

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

Applicant:	Shingletown Medical Center, Inc. (Shingletown) 31292 Alpine Meadows Road Shingletown, California Shasta County	Amount Requested:	\$60,000
		Requested Loan Term:	4 years
		Date Requested:	July 31, 2003
		Resolution Number:	HII-151
Project Site:	31292 Alpine Meadows Road, Shingletown, California		
Facility Type:	Community Clinic Facility		
Use of Loan Proceeds:	Loan proceeds will be used to refinance a balloon payment. This refinancing will save approximately \$9,300 in interest expense over the life of the loan in comparison to a commercial rate loan. In addition, Shingletown has requested the Authority restructure its existing HELP II loan, which has a current balance of approximately \$224,000, to reduce annual loan payments by approximately \$23,000.		
Type of Issue:	HELP II Loan		
Prior HELP II Borrower:	Yes		
Payments Status:	Current		
Financial Overview:	Shingletown has been operating as a break-even organization, but has shown a positive trend in revenues and a strong demand for its services. The balance sheet shows adequate liquidity and a growing net asset balance.		
Sources of Revenue:	<u>Amount</u>	<u>Percent</u>	
(FYE 6-30-02)			
Net patient service	\$559,114	58%	
Grants and contracts	109,359	11%	
Other	23,462	3%	
Net assets released from restrictions	<u>258,508</u>	<u>28%</u>	
Total Revenue	<u>\$950,443</u>	<u>100%</u>	
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II loan	\$60,000	Refinance balloon payment	\$60,000
Equity contribution	<u>1,000</u>	Financing and other cost	<u>1,000</u>
Total Sources	<u>\$61,000</u>	Total Uses	<u>\$61,000</u>
Legal Review:	Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. Shingletown had a work stoppage for a construction contract due to a wetlands federal code violation. The contractor may file a claim in the amount of \$54,000 to recover lost wages if no arrangement is made to settle the dispute. This claim does not question the financial viability or legal integrity of this applicant.		
Staff Recommendation:	Staff recommends the Authority approve a resolution for a HELP II Loan to Shingletown Medical Center, Inc., in an amount not to exceed \$60,000 for a term of 4 years, and to restructure the existing HELP II loan for an additional term of 5 years with all other original terms to remain in effect and subject to the standard HELP II loan provisions.		

STAFF SUMMARY AND RECOMMENDATION

SHINGLETOWN MEDICAL CENTER, INC. (“ Shingletown”)

July 31, 2003

Resolution Number: HII-151

I. PURPOSE OF FINANCING:

Shingletown proposes to refinance a balloon payment of \$60,000 and restructure an existing CHFFA HELP II loan. The proposed refinancing will take advantage of lower interest rates that will save approximately \$9,300 over the life of the loan in comparison to a 10% commercial rate loan. The restructure of an existing CHFFA HELP II loan, which has a current balance of approximately \$224,000, will reduce annual payments by approximately \$23,000 and will improve cash flow. As a result, additional funds will be available to provide the level of health care that the community needs.

***Refinancing balloon payment*..... \$60,000**

A 5% note payable for \$60,000 to finance a telemedicine-computer system was due as a balloon payment on July 1, 2003, but the lender, CPCA Ventures through its agent NCB Development Corporation, has extended it until this loan is funded.

Restructuring existing CHFFA HELP II loan.

On June 24, 1999, CHFFA combined and restructured the remaining balances of its two outstanding HELP II loans into one HELP II loan of \$409,000 with a monthly payment of \$4,039 for a term of ten years. The loan has five years remaining with the maturity date of June 1, 2008. The loan is secured on property located at 31292 Alpine Meadows Road, Shingletown. As of July 17, 2003, approximately \$224,000 remains outstanding. The restructuring of this loan balance will extend the loan term for another five years to June 1, 2013. The restructured loan will have a new monthly payment of \$2,163.

***Financing Costs* 1,000**

1. Authority Closing Fee / other..... \$1,000

***Total*..... \$61,000**

Financing Structure:

The HELP II loan for Shingletown will be structured as follows:

New HELP II equipment loan:

- A \$60,000 HELP II loan for a 4-year term loan with 48 equal monthly payments of approximately \$1,330 (yearly payments of \$15,960).
- Total interest payments for a new HELP II loan is approximately \$3,800.

Existing HELP II loan restructure:

- Restructuring of an existing HELP II loan balance of \$224,000 for an additional 5-year term with maturity date extended from June 1, 2008 to June 1, 2013.
- The restructured HELP II loan with a new 10-year term and 120 equal monthly payments of approximately \$2,160 (yearly payments of \$26,000).
- Total interest payments for restructure of HELP II loan is approximately \$36,100.

