10,993,644
Grant revenue	4,070,519	3,299,048	2,787,428	2,493,194
Other income	150,052	121,609	137,579	107,441
Net assets released from restriction	343,454	196,375	239,024	631,557
Total revenues	<u>21,205,032</u>	<u>20,052,323</u>	<u>18,042,530</u>	<u>14,225,836</u>
<u>EXPENSES</u>				
Salaries and fringe benefits	13,988,067	12,807,563	10,253,332	8,636,658
Consultants-contractual services	909,077	1,055,467	1,447,399	1,007,468
Health care supplies	1,298,852	1,277,298	1,057,255	780,091
Office supplies and data processing	256,999	249,763	187,667	152,198
Uniforms	58,222	46,425	27,765	37,176
Housekeeping and maintenance	41,157	30,109	25,591	23,896
Telephone, postage and freight	299,863	264,610	222,919	203,767
Travel and transportation	152,421	156,138	122,012	112,558
License and dues	79,602	52,673	68,255	54,615
Insurance	149,999	145,311	130,129	87,128
Training and recruitment	142,818	138,981	92,013	52,070
Equipment rent and maintenance	190,150	189,195	137,649	107,072
Health education materials	115,930	113,497	85,973	66,491
Building rent and maintenance	126,063	143,848	68,359	52,302
Utilities	374,937	340,773	346,909	253,016
Interest	298,338	316,107	289,243	196,449
Bad debts	1,352,530	390,135	376,476	-
Loss on construction abandonment	-	-	-	739,839
Depreciation	1,036,352	1,019,455	960,229	606,531
Other	68,424	160,411	97,456	66,760
Total expenses	<u>20,939,801</u>	<u>18,897,759</u>	<u>15,996,631</u>	<u>13,236,085</u>
Change in unrestricted net assets	265,231	1,154,564	2,045,899	989,751
Unrestricted net assets at beginning of year	<u>13,810,554</u>	<u>12,655,990</u>	<u>10,610,091</u>	<u>9,620,340</u>
Unrestricted net assets end of year	<u>\$ 14,075,785</u>	<u>\$ 13,810,554</u>	<u>\$ 12,655,990</u>	<u>\$ 10,610,091</u>

National Health Services, Inc.
Statement of Financial Position

	As of March 31			
	2006	2005	2004	2003
<u>Assets</u>				
Cash Equivalents	\$ 2,699,273	\$ 2,923,854	\$ 3,764,922	\$ 4,183,731
Accounts and grants receivable	4,680,879	5,286,203	3,184,760	1,890,153
Other current assets	272,574	391,408	454,943	211,937
Property and equipment, net	13,540,820	13,411,387	12,959,103	12,197,220
Total Assets	\$ 21,193,546	\$ 22,012,852	\$ 20,363,728	\$18,483,041
 <u>Liabilities & Net Assets</u>				
Accounts payable	\$ 669,235	\$ 449,445	\$ 524,906	\$ 794,930
Accrued expenses	923,017	1,455,774	1,171,773	912,998
Capital lease obligation	-	11,569	33,991	53,389
Long-term debt	5,274,054	5,942,056	5,780,693	5,872,609
Total Liabilities	6,866,306	7,858,844	7,511,363	7,633,926
Unrestricted net assets	14,075,785	13,810,554	12,655,990	10,610,091
Temporarily restricted net assets	251,455	343,454	196,375	239,024
Total Liabilities & Net Assets	\$ 21,193,546	\$ 22,012,852	\$ 20,363,728	\$18,483,041

Financial Ratios:	Proforma (a)				
	3/31/2006				
Debt Service Coverage (x)	1.60	1.64	3.12	4.90	2.38
Debt/Unrestricted Net Assets (x)	0.40	0.37	0.43	0.46	0.56
Margin (%)		1.25	5.76	11.34	6.96
Current Ratio (x)		4.81	4.51	4.36	3.68

(a) Recalculates 2006 audited results to include the impact of this proposed financing.

