

**CHFFA HELP II PROGRAM
EXECUTIVE SUMMARY**

Applicant:	Vista Community Clinic (“VCC”) 1000 Vale Terrace Vista, CA 92084 San Diego County	Amount Requested:	\$750,000
		Requested Loan Term:	15 year fixed
		Authority Meeting Date:	June 30, 2011
Project Site:	1000 Vale Terrace, Vista, California 92084, San Diego County		
Facility Type:	Community Clinic - FQHC		

Prior HELP II Borrower: Yes (loan balance is \$225,000) and payments are current.

Issue to Note: VCC’s gross revenues (FY 2010: approximately \$31 million) exceed the current HELP II \$30 million gross revenue maximum by roughly 4%. Staff nevertheless recommends the Authority consider the requested financing for the reasons discussed on page two of the executive summary.

Background: Established in 1972, VCC is a nonprofit organization operating healthcare facilities at five sites in San Diego County. VCC provides a variety of medical, dental, mental health and health education services providing low-cost, high quality, comprehensive primary care services to residents of the Northern San Diego County area with approximately 58,000 clients served and approximately 214,000 patient visits for FY 2010.

Uses of Loan Proceeds: Loan proceeds will be used to construct a new 31,000 square foot facility next to VCC’s main clinic and a parking structure on property the applicant currently owns.

Financing Structure:

- 180 monthly payments of approximately \$5,179 (yearly payments of approximately \$62,152).
- First (1st) lien position on the property located at 818 Pier View Way, Oceanside, CA 92054.
- Loan to value ratio not to exceed 95% (estimated loan to value ratio is 37%).
- Corporate gross revenue pledge.

Financial Overview: VCC’s income statement appears to exhibit positive operating results with continued revenue growth related to an increase in patient services. VCC’s balance sheet appears strong with excellent liquidity, a strong current ratio, and significant net assets. In addition, the proforma debt service coverage is a very solid 26.41x.

Estimated Sources of Funds:

HRSA Grant*	\$11,470,000
Borrowers funds**	8,012,132
HELP II funds	750,000
Donations	<u>389,000</u>
Total Sources	<u>\$20,621,132</u>

Estimated Uses of Funds:

Construction	\$20,609,000
Financing costs	12,132
Total Uses	<u>\$20,621,132</u>

*The Health Resources and Services Administration (HRSA) awarded VCC a Facility Improvement Plan Grant. Staff has received and reviewed the Notice of Grant Award provided by VCC.

** Currently, borrower’s cash balance is \$9,537,912, as of 5/31/2011 and has spent approximately \$5 million on the project to date.

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: Chicago Title Company

Staff Recommendation: Staff recommends approval of amended Resolution Number HII-253 for Vista Community Clinic in an amount not to exceed \$750,000, for a term not to exceed 15 years, contingent upon financing terms acceptable to the Authority, and subject to VCC’s payoff of its existing HELP II Loan from its own internal funds. Macias Gini & O’Connell, LLP, the Authority’s financial analyst, concurs with the Authority’s staff recommendations.

I. ISSUE TO NOTE: The HELP II program is intended to benefit eligible small health facilities whose annual revenues are less than \$30 million per year. VCC's audited statement of financial position for FY 2010 reflects gross revenues of approximately \$31 million. While VCC's gross revenues exceed the maximum allowed by approximately 4%, these revenues are inclusive of roughly \$1.5 million in grants for the expansion of its Grapevine clinic and the implementation of an electronic health records system. The Authority has previously approved similar requests in which the applicants were 6% and 7% in excess of the maximum annual gross revenue limit.

In addition, this transaction presents the Authority with a unique and meaningful opportunity to further assist a vital organization (and current HELP II borrower) in San Diego County. Nearly 90,000 residents in the cities of Vista and Oceanside have incomes below the 200% poverty line and nearly 45,000 residents in north coastal San Diego County are uninsured.

