

**CHFFA HELP II PROGRAM  
EXECUTIVE SUMMARY**

**Applicant:** Redwoods Rural Health Center, Inc. (“RRHC”)  
101 West Coast Road  
Redway, California, 95560  
Humboldt County

**Amount Requested:** \$573,000  
**Requested Loan Term:** 10 year fixed  
**Authority Meeting Date:** September 30, 2010  
**Resolution Number:** HII-257

**Project Site:** Same as above  
**Facility Type:** Community Clinic  
**Prior HELP II Borrower:** No. (However, RRHC is a former Community Clinic Grant recipient - \$77,000.)

**Background:** Established in 1976 in Humboldt County, RRHC operates a rural health clinic in Redway and a satellite facility in Alderpoint, California. RRHC’s services include family practice, general nursing, counseling/therapy, acupuncture and pediatric care. Revenues for this organization are derived from Medicare, Medi-Cal, other third party payors and patient self-pay.

**Uses of Loan Proceeds:** Loan proceeds will be used to refinance its 1990 Local Medical Facilities Financing Authority Insured Certificates of Participation (COP), which currently has a balance of approximately \$735,000. The HELP II loan will pay \$573,000 of the outstanding balance. The remainder will be paid from the Borrower’s existing funds. The refinance of this debt will reduce the variable interest rate from 7.55% to 3%, resulting in total interest savings of \$154,037 over the life of the loan.

**Financing Structure:**

- 120 equal monthly payments of approximately \$5,533 (yearly payments of approximately \$66,396).
- First (1st) lien position on the property located at 101 West Coast Road, Redway, California 95560.
- Loan to value ratio not to exceed 95% (estimated loan to value ratio of 46%).
- Corporate gross revenue pledge.

**Financial Overview:** RRHCs’ income statement appears to exhibit solid operating results during CHFFA’s review period. The proforma debt service coverage ratio is a sound 3.16x, indicating RRHC should be able to repay the proposed HELP II loan.

**Estimated Sources of Funds:**

HELP II Loan, (1 <sup>st</sup> )	\$573,000
Borrower Funds*	<u>180,000</u>
Total Sources	<u>\$753,000</u>

**Estimated Uses of Funds:**

Refinance loan	\$735,000
Financing costs	<u>18,000</u>
Total Uses	<u>\$753,000</u>

\*The Borrower has \$180,000 held by US Bank for limited use, which may not be tapped until December-2010, the estimated closing date of the HELP II loan.

**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)*

First American Title Company

**Staff Recommendation:** Staff recommends approval of Resolution Number HII-257 for Redwoods Rural Health Center, Inc., in an amount not to exceed \$573,000 for a term not to exceed 15 years, 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.

**I. PURPOSE OF FINANCING:** RRHC plans to refinance its 1990 Local Medical Facilities Financing Authority Insured Certificates of Participation (COP) which currently has an interest rate of 7.55%. This refinancing will result in an estimated overall interest savings of \$154,037 over the life of the loan.

***Refinance Certificates of Participation* ..... \$ 735,000**

RRHC intends to refinance an existing COP with an outstanding balance of \$735,000. The original loan was obtained in 1990 and used to expand the facility located at 100 West Coast Road, Redway CA. The COP has a current interest rate of 7.55% with a monthly payment of \$9,097 and is secured by the aforementioned real property, which includes a 6,000 square foot building. The facility is used to provide medical, dental, and mental health care services and is licensed as a community clinic.

According to RRHC management, the estimated value of the facility to be secured by the HELP II loan (100 West Coast Road) is \$1.25 million, leading to an estimated loan to value ratio of 46%. RRHC is in the process of having the property appraised and will provide CHFFA with a full written appraisal demonstrating satisfaction of the Authority's maximum loan to value ratio of 95% before the closure of the HELP II loan.