Financial Discussion:

NHS is a financially stable organization with growing revenues, and strong demand for its services.

NHS receives over 79% of its revenues from patient revenue, which is mostly through government programs. Additional funding sources for NHS include fundraising and grants from federal, state and local government sources. Both client served and patient visits statistics support strong demand for NHS services with increases of 49% and 59% respectively over the review period from 2003 to 2006 (period).

NHS expansion, as evidenced by its growing statistics, has impacted both its revenues and expenses. NHS revenues have grown by almost 49% over the period against 58% increases in the expenses, which has resulted in a drop in profit of 74%. In 2004, profits increased 106% due to significant increases in revenue over expenses. The net patient revenue jumped 35% in 2004 due to full year operation of Oildale and Tehachapi clinics, which did not have stable operations in prior years. However, in 2005, profit was reduced by approximately 50% due to increases in expenses. Salaries and benefits, about 67% of the total expenses, increased 24% in 2005 due to increases in professional staff, salaries and health insurance. NHS experienced similar declines in 2006 as in 2005 when profit decreased 78% due to higher increases in expenses against minor increase in revenue. In 2006, NHS made large bad debts write-off, based on contractual adjustments for 2005 and prior years medical charges. Salaries and benefits continue to increase with the expansion of various clinics, and was another factor for the decline in profits in 2006.

NHS has been a profitable organization with profit margins as much as 11% for the period, while unrestricted net assets have increased 32%. This positive trend is the result of continuing profitability with revenues exceeding expenses.

The balance sheet remains strong with good liquidity, a growing net asset balance and ability to manage the increased loan obligation.

NHS balance sheet reflects a growth rate of 14% for the period. It has maintained positive cash flows with adequate liquidity, as demonstrated by a strong current ratio that has exceeded 3x. The accounts-grants receivable increased by 147%. Net property and equipment increased by 11% and accounts payable decreased by 16%. As a result, cash went down by 36% with no significant change in accrued expenses. With the increase in patient and grant activities, increases in accounts-grants receivable are expected. Fixed assets continued to increase as more clinics were renovated or constructed to meet new demand. NHS intends to maintain its cash position through effective cash flow management. NHS is slightly leveraged, with a proforma debt-to-unrestricted net assets ratio of .40x. With this proposed loan, management anticipates meeting all of its debt obligations, as evidenced by a proforma debt service coverage ratio of 1.60x.

III. UTILIZATION STATISTICS:

	2006	2005	2004	2003
Clients-patients served	42,279	39,977	31,207	28,369
Clients-patients visits	158,774	151,867	134,861	99,547

IV. ORGANIZATION:

Background:

NHS is a non-profit corporation founded on January 9, 1978 as Buttonwillow Community Health Center, Inc. It subsequently changed its name to Buttonwillow Health Center, Inc, and most recently changed its name to National Health Services, Inc. on October 28, 1991. NHS operates 11 health centers serving 19 rural communities in Kern County:

- Buttonwillow Medical & Dental Center
- Delano Family Dental and Women's Health Center
- Joy Carino Kimpo Family Medical Center
- Lost Hills Community Health Center
- Ridgecrest Community Health Center
- Shafter Community Medical & Dental Center
- Joy Carino Kimpo Women's Health Center
- Taft Community Medical & Dental Center
- Tehachapi Community Health Center
- Oildale Community Health Center
- Wasco Medical & Dental Center

NHS's health care delivery system offers general and family medicine, general dentistry, obstetrics, gynecology, podiatry, optometry, chiropractic, nutrition and health education, behavioral health, pharmacy, laboratory and x-ray services. The combined centers provide over 150,000 clients-patients visits a year. In 2006, NHS served 42,279 patients: 73% of patients were of Hispanic descent; 98% lived at or below 200% of the Federal Poverty Level; 47% were farmworkers; 57% were best served in another language. Working in collaboration with the community, NHS uses resources and experience to serve patients and support initiatives that address health care and access problems.

