CHFFA HELP II PROGRAM
EXECUTIVE SUMMARY

Applicant:	Mayers Memorial Hospital District ("MMH") 43563 Hwy 299E Fall River Mills, CA 96028 Shasta County	**Amount Requested:** **Requested Loan Term:** **Authority Meeting Date:** **Resolution Number:**	$685,310 5-year fixed June 28, 2012 HII-271

Project Site: Same As Above
Facility Type: General Acute Care Hospital
Eligibility: A qualified health facility pursuant to Government Code Section 15432(d)(1)
Prior HELP II Borrower: No

Background: Founded in 1956, MMH serves a critical role in the provision of heath care to the nearby intermountain community (the next nearest hospital is approximately 70 miles away) providing extensive emergency, diagnostic, surgical and obstetric services. MMH also provides home delivered oxygen and medical supplies to a large geographic region. Additionally, MMH offers skilled nursing and an alzheimer unit to help ensure the availability of long-term care services for the local community. In FY 2011, MMH provided care to 17,321 patients.

Uses of Loan Proceeds: Loan proceeds will be used to enable MMH to complete the acquisition, configuration and installation of a new electronic health records system which will enable MMH to receive a substantial meaningful use reimbursement of roughly $2,000,000 and, with that reimbursement, to retire other debt associated with this big project. Loan proceeds will also be used to replace aging equipment. MMH aims to improve its quality of care by enhancing patient histories, implementing system reminders, reducing medication errors and wait time, upgrading equipment and improving communications amongst providers and patients.

Financing Structure:

- 5-year fixed rate loan.
- 60 equal monthly payments of approximately $13,477 (annual payments of about $161,718).
- 2nd lien on property located at 20597 Commerce Way, Burney, CA 96013.
- Corporate gross revenue pledge.
- County tax revenue intercept (2nd position behind 2011 GO COP's).
- UCC-1 lien on equipment.
- Combined loan to value ratio not to exceed 95% (estimated loan to value is 72.5%).

Financial Overview: MMH's income statement appears to exhibit improving operating results during the review period. MMH's balance sheet also appears solid with an improving debt service coverage ratio and growing net assets. The proforma debt service coverage ratio for the proposed HELP II loan appears to be acceptable at 1.32x.

Estimated Sources of Funds:			**Estimated Uses of Funds:**		
HELP II Loan	$	685,310	Purchase equipment/EMR	$	719,576
Borrower Funds		48,641	Financing costs		14,375
Total Estimated Sources	$	733,951	**Total Estimated Uses**	$	733,951

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: *(Included for the purpose of discerning conflicts of interest)*
N/A

Staff Recommendation: Staff recommends approval of Resolution Number HII-271 for Mayers Memorial Hospital District in an amount not to exceed $685,310 for a term not to exceed 5 years, contingent upon consent from the Office of Statewide Health Planning and Development (OSHPD), and contingent upon financing terms acceptable to the Authority. Macias Gini & O'Connell, LLP, the Authority's financial analyst, concurs with the Authority's staff recommendations.

(PD)

I. PURPOSE OF FINANCING: MMH will use the loan proceeds to complete the acquisition, configuration and installation of a new electronic health records system. Loan proceeds will also be used to replace aging equipment.

Purchase Equipment and Electronic Health Records System	***$719,576***

MMH seeks to complete a technology upgrade and, by doing so, to comply with a federal mandate to implement an electronic health records system. MMH will also replace aging equipment. MMH expects the electronic health records system to be operational by June 2013 and to be reimbursed roughly $2,000,000 in meaningful use payments from Medicare and Medi-Cal which will enable MMH to retire a $2 million United Health Group loan (proceeds from which had been used to initiate MMH's electronic health records project). The Help II Loan will provide MMH the funds needed to complete the electronic health records system project.

Additional HELP II funds will be used to replace aging equipment, including defibrillators, a glidescope, a transport ventilator and other miscellaneous equipment needed for patient care. MMH states that replacing the aging equipment will allow MMH to offer more services to the community at a local level instead of clients having to travel 70 plus miles to the next nearest hospital.

The HELP II loan will be primarily secured by a UCC-1 lien on equipment and secondarily, by a lien on the property located at 20597 Commerce Way, Burney, CA 96013 (2nd position subordinate to an existing OSHPD loan). The property is 33,813 square feet and located on a nine-acre lot. MMH estimates the property is valued at $6 million. The first lien is currently held by OSHPD in the amount of $3.6 million, thus leading to an estimated combined loan to value ratio of 72.5%. CHFFA will require an appraisal on this property prior to closing. As an additional layer of security, MMH has also agreed to provide an intercept of their district property tax revenues (2nd position behind MMH's 2011 general obligation certificates of participation).