Total loan security:

- Maintain a first deed of trust on the property located at 31292 Alpine Meadows Road, Shingletown, CA.
- Maintain a first lien on corporate gross revenues.
- UCC-1 filing on equipment to be refinanced.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Shingletown Medical Center, Inc.
Statement of Activities
(Unrestricted)

	For ten months ended April 30	For the year ended June 30		
	2003 (Unaudited)	2002	2001	2000
<u>REVENUE</u>				
Net patients service	\$ 447,597	\$ 559,114	\$ 467,972	\$ 285,807
Grants and contracts	148,773	109,359	144,678	169,210
Other	8,850	23,462	22,119	8,279
Net assets released from restrictions	143,508	258,508	101,781	-
Total revenues	<u>748,728</u>	<u>950,443</u>	<u>736,550</u>	<u>463,296</u>
<u>EXPENSES</u>				
Salaries and benefits	393,461	438,000	257,919	186,997
Clinic supplies and services	60,788	172,704	113,938	34,703
Contracted services	53,429	114,465	109,400	81,653
Maintenance and Utilities	44,851	53,406	39,154	30,987
Insurance	45,236	44,354	24,570	25,171
Legal and accounting	42,233	42,257	35,175	28,654
Other	36,701	67,109	58,249	35,838
Depreciation	28,345	33,260	27,094	25,201
Interest	12,967	18,207	14,535	15,270
Total expenses	<u>718,011</u>	<u>983,762</u>	<u>680,034</u>	<u>464,474</u>
Change in unrestricted net assets	30,717	(33,319)	56,516	(1,178)
Unrestricted net assets at beginning of year	368,932	402,251	345,735	346,913
Unrestricted net assets end of year	<u>\$ 399,649</u>	<u>\$ 368,932</u>	<u>\$ 402,251</u>	<u>\$ 345,735</u>

Shingletown Medical Center, Inc.
Statement of Financial Position

	<u>As of April 30</u>	<u>As of June 30</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
<u>Assets</u>	(Unaudited)			
Cash	\$ 287,768	\$ 232,742	\$ 98,036	\$ 1,565
Accounts and grants receivable	71,701	233,132	174,762	108,544
Other assets	817	1,565	10,747	4,780
Property and equipment, net	704,819	714,230	672,785	670,230
Total Assets	<u>\$ 1,065,105</u>	<u>\$ 1,181,669</u>	<u>\$ 956,330</u>	<u>\$ 785,119</u>
<u>Liabilities</u>				
Accounts payable	\$ 54,338	\$ 211,553	\$ 71,421	\$ 30,863
Accrued expenses	19,183	15,322	14,891	12,310
Other current debt	103,949	64,429	120,087	46,833
Deferred revenue-refundable advances (a)	218,982	218,982	16,600	25,788
Long-term debt	209,193	242,859	265,361	323,252
Total Liabilities	<u>605,645</u>	<u>753,145</u>	<u>488,360</u>	<u>439,046</u>
<u>Net Assets</u>				
Unrestricted net assets	399,649	368,932	402,251	345,735
Restricted net assets	59,811	59,592	65,719	338
Total Net Assets	<u>459,460</u>	<u>428,524</u>	<u>467,970</u>	<u>346,073</u>
Total Liabilities & Net Assets	<u>\$ 1,065,105</u>	<u>\$ 1,181,669</u>	<u>\$ 956,330</u>	<u>\$ 785,119</u>

Financial Ratios:

Proforma (b)
4/30/03

Debt Service Coverage (x)	<u>1.24</u>	0.23	2.12	0.85
Debt/Unrestricted Net Assets (x)	0.83	0.83	0.81	1.03
Margin (%)		(3.51)	7.67	(0.25)
Current Ratio (x) (c)		0.91	1.27	0.98

(a) Grant and contract awards received in advance of their intended project-program expenditures.

(b) Recalculates April 30, 2003 unaudited results to include the impact of this proposed financing.

(c) Current ratio includes current liability for grant funds to remodel the existing facility.

Financial Discussion:

Shingletown has been operating as a break-even organization, but has shown a positive trend in revenues and a strong demand for its services.

Shingletown derives over 50% of its revenue from patients services, with both Medi-Cal and Medicare being the primary source, followed by health insurance and private pay. The grants and contracts revenue consists of both private and state grants. The State Department of Health Services provides the major source of grants and contracts revenue.

Net patient service revenues have increased approximately 95% over our review period from fiscal 2000 to 2002, primarily due to the increase in retroactive adjustment of patient billing rates per cost reports for prior years. In addition, the billing rates increased under the new Medicaid Prospective Payment System (PPS), which allows Medi-Cal patients to be paid on a per visit basis in an amount equal to approximately 100% of the average costs incurred. Management expects that the revenues for fiscal 2003 and 2004 will increase due to the PPS patient fee reimbursements and the clinic remodeling project that will increase the volume of patient services.

Operating expenses also increased approximately 111% over our review period. The increases were significant from fiscal 2000 to 2002 as salaries and related expenses increased by 134% due to the increase in professional staff as a strategy to reduce contracted medical professionals. The jump in salaries and related expenses also resulted in the increase of insurance expenses by 76%, such as workers compensation and medical insurance. The increase in clinic supplies and services expense of 397% is a direct result of increased patient care not always compensated from revenues and a lack of a management control system at that time. The legal and accounting expenses increased by 47% with the hiring of a CFO consultant in late fiscal 2001 for improving management reporting and control systems. The other expenses increased 87% mostly for travel and training associated with the new management information system. A new CEO was appointed in October 2002 to improve profitability and cash flow. These measures already had a positive impact on total operating expenses for the current interim period.