II. PURPOSE OF FINANCING: VCC is an existing borrower who was also authorized a second \$525,000 HELP II loan in September 2010 for the construction of its main clinic. At this time, VCC is proposing (1) to pay off its existing HELP II loan (from its own internal funds), (2) to increase the loan amount approved in September 2010 from \$525,000 to \$750,000, (3) to change the collateral required in the September 2010 resolution and (4) to extend the resolution by one year to provide VCC with sufficient time to complete the planned project. VCC seeks to complete a major expansion of VCC's main clinic located in Vista, California, with a cost of \$20.3 million. It is anticipated the expansion will accommodate an additional 12,000 new patients and approximately 43,000 additional patient visits annually. Additionally, the new clinic will improve operational efficiencies and allow the expansion of critical health care services in San Diego County.

Construct a 31,000 square foot facility \$20,384,000

VCC intends to construct a new 31,000 square foot facility situated on approximately 2.2 acres (currently owned by VCC), located at 1000 Vale Terrace in Vista, CA. According to VCC, the new facility will accommodate women's health services, maternal and child health, clinical programs, patient classrooms and conference rooms. The current facility will be utilized for pediatrics, adult medicine, and dental services. The construction of the new facility began in early 2011 and is expected to be completed in December 2011. VCC will use internal funds of approximately \$8 million, the HRSA grant funds of \$11.4 million and the HELP II loan funds for construction of the new facility.

Currently, VCC has an existing HELP II loan in the amount of \$225,000 which is secured with a lien on the Vale Terrace site in Vista, California. VCC plans to pay off the existing HELP II loan of \$225,000 with its own internal funds.

The board also authorized a second loan for VCC in September 2010 in the amount of \$525,000 which has not yet been disbursed and which VCC seeks to increase to the maximum amount of \$750,000. In addition, VCC requests to change the collateral required by the existing resolution from the Vale Terrace site to their Pier View

facility located in Oceanside, California. VCC makes this request because a cloud on title apparently exists on the Vale Terrace site associated with mechanics liens automatically filed when construction began some time ago. VCC can provide clean title and a first lien position on the Pier View property which also seems to have more than adequate market value to support the proposed loan. The proposed HELP II loan will consequently be secured by a first (1st) lien position on the property located at 818 Pier View Way, Oceanside, CA 92054. According to the VCC's management, the estimated current market value is approximately \$3 million, leading to a 37% loan to value ratio. A full appraisal on this property will be required prior to closing.

<i>Financing Costs</i>		<u>12,132</u>
Authority Fee	\$9,375	
Title and Escrow Fees	<u>2,757</u>	
<i>Estimated Uses of Funds</i>		<u>\$20,621,132</u>

II. FINANCIAL STATEMENTS AND ANALYSIS

Vista Community Clinic, Inc. Statement of Activities

	For the Year Ended June 30,		
	2010	2009	2008
Change in Unrestricted Net Assets:			
Revenue and other support:			
Patient and third party revenue, net*	\$ 20,893,623	\$ 19,700,427	\$ 17,215,677
Grant and contract revenue	9,589,462	8,667,491	7,384,945
Contributions	388,692	264,610	472,007
Other	413,715	506,078	703,035
Net assets released from restriction	16,221	1,001,659	308,372
Total unrestricted revenue and other support	<u>31,301,713</u>	<u>30,140,265</u>	<u>26,084,036</u>
Expenses:			
Salaries and benefits	20,781,107	18,398,401	17,182,250
Medical supplies and drugs	2,475,856	2,381,522	2,152,781
Other operating expenses	2,518,039	2,104,441	1,852,337
Contract services	1,597,554	1,562,446	1,598,804
Space costs	805,803	865,065	831,281
Depreciation	685,466	458,696	491,302
Travel, conferences and meetings	197,882	242,734	241,774
Insurance	234,004	175,509	161,024
Provisions for bad debts	245,475	165,124	136,540
Total expenses	<u>29,541,186</u>	<u>26,353,938</u>	<u>24,648,093</u>
Excess of revenue over expenses	1,760,527	3,786,327	1,435,943
Change in net unrealized gains and losses	536,976	(652,224)	(66,799)
Increase in unrestricted net assets	2,297,503	3,134,103	1,369,144
Change in temporarily restricted net assets:			
Contributions	74,618	146,849	1,194,902
Net assets released from restriction	(16,221)	(1,001,659)	(308,372)
Change in temporarily restricted net assets	58,397	(854,810)	886,530
Increase in net assets	2,355,900	2,279,293	2,255,674
Net assets:			
Beginning of year	26,116,676	23,837,383	21,581,709
End of year	<u>\$ 28,472,576</u>	<u>\$ 26,116,676</u>	<u>\$ 23,837,383</u>