***Financing Costs* ..... 18,000**

Appraisal.....	\$8,000
Authority Fees.....	7,163
Title and Escrow .....	<u>2,837</u>

***Estimated Uses of Funds* ..... \$ 753,000**

## II. FINANCIAL STATEMENTS AND ANALYSIS

### Redwood Rural Health Center Statement of Activities (Unrestricted)

	For the Year Ended June 30,		
	2009	2008	2007
<b>Revenue and Support:</b>			
Patient and third party revenue, net	\$ 1,167,644	\$ 1,142,806	\$ 1,193,847
Grant revenue	1,061,998	1,059,095	1,227,255
Contributions and other support	14,746	45,273	3,247
Other	6,536	17,409	14,946
Total revenue and support	2,250,924	2,264,583	2,439,295
<b>Operating Expenses:</b>			
Salaries and benefits	1,502,797	1,476,338	1,635,362
Medical contractual services	102,701	90,294	103,991
Depreciation and amortization	98,016	143,358	129,794
Medical supplies and drugs	97,353	116,158	98,635
Bad debt expense	75,157	40,951	30,724
Interest	61,532	64,702	67,698
Purchased services	60,921	130,840	109,213
Other	44,690	46,436	85,653
Insurance	33,782	35,343	32,891
Travel, conferences and meetings	33,172	34,142	52,163
Communications	32,381	31,303	21,895
Utilities	29,159	29,676	31,867
Repairs and maintenance	13,827	16,991	18,391
Dues and subscriptions	10,823	10,128	12,206
Building and equipment rent	4,077	4,248	4,222
Total operating expenses	2,200,388	2,270,908	2,434,705
<b>Change in unrestricted net assets</b>	50,536	(6,325)	4,590
Unrestricted net assets, beginning of year	792,928	799,253	574,831
Unrestricted net assets, end of year	\$ 843,463	\$ 792,928	\$ 799,253

\*Net Patient Service Revenue for FYE June 30, 2009

<u>Payor Source</u>	<u>Percent</u>
Medicare	8%
Medi-Cal	46%
Other third party payors	11%
Private pay	35%
Total	100%

**Redwoods Rural Health Center**  
**Financial Position**

	As of June 30,		
	2009	2008	2007
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 148,991	\$ 99,731	\$ 104,999
Assets limited to use, current	219,326	226,088	260,264
Patient accounts receivable, net	134,107	100,900	114,036
Other receivables	22,647	24,529	36,090
Prepaid assets and deposits	29,248	24,582	30,071
Total current assets	554,319	475,830	545,460
Assets limited to use, net	126,129	128,357	133,408
Property and equipment, net	1,192,009	1,290,143	1,404,986
Total assets	1,872,457	1,894,330	2,083,854
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities:			
Current maturities of debt borrowings	\$ 50,000	\$ 45,000	\$ 40,000
Accounts payable and accrued expenses	65,446	71,687	132,759
Accrued payroll and related liabilities	105,023	104,170	122,219
Estimated third-party payor settlements	30,000	30,000	95,000
Deferred revenue	43,524	65,546	64,624
Total current liabilities	293,993	316,403	454,602
Debt borrowings, net current maturities	735,000	785,000	830,000
Total liabilities	1,028,993	1,101,403	1,284,602
Net assets:			
Unrestricted	843,463	792,928	799,253
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 1,872,456</b>	<b>\$ 1,894,331</b>	<b>\$ 2,083,855</b>

Financial Ratios:		Proforma (a) FYE June 30, 2009		
		2009	2008	2007
Debt service coverage (x)	3.16	1.97	1.93	1.88
Debt/Unrestricted Net Assets (x)	0.68	0.93	1.05	1.09
Margin (%)		2.25	(0.28)	0.19
Current Ratio (x)		1.89	1.50	1.20

(a) Recalculates FY 2009 audited results to include the impact of this proposed financing.

