

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
HEALTHCARE EXPANSION LOAN PROGRAM II (HELP II)
EXECUTIVE SUMMARY**

<p>Applicant: South Central Family Health Center (the Center) 1111 East Vernon Avenue Los Angeles, CA 90011 Los Angeles County</p>	<p>Loan Amount: \$2,000,000 Loan Term: 20 years Annual Interest Rate: 3% fixed Authority Meeting Date: July 25, 2024 Resolution No.: HII-357</p>
<p>Project Site: 3100 E. Florence Avenue, Huntington Park, CA 90255 Facility Type: Community Care Facility Eligibility: Government Code Section 15432(d)(6) Prior Borrower: No</p>	

Background: Since 1981, the Center has provided linguistically and culturally appropriate, comprehensive, affordable, and accessible family health care to the working poor and uninsured population of South Los Angeles. The Center is both a 501(c)(3) and a Federally Qualified Health Center (FQHC) with ten facilities in South and Southeast Los Angeles and the San Gabriel Valley.

Use of Proceeds: Loan proceeds will be used to renovate a newly purchased medical center to expand services and increase capacity.

Financing Structure:

- First lien on real property located at 3100 E. Florence Ave., Huntington Park, CA 90255
- 20-year, three percent (3%) fixed rate loan
- 240 equal monthly payments of approximately \$11,092 (annual payments of approximately \$133,103)
- A current appraisal that exhibits a loan-to-value ratio not to exceed 95%
- Executed construction contract
- Corporate gross revenue pledge
- Verification of borrower funds to close escrow

Financial Overview: The Center’s income statement appears to exhibit increasing revenues in each year of the review period. The Center appears to display a positive balance sheet with a pro-forma FY 2023 net debt service coverage ratio of 2.5x.

Estimated Sources of Funds:

HELP II loan	\$ 2,000,000
Applicant funds	1,557,000
Total Estimated Sources	<u>\$ 3,557,000</u>

Estimated Uses of Funds:

Renovations	\$ 3,525,000
Financing costs	32,000
Total Estimated Uses	<u>\$ 3,557,000</u>

Due Diligence: Staff has confirmed the documentation provided by the Center satisfies the California Health Facilities Financing Authority’s (Authority) eligibility and legal review requirements.

Staff Recommendation: Staff recommends the Authority approve Resolution No. HII-357 in an amount not to exceed \$2,000,000 for South Central Family Health Center, subject to the terms and conditions in the resolution. TAP International, Inc., the Authority’s financial analyst, concurs with the Authority staff’s recommendation.

STAFF SUMMARY, ANALYSIS, AND RECOMMENDATION

I. PURPOSE OF FINANCING

In September 2023, the Center purchased a facility to relocate its Huntington Park Family Health Center where the lease is set to expire in May 2025. The Center is requesting a HELP II loan for \$2,000,000 that will be used to renovate and remodel the newly purchased facility to allow the Center to expand its medical, dental, behavioral, and other services to the underserved people in this area. The current leased facility is two blocks away from the newly purchased facility, is smaller in size at approximately 9,000 square feet, and located in an obscure location. Since the newly purchased facility is in the same neighborhood, the Center will already have an established reputation and patients in the area. Additionally, the new facility is larger in size and located on a main street where it will gain more visibility and facilitate more visits than its current location.

***Renovations* \$3,525,000**

HELP II loan funds will be used to renovate the Center’s newly purchased 11,781 square-foot facility, which the Center anticipates will support an additional 3,000 patients per year. Renovations will create twenty exam rooms, a seven-chair dental clinic, an x-ray room, a lab, registration areas, waiting areas, two nursing stations, provider offices, an employee lunch area, and restrooms. Services provided on the first floor of the facility will include primary care, pediatrics, behavioral health, vision care, and women’s health while the second floor will offer specialty services such as podiatry, chiropractic and dental care. The Center plans to create a clinic where patients from newborns to seniors can receive all necessary care in one location.

The HELP II loan will be secured by a first (1st) lien position on the property located at 3100 E. Florence Avenue in Huntington Park. Additionally, the Center will provide an appraisal of the property, exhibiting a loan-to-value ratio not to exceed 95% before closing as well as an assurance of meeting the other security terms and conditions set forth in the resolution.