*Patient and Third Party Revenue, Net for FYE June 30, 2010

<u>Payor Source</u>	<u>Percent</u>
Medi-Cal	82%
Other third-party payors	13%
Private party patients	3%
Medicare	2%
Total	<u>100%</u>

Vista Community Clinic, Inc.
Statement of Financial Position

	As of June 30,		
	2010	2009	2008
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 7,758,383	\$ 6,528,117	\$ 6,669,531
Patients accounts receivable, net	2,103,806	1,785,369	2,733,745
Grants, contract and other receivables	779,007	820,570	999,224
Pledges receivable	428,309	652,832	800,354
Inventories	14,792	10,730	18,416
Prepaid assets	372,284	395,881	261,438
Total current assets	<u>11,456,581</u>	<u>10,193,499</u>	<u>11,482,708</u>
Property and equipment, net	18,522,968	12,377,295	8,359,494
Board designated cash and investments	2,146,425	7,412,770	7,775,598
Total assets	<u>\$ 32,125,974</u>	<u>\$ 29,983,564</u>	<u>\$ 27,617,800</u>
LIABILITIES AND NET ASSETS:			
Current liabilities:			
Accounts payable	\$ 689,105	\$ 878,615	\$ 749,985
Accrued payroll liabilities	1,925,370	1,754,823	1,586,968
Deferred revenue	661,331	772,285	1,157,393
Long-term debt, current portion	42,400	43,077	24,906
Total current liabilities	<u>3,318,206</u>	<u>3,448,800</u>	<u>3,519,252</u>
Long-term debt	335,192	418,088	261,165
Total liabilities	<u>3,653,398</u>	<u>3,866,888</u>	<u>3,780,417</u>
Net assets:			
Unrestricted	28,382,459	26,084,956	22,950,853
Temporarily restricted	90,117	31,720	886,530
Total net assets	<u>28,472,576</u>	<u>26,116,676</u>	<u>23,837,383</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 32,125,974</u>	<u>\$ 29,983,564</u>	<u>\$ 27,617,800</u>

Financial Ratios:

	Proforma (a)			
	<u>FYE June 30, 2010</u>			
Debt service coverage (x)	26.41	58.56	108.64	56.40
Debt/Unrestricted Net Assets (x)	0.03	0.01	0.02	0.01
Margin (%)		5.71	12.56	5.26
Current Ratio (x)		3.45	2.96	3.26

(a) Recalculates FY 2010 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

VCC's income statement appears to exhibit positive operating results with continued revenue growth from an increase in patient services.

VCC appears to have maintained strong revenue growth during the review period. Net patient revenues have increased by 21%, while grant and contract income have increased by 30% from FY 2008 to FY 2010. The combination of these revenue sources has provided VCC with a growing diverse revenue source. According to VCC, the revenue growth in patient revenues is due to expanded access at its flagship site, Vale Terrace, which will expand further with this building project, as well as the relocation in July 2009 of the Grapevine site from a previously leased space to an owner occupied site. According to VCC, this relocation resulted in 50% more space. In addition, VCC experienced an increase in grant and contract income largely due to the ARRA grant opportunities.

VCC's increase in unrestricted net assets has been consistent during the review period ranging from \$1.3 million from FY 2008 to \$2.3 million from FY 2010, an increase of nearly 68% which VCC attributes to its successful capital campaign for the organization's Grapevine site. Along with growing revenues, VCC's expenses have grown by approximately 20% during the review period, which VCC says is reflective of the expansion in patient access and also includes expenses for the implementation of the organization's electronic health records system in FY 2010. VCC management indicates it is very mindful of containing expenses to align with any shifts in revenue, and has a contingency plan in place for the current and subsequent fiscal years in order to maintain a break-even or better bottom line position.