Financing Costs		***14,375***
Authority Fees..	$9,375	
Title/Escrow Fees..	5,000	
Estimated Uses of Funds		***$733,951***

II. FINANCIAL STATEMENTS AND ANALYSIS

Mayers Memorial Hospital
Statement of Activities
(Unrestricted)

	As of June 30, 2011	2010	2009
Revenues and other support:			
Net patient service revenue	$ 17,406,044	$ 16,114,691	$ 20,367,276
Other revenue	126,679	180,895	246,682
Total revenue	17,532,723	16,295,586	20,613,958
Expenses:			
Salaries and wages	6,902,329	7,582,385	7,285,585
Employee benefits	2,953,191	2,787,394	2,951,886
Supplies	1,996,865	2,156,258	2,697,747
Professional fees	1,797,844	2,100,344	1,678,838
Purchased services	1,653,540	1,038,820	3,998,637
Depreciation & amortization	478,500	536,734	604,324
Utilities	440,416	424,128	411,241
Rents and leases	238,427	305,617	421,469
Insurance	430,475	209,466	194,562
Repairs & maintenance	156,972	183,369	113,272
Other	314,183	401,684	522,629
Total expenses	17,362,742	17,726,199	20,880,190
Operating income (loss)	169,981	(1,433,613)	(266,232)
Nonoperating income (expense)			
Tax Revenue	655,283	569,713	614,663
Interest income	785	452	6,150
Other income	697,226	212,398	134,554
Interest expense	(439,924)	(436,540)	(597,050)
Total Nonoperating income	913,370	346,023	158,317
Change in Unrestricted Net Assets	1,083,351	(1,084,590)	(107,915)
Unrestricted Net assets at beginning of year	(143,269)	941,321	1,049,236
Unrestricted Net assets at end of year	$ 940,082	$ (143,269)	$ 941,321

Payor Source*	**Percent**
Medi-Cal	38.88%
Medicare	34.97%
Third Party	17.77%
Private/Insurance/Grants	8.37%
Other	0.01%
Total	100%

Mayers Memorial Hospital
Financial Position

	2011	2010	2009
	As of June 30,		
ASSETS			
Current assets:			
Cash and cash equivalents	$ 1,259,127	$ 197,835	$ 185,706
Patient accounts receivable, net	2,975,939	3,278,965	5,102,016
Inventories	363,747	467,297	533,605
Estimated third-party payor settlements	314,598	309,475	-
Assets limited as to use - helf by trustee	302,927	161,353	138,885
Prepaid expenses	242,146	37,507	88,814
Cash held in trust for others	13,355	9,900	10,720
Note receivable - current portion	12,834	-	-
Other receivables	54,113	9,975	15,146
Total current assets	5,538,786	4,472,307	6,074,892
Note receivable			
Net of current maturities	24,057	-	-
Assets limited to use			
Under indenture agreeemnt - held by trustee	5,330,038	541,126	826,036
Less: Amount required to meet current obligation	(302,927)	(161,353)	(138,885)
Assets limited as to use - Net	5,027,111	379,773	687,151
Capitol assets - Net	4,109,376	4,036,032	4,391,093
Bond Issuance costs - Net	672,573	740,877	829,888
TOTAL ASSETS	15,371,903	9,628,989	11,983,024
LIABILITIES AND NET ASSETS			
Current liabilities:			
Curr maturities: long-term debt & cap lease obligations	$ 688,173	$ 762,293	$ 676,095
Line of credit	197,375	993,189	993,189
Accounts payable	1,271,759	2,031,673	3,700,264
Patient balances payable	338,555	171,242	-
Accrued expenses	749,772	604,157	835,830
Cash held in trust for others	13,355	9,900	10,720
Estimated third-party payor settlements	-	1,080,434	-
Total current liabilities	3,258,989	5,652,888	6,216,098
Estimated third-party payer settlements	737,513		
Deferred compensation			
Net of current portion		10,712	31,045
Long-term debt & capital lease obligations			
Net of current maturities	10,435,319	4,108,658	4,794,560
Total liabilities	14,431,821	9,772,258	11,041,703
Net assets:			
Invested in capital assets - net of related debt	795,234	447,084	576,362
Unrestricted	144,848	(590,353)	364,959
Total net assets (deficit)	940,082	(143,269)	941,321
TOTAL LIABILITIES AND NET ASSETS	$ 15,371,903	$ 9,628,989	$ 11,983,024

Financial Ratios:	Proforma (a) FYE June, 2011	2011	2010	2009
Debt service coverage (x) net	**1.32**	**1.67**	**(0.10)**	**0.89**
Debt/Unrestricted Net Assets (x)	**95.22**	**76.71**	**(8.25)**	**14.99**
Operating Margin (%)		**0.97**	**(8.80)**	**(1.29)**
Current Ratio (x)		**1.70**	**0.79**	**0.98**

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Financial Discussion – Statement of Activities (Income Statement)

MMH's income statement appears to exhibit improving operating results during the review period. MMH states the improvement in operations is a result of a new management team in place. In the middle of FY 2010, the new management team reviewed contracts the previous CEO had entered into and canceled or renegotiated a large number of the contracts to improve operations. MMH completed three rounds of layoffs to lower overhead costs and outsourced billing, which has increased the collection percentage on gross revenues.

