

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

<p>Applicant: Yehowa Medical Services (Yehowa) 1039 W Florence Avenue Los Angeles, CA 90044 Los Angeles County</p> <p>Project Site: 5141 Crenshaw Boulevard, Los Angeles, CA 90043</p> <p>Facility Type: Community clinic</p> <p>Eligibility: Government Code Section 15432(d)(6)</p> <p>Prior HELP II Borrower: No</p>	<p>Loan Amount: \$2,000,000</p> <p>Loan Term: 20 years</p> <p>Annual Interest Rate: 2% fixed</p> <p>Authority Meeting Date: April 25, 2024</p> <p>Resolution No. HII-351</p>
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Background: Yehowa is a 501(c)(3) non-profit, community-based organization that was established in 2010 in response to the lack of sufficient healthcare services in the South Los Angeles area. Yehowa currently maintains five health clinics, a mobile unit, and three school-based clinics. Yehowa provides medical and social services to individuals and families regardless of their social, economic, or ethnic backgrounds.

Use of Proceeds: Loan proceeds will be used to purchase the property Yehowa is currently leasing located in Los Angeles County.

Financing Structure:

- First lien on real property located at 5141 Crenshaw Boulevard, Los Angeles, CA, 90043
- 20-year, two percent (2%) fixed rate loan
- 240 equal monthly payments of approximately \$10,118 (annual payments of approximately \$121,412)
- A current appraisal that exhibits a loan-to-value ratio not to exceed 95%
- Executed purchase contract
- Verification of other funding source(s), that is acceptable to the Authority, needed to complete the purchase of the property
- Corporate gross revenue pledge
- Verification of borrower's funds to close

Financial Overview: Yehowa's income statement appears to exhibit strong operating results each year of the review period. Yehowa appears to display a strong balance sheet with a pro-forma FY 2023 net debt service coverage ratio of 12.7x.

Estimated Sources of Funds:

HELP II loan	\$ 2,000,000
Bank loan	1,200,000
Borrower funds	30,000
Total Estimated Sources	<u>\$ 3,230,000</u>

Estimated Uses of Funds:

Purchase real property	\$ 3,200,000
Financing cost	30,000
Total Estimated Uses	<u>\$ 3,230,000</u>

Due Diligence: Staff has confirmed the following documentation provided by Yehowa satisfies the California Health Facilities Financing Authority's (Authority) requirements: Eligibility, Legal Review, and Religious Affiliation Due Diligence.

Staff Recommendation: Staff recommends the Authority approve Resolution No. HII-351 in an amount not to exceed \$2,000,000 for Yehowa Medical Services, subject to the terms and conditions in the resolution. TAP International, Inc., the Authority's financial analyst, concurs with the Authority's staff recommendation.

STAFF SUMMARY, ANALYSIS, AND RECOMMENDATION

I. PURPOSE OF FINANCING

Yehowa is requesting a HELP II loan to purchase property to be used as a community clinic located in Los Angeles County. Yehowa is currently leasing the facility that they plan on purchasing. Yehowa intends to use additional bank financing to complete the purchase of the property and will use its own funds to make some changes to the interior layout with exam rooms, waiting rooms, bathrooms, lab, and to add dental operatories. This location served 1,093 patients in FY 2023, and Yehowa anticipates a slight increase with the addition of dental services. Yehowa is currently leasing the facility for \$14,040 per month, and the repayment of the proposed monthly HELP II loan will be approximately \$10,118, a savings of 38.8% per month. Yehowa estimates the property is valued at approximately \$3.2 million, and Yehowa will fund the remainder of the purchase with other bank financing.

***Purchase Real Property*..... 3,200,000**

Yehowa plans to purchase a property in Los Angeles County that is 4,320 square feet, with six exam rooms, one lab room, six bathrooms, four provider offices, two waiting rooms, and other rooms for storage and/or other unspecified uses. Yehowa also plans to add an additional private room dedicated for dental services in the near future.

The HELP II loan will be secured by a first (1st) lien position on the property located at 5141 Crenshaw Boulevard in Los Angeles. Additionally, Yehowa will have to provide an appraisal for the proposed property, exhibiting a loan-to-value ratio not to exceed 95% before the time of closing as well as an assurance of meeting the other security terms and conditions set forth in the resolution. Yehowa will use other bank financing to complete the purchase of the property.