Shingletown posted positive operating results through the current interim period. Despite the losses in fiscal 2000 and 2002, Shingletown's revenue growth, with attention to cost-cutting measures, provides indication for future profit margins. Management anticipates maintaining an operating margin of approximately 3% for fiscal 2003. Shingletown has had positive growth in unrestricted net assets and anticipates a \$30,000 increase in unrestricted net assets for fiscal 2003.

The balance sheet shows adequate liquidity and a growing net asset balance.

Shingletown improved its billing and collection procedures through the current interim period resulting in a substantial reduction of account receivable. In addition, Shingletown is holding cash for a grant project to remodel existing facility. As a result of these procedures, Shingletown improved its cash position and reduced its account payables at the end of April 2003. Shingletown has maintained positive cash flows with adequate liquidity as demonstrated by a current ratio of approximately 1.00x. With improved operating results,

net assets have grown 23% from fiscal 2000 to fiscal 2002. Shingletown carries a manageable debt load, as the proforma debt-to-unrestricted net assets ratio of 0.83. With this proposed loan, management anticipates meeting all of its debt obligations, including its other current debt, as evidenced by a proforma debt service coverage ratio of 1.24x.

III. UTILIZATION STATISTICS:

Patient Encounters

	Ten Months Ended April 30	Fiscal Year Ended June 30		
	2003	2002	2001	2000
	Medicare	1591	2206	1667
Medi-Cal	2072	2572	2348	2091
Child Health Disability and Prevention	66	72	90	54
Expanded Access to Primary Care	179	395	708	466
Other Programs	51	88	95	64
Self Pay-Private Insurance	2077	1997	1194	1125
Total Patient Encounters	6036	7330	6102	5061

Number of Patients

	Ten Months Ended April 30	Fiscal Year Ended June 30		
	2003	2002	2001	2000
	Medicare	226	313	159
Medi-Cal	452	561	476	490
Child Health Disability and Prevention	40	44	48	37
Expanded Access to Primary Care	61	134	209	179
Other Programs	16	28	31	28
Self Pay-Private Insurance	831	799	452	475
Total Number of Patients	1626	1879	1374	1449

IV. ORGANIZATION:

Background:

Shingletown was founded in 1985 and incorporated as a non-profit corporation to provide outpatient medical services to patients of the County of Shasta without regard to their ability to pay for such services. It has progressed from a small rural health service into a Rural Health Clinic and then to a Federally Qualified Health Center Look-Alike clinic. Today, it provides quality primary health care and preventive health services to the people of Shingletown and surrounding communities within the limits of its resources. These services include primary care, behavioral health, podiatry, chiropractic services, immunizations, well baby care, geriatric care and all ancillary services, that are supported by a qualified and experienced medical and health care staff. The board of directors is well represented by the members of the community, medical professionals and business leaders. To improve profitability and financial reporting, Shingletown has obtained the service of an experienced CPA as a CFO consultant in 2001 and hired a new CEO in 2002. The proposed remodeling of the existing facility with the grant funds will create badly needed space that will enable the clinic to serve more patients who need health care.

Licenses:

Shingletown is licensed as a community clinic by the State Department of Health Services (DHS). It receives full cooperation from Shasta County Health Department, the Mental Health Department and several hospitals.

Competition:

Shingletown is strategically placed in Shasta County to address the growing need for health care services for the population of approximately 4,800. It is the sole provider of primary health care and behavioral health services in an area of approximately 1,000 square miles.

[Intentionally Left Blank]

V. OUTSTANDING DEBT:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 4/30/03 (a)</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
CHFFA HELP II Loan, (Combined) 6/24/1999	\$409,000	\$238,434	\$238,434
CPCA Ventures, 7/1/2002	60,000	60,000	-0-
Note Payable, North Valley Bank, 11/15/2001	19,998	14,708	14,708
Proposed:			
CHFFA HELP II Loan, 2003	60,000	-	60,000
TOTAL DEBT		<u>\$313,142</u>	<u>\$313,142</u>

(a) Includes current portion.

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.

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

VII. SECTION 15459.1 (b) 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 (a) 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, (b) To make available to the authority and to any interested person a list of physicians with staff privileges at the borrower's facility, and (c) 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".

A copy of this executed certification is provided in Exhibit B.

VIII. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. Shingletown had a work stoppage for a construction contract due to a wetlands federal code violation. The contractor may file a claim in the amount of \$54,000 to recover lost wages if no arrangement is made to settle the dispute. This claim does not question the financial viability or legal integrity of this applicant.

IX. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan to Shingletown Medical Center, Inc., in an amount not to exceed \$60,000 for a term of 4 years, and to restructure the existing HELP II loan for an additional term of 5 years with all other original terms to remain in effect and subject to the standard HELP II loan provisions.

[Intentionally Left Blank]