***Financing Costs* 32,000**

Authority Fees \$25,000
Estimated Escrow/Title Fees 7,000

Total Uses of Funds..... \$3,557,000

II. FINANCIAL STATEMENTS AND ANALYSIS

**South Central Family Health Center
Statement of Activities
(Income Statement)**

	Years ended December 31		
	2023	2022	2021
Operating revenues			
Unrestricted revenues, gains, and other support			
Net patient services revenues	\$ 8,026,320	\$ 8,821,409	\$ 7,681,349
Capitation revenues	17,927,891	14,269,532	11,793,827
Grant revenues	11,427,705	14,698,093	10,796,783
Contributions	204,479	128,798	425,362
Medical incentives	1,287,051	547,909	189,918
Pharmaceutical revenues	223,101	412,135	620,194
Other	57,892	43,199	487,620
Operating revenues before net assets released from restrictions used for operations	39,154,439	38,921,075	31,995,053
Net assets released from restrictions used for operations	375,989	146,687	852,189
Total operating revenues	39,530,428	39,067,762	32,847,242
Expenses			
Salaries and wages	20,361,329	17,242,997	15,882,528
Employee benefits	4,571,968	3,942,749	3,519,548
Purchased services and professional fees	6,465,745	5,633,982	4,855,217
Supplies and other	3,934,519	4,126,677	3,456,200
Rent	1,438,530	1,385,423	1,307,677
Depreciation	1,458,295	1,303,392	1,285,542
Interest	135,487	188,280	222,212
Total operating expenses	38,365,873	33,823,500	30,528,924
Income from operations	1,164,555	5,244,262	2,318,318
Other (loss) income			
Investment (loss) income, net	216,058	(76,251)	3,542
Increase in net assets without donor restrictions	1,380,613	5,168,011	2,321,860
Changes in net assets with donor restrictions			
Contributions with donor restrictions	275,594	250,000	775,000
Net assets released from restrictions used for operations	(375,989)	(146,687)	(852,189)
Increase (decrease) in net assets with donor restrictions	(100,395)	103,313	(77,189)
Change in net assets from operations	1,280,218	5,271,324	2,244,671
Net assets, beginning of year	16,549,410	11,278,086	9,033,415
Net assets, end of year	\$ 17,829,628	\$ 16,549,410	\$ 11,278,086

**South Central Family Health Center
Statement of Financial Position
(Balance Sheet)**

	As of December 31		
	2023	2022	2021
ASSETS			
Current assets			
Cash and cash equivalents	\$ 4,564,184	\$ 4,905,885	\$ 3,755,403
Short-term investments	1,822,335	2,392,145	513,441
Patient accounts receivable	1,674,245	1,931,709	1,438,827
Grants and other receivables	1,854,294	2,013,923	1,355,117
Estimated settlement amounts due from third-party payers	153,196	123,809	-
Prepaid expenses and other assets	122,956	142,364	176,454
Total current assets	<u>10,191,210</u>	<u>11,509,835</u>	<u>7,239,242</u>
Non-current assets			
Property and equipment, net	17,387,594	14,322,730	12,883,408
Right-of-use assets, net	3,079,159	4,222,066	-
Estimated settlement amounts due from third-party payers	846,305	846,657	-
Assets limited as to use - held by trustee	132,387	98,184	60,862
Deposits	98,488	96,488	96,488
Total non-current assets	<u>21,543,933</u>	<u>19,586,125</u>	<u>13,040,758</u>
Total assets	<u>\$ 31,735,143</u>	<u>\$ 31,095,960</u>	<u>\$ 20,280,000</u>
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable	\$ 1,138,914	\$ 1,000,898	\$ 1,121,605
Accrued expenses	2,585,614	2,338,368	1,851,471
Lease liability	1,249,198	1,270,548	-
Estimated settlement amounts due to third-party payers	882,257	954,940	164,301
Current portion of long-term loan	199,819	925,327	197,669
Total current liabilities	<u>6,055,802</u>	<u>6,490,081</u>	<u>3,335,046</u>
Non-current liabilities			
Long-term loan, net of current portion	2,556,113	2,756,350	5,040,095
Lease liability, net of current portion	1,875,372	2,951,518	-
Estimated settlement amounts due to third-party payers - long term	3,418,228	2,348,601	626,773
Total non-current liabilities	<u>7,849,713</u>	<u>8,056,469</u>	<u>5,666,868</u>
Total liabilities	<u>13,905,515</u>	<u>14,546,550</u>	<u>9,001,914</u>
Net assets			
Without donor restrictions	17,593,890	16,213,286	11,045,275
With donor restrictions	235,738	336,124	232,811
Total net assets	<u>17,829,628</u>	<u>16,549,410</u>	<u>11,278,086</u>
Total liabilities and net assets	<u>\$ 31,735,143</u>	<u>\$ 31,095,960</u>	<u>\$ 20,280,000</u>

	Proforma ^(a) FYE 12/31/2023	2023	2022	2021
Debt Service Coverage - Net (x)	2.5	2.8	17.3	9.9
Debt to Unrestricted Net Assets (x)	0.3	0.2	0.2	0.5
Margin (%)		2.9	13.4	7.1
Current Ratio (x)		1.7	1.8	2.2

^(a) Recalculates FY 2023 audited results to include the impact of this proposed financing.