***Financing Costs*..... 30,000**

Authority Fee \$25,000
Estimated Escrow/Title Fee 5,000

Total Uses of Funds \$3,230,000

II. FINANCIAL STATEMENTS AND ANALYSIS

Yehowa Medical Services Statement of Activities (Income Statement)

	For the Years Ended June 30,		
	2023	2022	2021
Revenues and support			
Patient services, net of contractual allowances	\$ 16,172,826	\$ 11,537,459	\$ 2,540,091
Grants revenue	838,255	3,331,969	2,200,161
Other revenue	435,191	62,528	402,269
Net assets released from restrictions	-	30,000	-
Total revenue & support	<u>17,446,272</u>	<u>14,961,956</u>	<u>5,142,521</u>
Expenses			
Salaries and wages	6,171,327	4,912,816	2,800,833
Program expenses	2,424,554	1,513,925	521,096
Professional fees	1,335,673	445,062	252,023
Occupancy	502,905	287,931	263,747
Repairs and maintenance	353,442	93,796	37,748
Insurance	225,833	42,711	17,436
Office supplies	181,499	79,296	41,792
Conference, conventions and meetings	147,317	107,233	45,661
Depreciation and amortization	146,762	118,903	70,649
Donation	126,000	164,000	-
Amortization of goodwill	75,000	25,000	-
Interest	65,314	52,801	31,069
Total operating expenses	<u>11,755,626</u>	<u>7,843,474</u>	<u>4,082,054</u>
Change in net assets	<u>5,690,646</u>	<u>7,118,482</u>	<u>1,060,467</u>
Net Assets, beginning of year	<u>8,219,406</u>	<u>1,100,924</u>	<u>(69,742)</u>
Prior period adjustment	<u>(104,617)</u>	<u>-</u>	<u>110,199</u>
Net Assets, end of year	<u>\$ 13,805,435</u>	<u>\$ 8,219,406</u>	<u>\$ 1,100,924</u>

**Yehowa Medical Services
Statement of Financial Position
(Balance Sheet)**

	As of June 30,		
	2023	2022	2021
Assets			
Current assets			
Cash	\$ 3,760,652	\$ 1,302,540	\$ 1,239,576
Accounts receivable			
Patient accounts receivable, net	880,150	1,165,663	359,990
Estimated settlement amounts due from third party payers, current portion	3,802,399	3,202,284	484,228
Grants and contributions receivables	-	254,061	53,535
Receivable from employees - current portion	52,000	-	-
Prepaid expenses	10,557	5,400	43,500
Total current assets	<u>8,505,758</u>	<u>5,929,948</u>	<u>2,180,829</u>
Noncurrent Assets			
Property and equipment, net	1,945,005	1,708,292	375,852
Operating lease, right-of-use asset	2,275,146	-	-
Goodwill	650,000	725,000	-
Estimated settlement amounts due from third party payers, net of current portion	4,623,701	2,113,487	-
Receivable from employees - net of current portion	181,750	-	-
Deposits	64,089	60,089	26,503
Total noncurrent assets	<u>9,739,691</u>	<u>4,606,868</u>	<u>402,355</u>
Total assets	<u>\$ 18,245,449</u>	<u>\$ 10,536,816</u>	<u>\$ 2,583,184</u>
Liabilities and Net Assets			
Current liabilities			
Accounts payable	\$ 800	\$ 49,403	\$ 126,002
Accrued expenses	104,724	211,571	33,898
Payroll liabilities	237,550	195,731	126,962
Operating lease liability - current portion	310,487	-	-
Loans payable - current portion	244,520	279,173	159,247
Total current liabilities	<u>898,081</u>	<u>735,878</u>	<u>446,109</u>
Noncurrent Liabilities			
Operating lease liability - net of current portion	2,144,090	-	-
Loans payable - net of current portion	1,397,843	1,561,681	1,006,151
Deferred revenue	-	19,851	-
Total noncurrent liabilities	<u>3,541,933</u>	<u>1,581,532</u>	<u>1,006,151</u>
Total liabilities	<u>4,440,014</u>	<u>2,317,410</u>	<u>1,452,260</u>
Net assets			
With donor restrictions	-	-	30,000
Without donor restrictions	13,805,435	8,219,406	1,100,924
Total net assets	<u>13,805,435</u>	<u>8,219,406</u>	<u>1,130,924</u>
Total liabilities and net assets	<u>\$ 18,245,449</u>	<u>\$ 10,536,816</u>	<u>\$ 2,583,184</u>

	Proforma ^(a) FYE 6/30/2023	2023	2022	2021
Debt Service Coverage - Net (x)	12.7	17.1	34.4	12.1
Debt to Unrestricted Net Assets (x)	0.3	0.1	0.2	1.1
Margin (%)		32.6	47.6	20.6
Current Ratio (x)		9.5	8.1	4.9

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

Financial Discussion

Yehowa's income statement appears to exhibit strong operating results each year of the review period.

Yehowa demonstrates strong operating margins of 20.6% in FY 2021, 47.6% in FY 2022, and 32.6% in FY 2023 as total revenue and support increased each year. The increase in total revenues and support was primarily driven by patient services, which increased approximately 536.7% from approximately \$2.5 million in FY 2021 to just about \$16.2 million in FY 2023. According to Yehowa's management, revenue from patient services increased as Yehowa recently expanded from three to five locations and added a mobile unit. Yehowa's Medi-Cal claims also increased from 16,672 in FY 2021 to 31,904 in FY 2023.