Tehachapi Community Health Center (TCHC) opened in December 2004 in Tehachapi, starting as a satellite clinic of Oildale Community Health Center, to provide access to primary and preventive health care services to the residents of the community. Currently, the new facility at 161 North Mills Street is under renovation, and when it is completed, TCHC will relocate from 785 Tucker Road and provide full services for medical, dental and specialty services beginning in July 2006.

Licenses:

The clinics are licensed as community clinics by the California Department of Health Services (DHS). TCHC's license will be transferred to a new location once DHS has reviewed the new facility.

V. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 3/31/06	Estimated Amount Outstanding After Proposed Financing
Existing:			
City Capital-Private Placement Bond 2/1/03	\$4,245,000	\$3,567,079	\$3,567,079
CPCA Ventures - Information Systems Note Payable 8/1/2004	200,000	181,300	181,300
CPCA Ventures – Delano Facility Note Payable 11/1/2002	200,000	136,692	136,692
CPCA Ventures – Shafter Equipment Note Payable 11/1/2004	250,000	66,760	66,760
FHA – Buttonwillow Facility Note Payable 3/31/1999	294,518	181,363	181,363
Toyota Financing - Automobile Note Payable 4/8/2002	23,302	5,124	5,124
Washington Mutual Bank Real Estate Loan dated 8/5/2003	500,000	396,549	396,549
Toyota Financing Note Payable 4/2/2004	22,043	13,815	13,815
Toyota Financing – Automobile Note Payable 7/22/2004	21,875	14,814	14,814
Barber Group Honda – Automobile Note Payable 4/8/2004	18,500	11,863	11,863
CHFFA HELP II Loan 12/1/2002	400,000	140,044	140,044
Kern County – Buttonwillow Facility Note Payable 1997	503, 539	558,652	558,652
Proposed:			
CHFFA HELP II Loan, 2006			\$300,000
TOTAL DEBT		\$5,274,054	\$5,574,054

Note: A line of credit with WestAmerica Bank (WAB) for \$500,000 at 6.75% existed with zero balance as of 3/31/06. On April 26, 2005, a new business line of credit with Washington Mutual Bank for \$500,000 at 6% was established to replace WAB and as of 5/25/06 it had \$300,000 credit balance.

VI. SECTION 15438.5 OF THE ACT (Savings Pass Through):

It is the intent of the Legislature in enacting this part to provide financing only to health facilities that can demonstrate the financial feasibility of their projects. It is further the intent of the Legislature that all or part of any savings experienced by a participating health institution, as a result of that tax-exempt revenue bond funding, be passed on to the consuming public through lower charges or containment of the rate of increase in hospital rates.

NHS has provided a description of its savings pass through in **Exhibit A**.

VII. SECTION 15459.1 OF THE ACT (Community Service Requirement):

As a condition of the issuance of revenue bonds, whether by the Authority or any local agency, each borrower shall give reasonable assurance to the Authority that the services of the health facility will be made available to all persons residing or employed in the area served by the facility. As part of this assurance, borrowers shall agree to a number of actions, including (1) to advise each person seeking services at the borrower's facility as to the person's potential eligibility for Medi-Cal and Medicare benefits or benefits from other governmental third-party payers, and (2) to post notices in appropriate areas within the facility regarding services being available to all in the service area. This agreement is a standard "Certification and Agreement Regarding Community Service Obligation".

NHS has executed this certification indicating whether Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **Exhibit B**.

VIII. RELIGIOUS AFFILIATION DUE DILIGENCE:

Staff has reviewed the Applicant's responses to the questions contained in the Religious Affiliation portion of the application. No information was disclosed in the questionnaire or discovered by staff to question the Applicant's compliance with the provisions of the Authority's Act relating to religious affiliation.

IX. 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.

X. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan for National Health Services, Inc. in an amount not to exceed \$300,000 for a term of 15 years subject to the standard HELP II loan provisions.