Particular Facts to Note:

- During FY 2010, VCC's management reports that VCC has experienced an increase in patient and third party revenues due to a Medi-Cal rate increase as well as a decrease in denials for Medi-Cal and other third-party payers following the implementation of a "denials management" processing system. The Denials management processing system is a computer software that tracks previous Medi-Cal denials.
- During FY 2008 to FY 2010, salaries and benefits have increased as a result of clinic growth and expansion of programs according to VCC's management. Additionally, VCC conducted a market survey and as a result of the survey, VCC implemented pay increases for medical providers. The pay increase allowed VCC to remain competitive and retain quality staff. In addition, VCC hired Information Technology staff to prepare for the implementation of an electronic health records system.
- In order to address the state budget cuts to Medi-Cal, VCC plans to increase the nominal fee for uninsured patient visits by \$10 and reduce its workforce by seven employees.

Financial Discussion – Statement of Financial Position (Balance Sheet)

VCC's balance sheet appears very strong with good liquidity, a strong current ratio, and significant net assets. The proforma debt service coverage is a very solid 26.41x.

Over the review period, cash and cash equivalents appears to increase approximately 17%, mostly due to a successful capital campaign program to expand facilities. Property, plant and equipment have increased from approximately \$8 million in FY 2008 to over \$18 million in FY 2010 due to the construction of VCC's new Grapevine clinic which opened in July 2009. The newly built clinic replaced a leased facility which was funded with 60% in grants/contributions and cash reserves, according to VCC's management. VCC's balance sheet appears solid with good liquidity of over \$7.7 million in cash and cash equivalent, \$20 million in new assets and a current ratio of 3.45x in FY 2010. VCC's proforma long-term debt to unrestricted net assets is 0.03x indicating VCC appears to be able to repay the proposed HELP II loan, given its financial position.

Particular Facts to Note:

- According to the VCC, its current cash position as of May 31, 2011 is \$9.5 million, of which \$3 million is earmarked for the construction project, leaving VCC with a very solid \$6.5 million in cash reserves.

EXHIBIT 1

UTILIZATION STATISTICS

Clients Served/ (Patient Visits) for Calendar Year Ended December 31,

	2010	2009	2008
Totals	56,734/(213,541)	56,291/(210,954)	52,443/(182,321)

EXHIBIT 2
OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding* As of June 30, 2010</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
Existing Long-Term Debt:			
CHFFA HELP II Loan, 2003**	\$400,000	\$225,000	\$0
City of Oceanside, 2009***	200,000	200,000	200,000
Proposed			
CHFFA HELP II, 2011		N/A	750,000
TOTAL DEBT		<u>\$425,000</u>	<u>\$950,000</u>

* Includes current portion of long-term debt.

** Loan to be paid in full by VCC, prior to the proposed new loan.

***Interest only payments of 3% per annum. The loan is expected to be forgiven in 2019.

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

The mission of VCC is to provide comprehensive primary health care and health education services, with a focus on those in need due to economic, social or cultural barriers. Since 1972, VCC has served a steadily increasing number of uninsured, indigent and underinsured working poor in the north San Diego County area. VCC operates five clinic sites: two in Vista and three in Oceanside.

Specific services provided include prenatal care, pediatrics, adult medicine, family planning, HIV screening and testing, dental care, health care for the homeless, preventive services such as hypertension screening, influenza, pneumonia inoculations clinics and childhood immunizations. Lab tests, medications, and health education classes are also available on-site.

VCC also has a broad education program which addresses alcohol, tobacco, and other drug prevention, HIV/AIDS education, testing and case management, reproductive health, breast health outreach and education, maternal and child health, diabetes, asthma, and outreach and education for seasonal agricultural workers.

Licensure, Certification and Accreditation

VCC is licensed by the California Department of Public Health to operate and maintain Community Clinics.