Financial Discussion

The Center's income statement appears to exhibit increasing revenues in each year of the review period.

The Center's income statement shows operating revenues exceeded operating expenses in each year of the review period. Total operating revenues increased from approximately \$32.8 million in FY 2021, to approximately \$39.1 million in FY 2022, to just over \$39.5 million in FY 2023. The increase in operating revenues from FY 2021 to FY 2022 was due to increases in patient services revenues, capitation revenues, medical incentives, and grant revenues. Patient services revenues increased significantly from FY 2021 to FY 2022 due to an increase in the Center's reimbursement rate for Medicare Advantage, an upgraded alternative to Medicare that offers more coverage. The new rate allowed the Center to bill retroactively from 2015 to 2022. The FY 2023 patient services revenues reflect the new billing amount but declined overall since retroactive payments no longer apply. Capitation revenues improved in FY 2022 largely due to an increase in the Prospective Payments Systems (PPS) rate for Medi-Cal patients. Many of the Center's patients who were covered by the My Health LA insurance program at a rate of \$32 were converted to Medi-Cal insurance at a PPS rate of \$210. Additionally, a new law expanded Medi-Cal insurance to cover Californians ages 50 and older. The changes allowed the Center to enroll additional patients, which increased the average monthly visits by approximately 3,300 patients. The combination of the additional patients and the higher PPS rate resulted in higher capitation revenues that are expected to continue in the future. Medical incentives are continuously offered by state and federal programs like LA Care, Care 1st, and Health Net's incentive program for meeting and exceeding certain healthcare benchmarks set by the National Committee for Quality Assurance, including childhood and adolescent immunizations, cancer screenings, cardiac rehabilitation, women's health services, and dental services. As a result of the Center meeting the required benchmarks, its medical incentives revenues increased from over \$189,000 in FY 2021, to over \$547,000 in FY 2022, to over \$1.2 million in FY 2023. The Center's management expects medical incentive increases to continue. Grant revenues increased from FY 2021 to FY 2022 because the Center received additional COVID-19 related grant monies from five different government agencies in FY 2021. The Center was able to draw grant monies from the Health Resources and Services Administration, Title X Family Planning Services, the Substance Abuse and Mental Health Services Administration, and the American Rescue Plan in FY 2022.

The Center's management is actively working to increase total operating revenues by streamlining workflows with improved scheduling practices to reduce wait times and optimize patient workflow to increase the number of patients seen. Additionally, the Center will increase marketing and promotional activities in the community. The new facility is expected to bring in an additional 3,000 patients and increase total revenues by about 12%, compared to FY 2023. Expenses are projected to increase by about 11% compared to FY 2023.

The Center's total operating expenses also increased over the review period, with salaries and wages increasing 28%, from nearly \$15.9 million in FY 2021, to over \$17.2 million in FY 2022, and to nearly \$20.4 million in FY 2023. According to the Center's management, the increase was due to merit and cost of living increases for hourly employees. Exempt employees received two salary increases in FY 2021 and FY 2022 and one cost of living increase in FY 2023. Management approved an over 18% increase in salaries and wages in spite of the 1.2% increase in revenues to keep up with inflation, to attract and retain quality employees, and due to the high turnover rate.

The Center appears to display a positive balance sheet, with a pro-forma FY 2023 net debt service coverage ratio of 2.5x.

Over the three-year review period, the Center appears to have demonstrated an ability to repay its debt with a net debt service coverage ratio of 9.9x in FY 2021 and 17.3x in FY 2022. The net debt service coverage ratio decreased to 2.8x in FY 2023 due to several factors. A new loan was incurred in March 2021 that consolidated an existing loan along with a line of credit, which was not previously considered long-term debt. Also, in FY 2023, the Center made additional payments of over \$736,000 on two of its existing loans. These payments increased the Center's total annual payments for FY 2023 and decreased its net debt service coverage ratio. The addition of the new HELP II loan decreases the Center's FY 2023 pro-forma net debt service coverage ratio slightly to 2.5x, but it does not appear to impact the Center's ability to repay its debts.