## **Financial Discussion – Statement of Activities (Income Statement)**

**RRHC's income statement appears to exhibit positive operating income for FY 2009.**

RRHC's main revenue source comes from patient and third-party payors, which makes up more than half of its total revenue. RRHC appears to have maintained stable patient and third-party revenues over the review period. RRHC has established agreements with the State of California to settle reimbursement rates and received almost \$400,000 rate adjustments in December 2009. RRHC uses this fund as an operating reserve fund. The second largest source of revenue comes from grants. Grant revenues appear to have decreased by 13% over the review period. In addition, RRHC's operating expenses have gone down steadily over the review period.

### **Particular Facts to Note:**

- Over the review period, RRHC has reduced its overall expenses by almost 10%, including reducing salaries and benefits by 8%.
- RRHC recorded a loss in FY 2008, as a result of decreases in grant revenues. RRHC attributed this loss to the absence of several one-time grants in FY 2007, including a Community Clinic Grant from CHFFA for \$77,000. RRHC reduced its expenses in FY 2008, but was unable to completely offset the loss in grant revenue.
- Bad debt expense has increased over the review period by 8.5%. The underlying issues contributing to this trend are the timing of collection processes and sub-optimal staffing in the billing area. RRHC's management expects that new office procedures and staff training on new computer systems will bring about revenue cycle improvements.
- Purchased services increased by 18% in 2009 due to the use of outside medical transcription services. RRHC says the new management has determined it is more cost effective to provide these services in-house.
- Depreciation expense has dropped by 11% over the review period due to the implementation of intermittent minor capital renovations, equipment, or investments over the review period. Another contributing factor was the aging of older capital investments that no longer appeared on depreciation schedules.

## **Financial Discussion – Statement of Financial Position (Balance Sheet)**

**RRHC's financial strength appears sound with a proforma debt service coverage ratio of 3.20x.**

RRHC appears to have a strong balance sheet and has maintained modest cash reserves over the review period with cash and cash equivalents in FY 2009 of \$149,000, which results in cash on hand of 25 days. The proposed HELP II loan will be used to pay off RRHC's only existing long-term debt.

### **Particular Facts to Note:**

- Over the review period, net accounts receivables were increasing while net patient revenue was decreasing or flat. This is due to historical problems in RRHC's billing systems as stated above. According to RRHC, the methods being used by RRHC to reduce bad debt would also lead to increases in accounts receivable.

- According to RRHC management, they have been able to decrease accounts payable by 51% over the review period by maintaining more cash on hand to make payments sooner.
- The proforma debt service coverage ratio is acceptable at 3.16x. RRHC appears to have the ability to meet its loan repayment obligation for the proposed HELP II loan.

**EXHIBIT 1**

**UTILIZATION STATISTICS**

**Clients Served / (Patient Visits) for Fiscal Year Ended June 30,**

	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Totals</b>	3,839 / (13,540)	3,774 / (12,954)	3,660 / (14,214)

**EXHIBIT 2**

**OUTSTANDING DEBT**

<b>Date Issued</b>	<b>Original Amount</b>	<b>Amount Outstanding* As of June 30, 2009</b>	<b>Estimated Amount Outstanding after Proposed Financing</b>
<b>Existing Long-Term Debt:</b>			
Local Medical Facilities Financing Authority 1990	\$1,250,000	\$735,000	\$0
<b>Proposed</b> CHFFA HELP II, 2010		N/A	<b>573,000</b>
<b>TOTAL DEBT</b>		<b>\$735,000</b>	<b>\$573,000</b>

\* Includes current portion of long-term debt.



## **EXHIBIT 3**

### **BACKGROUND AND LICENSURE**

#### **Background**

Redwoods Rural Health Center became a rural health center in 1976 with comprehensive and integrated medical, dental, and mental health care services. RRHC operates a rural health clinic in Redway and a satellite facility in Alderpoint, California. RRHC has a 700 square mile service area with a population of 12,000 low-income individuals. RRHC is governed by a community-elected Board of Directors and employs a staff of 30 individuals.

#### **Licensure, Certification and Accreditation**

RRHC is licensed by the California Department of Public Health to operate and maintain a community clinic, which is located at 101 West Coast Road, Redway, CA 95560.