Particular Facts to Note:

- MMH exhibits a positive change in unrestricted net assets of over $1 million in FY 2011, an improvement over FY 2010 and FY 2009 where MMH showed losses of $1 million and $107,000 respectively. MMH states the positive change is a result of the new CEO reducing expenses over the last three fiscal years and renegotiating surgery contracts.

- Total revenue declined 15% over the review period from approximately $20.6 million in FY 2009 to approximately $17.5 million in FY 2011. During this time, total expenses also declined at a higher rate of 17%, from approximately $20.8 million in FY 2009 to approximately $17.3 million in FY 2011. According to MMH, the decline in revenue and expenses over the review period was a result of the elimination of unprofitable surgery contracts, as well as the reduction in staff.

- According to MMH, MMH has strategically improved its operations by eliminating unprofitable surgery contracts that the previous administration had entered into with a surgery group. MMH indicates revenues will now increase as a result of this contract changes. MMH has restarted the surgery component with a guarantee of a percentage of collections and is currently in negotiations with other surgeons to expand this component.

- According to MMH and the FY 2011 audit, MMH retire the 2008 Medicare Repayment Plan loan in July 2012, which will result in a savings of $14,000 per month. The Medicare Repayment plan began in 2008 due to MMH being overly reimbursed by Medicare in previous years.

Financial Discussion – Statement of Financial Position (Balance Sheet)

MMH's balance sheet appears to be substantially improving during the review period with improving cash positions and accounts receivable collections, lower accounts payable and an improving debt service coverage ratio.

Particular Facts to Note:

- MMH's cash position has grown substantially over the review period with $1.25 million in cash and cash equivalents as of June 30, 2011 (roughly 27 days of operating cash reserve, slightly below CHFFA's benchmark of 30 days). According to MMH, MMH's cash position increased over the review period due to new and successful collection practices, which has allowed MMH to place more cash into reserves.

- Accounts payable decreased from approximately $3.7 million in FY 2009 to approximately $1.3 million in FY 2011 and, as of April 30, 2012, the interim unaudited financial statements reflect the accounts payable has further decreased to approximately $422,000. MMH states will also allow more cash to be placed into reserves. According to MMH, the decrease in accounts payable and the return of surgeries will allow MMH to increase cash on hand even further into the future.

- Accounts receivable (A/R) has been decreased during the review period due to outsourcing billing which has improved the collection process of old accounts receivable. A/R has decreased from $5.1 million in FY 2009 to $2.9 million in FY 2011, yet another indicator of an improving balance sheet.

- MMH appears to be highly leveraged at approximately 77.0x; however, the debt service coverage ratio is at a respectable 1.67x for FY 2011 and the proforma debt service coverage ratio is 1.32x, above CHFFA's target of 1.10x, which indicates that MMH should be able to make its debt payments. As of April 30, 2012, the interim unaudited financial statements continue to reflect a positive trend.

- According to MMH, healthcare reform has already had an impact on them by imposing an EMR requirement and prompting MMH to borrow $2 million to initiate the EMR project and now to seek additional funds from CHFFA to cover the remaining costs of installation and related equipment. The proposed HELP II loan will allow MMH to purchase the remaining equipment need for the EMR system and allow them to meet the meaningful use parameters set by Medi-Cal and Medicare. Once MMH retires the United Health Group loan with the anticipated meaningful use payments, the proforma debt service coverage ratio will improve to 1.87x. MMH states that with the uncertainties surrounding the current healthcare reform bill (and whether the Supreme Court will uphold the law), it is difficult to speculate the potential overall impact. In addition, there is an ongoing discussion that Medicare reimbursement will be reduced from 101 percent to 100 percent.

- MMH must obtain OSHPD's consent before it may incur additional debt, including the proposed CHFFA loan. Staff received a letter from OSHPD consenting to the additional debt for MMH in an amount not to exceed $685,310.