The Center's indicators of financial liquidity appear to be strong, posting a current ratio of 2.2x in FY 2021 and 1.7x in FY 2023. The strong ratios are attributed to the Center's total current assets that increased steadily from just over \$20.3 million in FY 2021 to over \$31.7 million in FY 2023.

III. UTILIZATION STATISTICS

**Clients Served / Patient Visits
Fiscal Year Ending December 31,**

	2023	2022	2021
Totals	26,048 / 147,827	25,794 / 137,553	25,384 / 133,803

IV. OUTSTANDING DEBT

	<u>Original Amount</u>	<u>Amount Outstanding as of December 31, 2023</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
EXISTING LONG-TERM DEBT			
Bank of the West (2020)	\$ 2,570,000	\$ 1,449,218	\$ 1,449,218
Bank of the West (2021)	2,280,000	1,306,714	1,306,714
PROPOSED NEW DEBT			
HELP II Loan (2024)			2,000,000
TOTAL DEBT		<u>\$ 2,755,932</u>	<u>\$ 4,755,932</u>

V. BACKGROUND AND LICENSURE

Background

The Center was founded in 1981 by two former medical professionals who wanted to serve the uninsured, Latin American immigrant patients who had recently arrived to the South Central Los Angeles area. Initially, the small clinic only saw an average of 500 patients per year. Now, the Center serves an average of 25,000 patients per year via ten different clinics and has become a Federally Qualified Health Center committed to providing primary care, women's health services, pediatrics, prenatal and postpartum care, vision care, chiropractic, and sexual health to the historically underserved and uninsured families of South Los Angeles.

Licensure and Accreditation

South Central Family Health Center is licensed by the State Department of Public Health to operate and maintain community clinics.

VI. STAFF RECOMMENDATION

Staff recommends the Authority approve Resolution No. HII-357 in an amount not to exceed \$2,000,000 for South Central Family Health Center, subject to the terms and conditions in the resolution. TAP International, Inc., the Authority's financial analyst, concurs with the Authority's staff recommendation.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
HEALTHCARE EXPANSION LOAN PROGRAM II (HELP II)
Resolution Number HII-357

RESOLUTION APPROVING EXECUTION AND DELIVERY OF
HELP II 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 (Gov. Code, §15430 et seq.) (the “Act”) to provide secured or unsecured loans to participating health institutions to refinance existing debt and finance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing, or equipping of a health facility;

WHEREAS, the Authority established HELP II (the “Program”) to provide loans to participating health institutions as authorized by the Act;

WHEREAS, **South Central Family Health Center** (the “Borrower”), a California participating health institution, has applied to the Authority for a loan through the Program, and the application has been reviewed by the staff of the Authority; and

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 HELP II loan to the Borrower in an amount not to exceed **\$2,000,000** for a term not to exceed **20 years** for the purposes described in Exhibit A of this resolution (the “Project”), but solely to the extent there are available proceeds of the Program, as determined pursuant and subject to Section 2 hereof. This approval is further contingent upon the following conditions:

1. First lien on real property located at 3100 East Florence Avenue, Huntington Park, CA 90255
2. 20-year, three percent (3%) fixed-rate loan
3. A current appraisal that exhibits a loan-to-value ratio not to exceed 95%
4. Executed construction contract
5. Corporate gross revenue pledge
6. Verification of Borrower’s funds to close escrow

Section 2. The Executive Director and the Deputy Executive Director are hereby authorized, for and on behalf of the Authority, to determine the final amount, terms, and conditions of the loans, and to approve any changes in the Project described in the application submitted to the Authority, as that officer shall deem appropriate and authorized under the Act, provided that the amount of the loans shall not be increased above the amount approved by the Authority and provided further that the loans continue 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. Any notice to the Borrower shall indicate that the Authority shall not be liable to the Borrower in any manner whatsoever should such funding not be completed for any reason whatsoever.

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

Section 4. The Executive Director and the Deputy Executive Director of the Authority are hereby authorized and directed to do any and all things and to execute and deliver any and all documents that the Executive Director or the Deputy Executive Director deems necessary or advisable to effectuate the purposes of this resolution and the transactions contemplated hereby, and that have heretofore been approved as to form by the Authority.

Section 5. This resolution is repealed on January 31, 2025.

Date of Approval: _____

EXHIBIT A

USE OF HELP II LOAN PROCEEDS FOR RESOLUTION NO. HII-357

- Renovation of the facility located at 3100 East Florence Avenue, Huntington Park, CA 90255