Yehowa's total expenses also experienced a significant increase of 188% from approximately \$4.1 million in FY 2021 to nearly \$11.8 million in FY 2023. Yehowa's salaries and wages expense increased 120.3% from just about \$2.8 million in FY 2021 to nearly \$6.2 million in FY 2023 mainly because of the additional employees needed due to COVID-19. Yehowa management explains that the organization increased service sites from three clinics to five clinics, one mobile unit, and added three COVID -19 testing sites. Additionally, Yehowa increased salaries to stay competitive and instituted hazard pay, recruitment and retention bonuses, performance bonuses for all staff, and authorized additional overtime to handle increased patient load and hours of operation.

Additionally, in June 2020 and February 2021, Yehowa was approved for Paycheck Protection Program (PPP) loans through the Small Business Administration in the amounts of \$197,852 and \$303,388, which were forgiven in December 2020 and September 2021, respectively. Yehowa also received Health Resources and Services Administration COVID-19 grants for nearly \$297,000 and nearly \$447,000 in FY 2021 and FY 2022, respectively. Yehowa met and completed all reporting requirements for the grants.

Yehowa appears to display a strong balance sheet with a pro-forma FY 2023 net debt service coverage ratio of 12.7x.

Yehowa has demonstrated a strong ability to repay its debts with a net debt service coverage ratio of 12.1x, 34.4x, and 17.1x in FYs 2021, 2022, and 2023, respectively. Accounting for the new \$2 million HELP II loan, Yehowa appears to maintain a strong ability to repay its debts with a proforma FY 2023 net debt service coverage ratio of 12.7x.

Yehowa maintained cash and cash equivalents of nearly \$1.2 million in FY 2021 to approximately \$3.8 million in FY 2023. According to Yehowa, the increase in cash and cash equivalents is due to Prospective Payment System (PPS)¹ rate increases, PPS Reconciliations, and COVID-19-related programs, grants, and funding.

Yehowa's estimated settlement amounts due from third party payers, current portion, increased approximately 685.3% from nearly \$485,000 in FY 2021 to just about \$3.8 million in FY 2023. Yehowa explains this is due to the previously mentioned increased PPS rate and retroactively applied to PPS Reconciliation.

¹ A Prospective Payment System is a method of reimbursement in which Medicare payment is made based on a predetermined, fixed amount.

III. UTILIZATION STATISTICS

**Clients Served/ Patient Visits
Fiscal Year Ending June 30,**

	2023	2022	2021
Totals	5,207 / 34,580	8,245 / 66,610	5,273 / 22,585

IV. OUTSTANDING DEBT

	Original Amount	Amount Outstanding as of June 30, 2023	Estimated Amount Outstanding after Proposed Financing
EXISTING LONG-TERM DEBT			
Capital Impact Partners ^(a)	\$ 300,000	\$ 5,687	\$ -
Patterson Dental	293,033	120,209	120,209
U.S. Small Business Administration Loan	150,000	150,000	150,000
Capital Impact Partners	750,000	575,876	575,876
Pacific Premier Bank	780,000	699,982	699,982
Ally Financial	100,921	90,609	90,609
PROPOSED NEW DEBT			
HELP II Loan (2024)			2,000,000
TOTAL DEBT		\$ 1,642,363	\$ 3,636,676

^(a) Loan matured on July 1, 2023

V. BACKGROUND AND LICENSURE

Background

Yehowa was established in 2010 in response to the lack of sufficient healthcare services in the South Los Angeles area. Yehowa currently maintains an administrative office, five health clinics, a mobile unit, and three school-based clinics. Yehowa has a nine-person board of directors with backgrounds in finance, healthcare, social work, schooling, daycare and human resources.

In 2019, Yehowa was designated a non-profit Federally Qualified Health Center (FQHC) by the Federal Bureau of Primary Health Care. A health care facility is only eligible for FQHC status to the extent it is located in an area designated as a “Medically Underserved Area” or an area inhabited by a “Medically Underserved Population.” In addition to its qualifying location, FQHC organizations are also required to serve all people who qualify on the basis of income on a sliding scale, meet community involvement guidelines, provide a broad array of primary care services, maintain a board of directors and comply with regular financial audit and reporting obligations.

Licensure, Certification and Accreditation

Yehowa is licensed by the Department of Public Health to operate and maintain community clinics.

VI. STAFF RECOMMENDATION:

Staff recommends the Authority approve Resolution No. HII-351 in an amount not to exceed \$2,000,000 for Yehowa Medical Services, 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 No. HII-351

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; and

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

WHEREAS, **Yehowa Medical Services** (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 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 5141 Crenshaw Boulevard, Los Angeles, CA 90043
2. 20-year, two percent (2%) fixed rate loan
3. A current appraisal that exhibits a loan-to-value ratio not to exceed 95%
4. Executed purchase contract
5. Verification of other funding source(s), that is acceptable to the Authority, needed to complete the purchase of the property
6. Corporate gross revenue pledge
7. Verification of Borrower’s funds to close

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 loan, 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 loan shall 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. This resolution shall not 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 October 31, 2024.

Date of Approval: _____

EXHIBIT A

USE OF HELP II LOAN PROCEEDS FOR RESOLUTION NO. HII-351

- Purchase real property located at 5141 Crenshaw Boulevard, Los Angeles, CA 90043