EXHIBIT 1

Patient Visits
Fiscal Year Ended June 30

	2009	2010	2011
Totals	18,093	18,689	17,321

EXHIBIT 2

OUTSTANDING DEBT

Date Issue:	Original Amount	Amount Outstanding as of 06/30/2011*	Estimated Amount Outstanding After Proposed Financing
Existing:			
Cal Mortgage, 2007	$6,005,000	$3,810,000	$3,810,000
Private Note Payable, 1983	100,000	16,089	16,089
Lease agreement with various companies	598,996	290,822	290,822
2011 Certificates of Participation	2,000,000	2,000,000	2,000,000
General Obligation Bonds, 2011 Series A	4,535,000	4,535,000	4,535,000
General Obligation Bonds, 2011 Series A	471,581	471,581	471,581
CHFFA HELP II Loan, 2012			685,310
Total		$11,123,492	$11,808,802

* Includes current portion of long-term debt.

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

MMH was founded 1956 and in 1969 area residents formed the Mayers Memorial Hospital District to support the future development and operations of the hospital. An elected Board of Trustees was formed to represent district residents. The Board of Trustees continues to guide the hospital mission and give their time to assure the continuation of hospital and emergency services in the district. Over 200 health professionals make up the energetic team that delivers comprehensive services to the residents of the Intermountain Area.

Licensure, Certification and Accreditation

MMH is a general acute care hospital licensed by the State of California Department of Public Health.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

Resolution Number HII-271

RESOLUTION APPROVING EXECUTION AND DELIVERY OF HELP II LOAN PROGRAM AGREEMENTS WITH CERTAIN PARTICIPATING HEALTH INSTITUTIONS

WHEREAS, the California Health Facilities Financing Authority (the "Authority"), a public instrumentality of the State of California, is authorized by the provisions of the California Health Facilities Financing Authority Act (the "Act") to make secured or unsecured loans to participating health institutions, as defined;

WHEREAS, the Authority established the HELP II Program to make loans to finance or refinance, among other things, all or a portion of the cost of acquiring, constructing, expanding, remodeling, renovating, improving, furnishing, or equipping health facilities as authorized by the Act;

WHEREAS, **Mayers Memorial Hospital District** (the "Borrower"), a political subdivision of the state and participating health institution, has applied to the Authority for a loan to finance the equipping of its facilities (the "Project"), and the application has been reviewed by the staff of the Authority and must be approved by the Authority;

WHEREAS, approval of the loan by the Authority is now sought;

NOW THEREFORE BE IT RESOLVED by the California Health Facilities Financing Authority, as follows:

Section 1. Pursuant to the Act, the Authority approves a loan to the Borrower, in the amount of **$685,310** for a term not to exceed **5 years** to purchase and install information technology equipment and software, as well as replacement equipment for aged equipment, as more particularly described in the application filed with the Authority, but solely to the extent there are available proceeds in the HELP II Program, as determined pursuant and subject to Section 2 hereof. This approval is further contingent upon the following conditions:

1. 5-year fixed rate loan;
2. 60 equal monthly payments of approximately $13,477 (annual payments of about $161,718);
3. Combined loan to value ratio not to exceed 95%;
4. UCC-1 Lien on Equipment;
5. Corporate gross revenue pledge;
6. 2nd lien on property located at 20597 Commerce Way, Burney, CA 96013; and
7. County district property tax revenue intercept (CHFFA in 2nd position behind 2011 GO COP's).

Section 2. The Executive Director is hereby authorized, for and on behalf of the Authority, to determine the final amount, terms and conditions of the loan approved pursuant to Section 1 hereof, and to approve any changes in the Project described in the application submitted to the Authority, as said officer shall deem appropriate and authorized under the Act (provided that the amount of the loan may not be increased above the amount approved by the Authority and provided further that the loan continues to meet the Authority's guidelines for HELP II loans). Nothing in this resolution shall be construed to require the Authority to obtain any additional funding, even if more loans are approved than there is available funding, or that the Executive Director determines shall be funded from the HELP II Program. Any notice to an applicant approved hereunder shall indicate that the Authority shall not be liable to the applicant in any manner whatsoever should such funding not be completed for any reason whatsoever.

Section 3. The Executive Director is hereby authorized and directed, for and on behalf of the Authority, to draw money from the HELP II Program fund not to exceed those amounts approved by the Authority for the Borrower approved in Section 1. The Executive Director is further authorized and directed, for and on behalf of the Authority, to execute and deliver to the Borrower in Section 1 any and all documents necessary to complete the transfer of funds.

Section 4. The Authority hereby finds that the loan approved in Section 1 is for a Project eligible for financing pursuant to provisions of the Act.

Section 5. The Executive Director of the Authority is hereby authorized and directed to do any and all things and to execute and deliver any and all documents which the Executive Director deems necessary or advisable in order to effectuate the purposes of this Resolution and the transactions contemplated hereby, and which have heretofore been approved as to form by the Authority.

Section 6. This resolution expires one year from the date approved.

Date Approved: ______________________