

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

<p>Applicant: Mountain Valleys Health Centers (Mountain Valleys) 554 - 850 Medical Center Drive Bieber, CA 96009 Lassen County</p>	<p>Loan Amount: \$1,000,000 Loan Term: 15 years Annual Interest Rate: 4% fixed Authority Meeting Date: June 27, 2024 Resolution No.: HII-356</p>
<p>Project Site: 43658 State Hwy 299 E., Fall River Mills, CA 96028</p>	
<p>Facility Type: Nonprofit corporation operating community clinics</p>	
<p>Eligibility: Government Code Section 15432(d)(6)</p>	
<p>Prior HELP II Borrower: No</p>	

Background: Mountain Valleys is a 501(c)(3), Federally Qualified Health Center (FQHC) located in northeastern California. Mountain Valleys serves the residents of Lassen County with clinics in Big Valley, Fall River Mills, Burney, Butte Valley, Tulelake, Mount Shasta and Weed.

Use of Proceeds: Loan proceeds will be used to refinance an existing loan that was used to finance the construction of Mountain Valleys' Fall River Valley Health Center.

- Financing Structure:**
- First lien on real property located at 43658 State Hwy 299 E., Fall River Mills, CA 96028
 - 15-year, four percent (4%) fixed rate loan
 - 180 equal monthly payments of approximately \$7,397 (annual payments of approximately \$88,763)
 - A current appraisal that exhibits a loan-to-value ratio not to exceed 95%
 - Corporate gross revenue pledge
 - Verification of borrower funds to close escrow

Financial Overview: Mountain Valleys' income statement appears to exhibit fluctuating operating results over the review period. Mountain Valleys appears to display a strong balance sheet with a pro-forma FY 2023 net debt service coverage ratio of 29.3x

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II loan	\$ 1,000,000	Refinance	\$ 1,000,000
Applicant funds	<u>16,500</u>	Financing costs	<u>16,500</u>
Total Estimated Sources	<u>\$ 1,016,500</u>	Total Estimated Uses	<u>\$ 1,016,500</u>

Due Diligence: Staff has confirmed the following documentation provided by Mountain Valleys 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-356 in an amount not to exceed \$1,000,000 for Mountain Valleys Health Centers, 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

Mountain Valleys is requesting a HELP II loan to refinance its existing loan with Tri Counties Bank. In mid-June of 2024, the interest rate on the current loan reset and increased from 4.66% to 7.28%. With the interest rate increase, Mountain Valleys’ new annual payment is \$109,173. By refinancing, the new annual payment for the HELP II loan would be \$88,763, providing Mountain Valleys substantial savings of about \$20,000 per year or \$300,000 over the life of the loan. Mountain Valleys can refinance the Tri Counties Bank loan within 60 days of the interest rate reset date without penalty; however, a 5% pre-payment penalty takes effect after 60 days. The 5% prepayment penalty on a \$1,000,000 loan would be \$50,000. In addition, the existing Tri Counties Bank loan has a balloon payment of approximately \$762,000 due in May of 2029.

***Refinance* \$1,000,000**

In 2018, Mountain Valleys obtained a loan from Tri Counties Bank for the construction of its new Fall River Valley Health Center. The health center is 5,921 square feet and includes ten medical exam rooms, two behavioral health offices, a boardroom, and multiple administrative offices. Mountain Valleys has over 7,200 medical and behavioral health visits per year to about 2,500 unique patients at the Fall River Valley Health Center.

***Financing Costs*..... 16,500**

Authority Fees	\$12,500
Estimated Escrow/Title Fees	<u>4,000</u>

Total Uses of Funds \$1,016,500

II. FINANCIAL STATEMENTS AND ANALYSIS

Mountain Valleys Health Centers Statements of Operations and Changes in Net Assets

	For the Years Ended June 30,		
	2023	2022	2021
Revenues and other support			
Patient service revenue, net	\$ 9,973,319	\$ 9,614,194	\$ 9,431,858
Capitation revenue	860,547	806,726	738,219
Grant revenue	4,996,565	4,549,966	7,336,063
Other operating income	2,576,618	640,278	567,202
Net assets release from restrictions	177,893	374,286	195,470
Total revenues and other support	18,584,942	15,985,450	18,268,812
Expenses			
Salaries and benefits	10,915,844	9,888,759	8,708,391
Contracted services	974,799	826,586	789,809
Professional fees	928,713	827,816	595,037
Facilities	421,539	477,953	474,429
Supplies	829,312	820,016	1,259,924
Depreciation and amortization	484,480	383,750	344,173
Interest expense	50,619	42,978	71,920
Miscellaneous and other	1,895,626	1,539,378	1,774,577
Total expenses	16,500,932	14,807,236	14,018,260
Changes in net assets without donor restrictions	2,084,010	1,178,214	4,250,552
Change in net assets with donor restrictions			
Contributions	160,903	549,500	55,000
Net assets released from donor restriction	(177,893)	(374,286)	(195,470)
Change in net assets with donor restriction	(16,990)	175,214	(140,470)
Change in net assets	2,067,020	1,353,428	4,110,082
Net assets, beginning of year	12,052,675	10,699,247	6,589,165
Net assets, end of year	\$ 14,119,695	\$ 12,052,675	\$ 10,699,247

**Mountain Valleys Health Centers
Balance Sheets**

	As of June 30,		
	2023	2022	2021
Assets			
Current Assets			
Cash and cash equivalents	\$ 5,294,100	\$ 5,239,729	\$ 4,490,498
Patient accounts receivable, net	1,711,534	1,652,431	1,644,659
Grants and other receivable	520,162	292,563	1,132,838
Estimated third-party payor settlements	459,761	248,199	211,277
Prepaid expenses	361,386	328,545	245,646
Total current assets	<u>8,346,943</u>	<u>7,761,467</u>	<u>7,724,918</u>
Property and equipment, net	8,027,356	7,112,136	6,262,435
Total assets	<u>\$ 16,374,299</u>	<u>\$ 14,873,603</u>	<u>\$ 13,987,353</u>
Liabilities and Net Assets			
Current liabilities			
Accounts payable and other accrued expenses	\$ 479,714	\$ 237,476	\$ 439,456
Accrued payroll and related liabilities	541,755	573,420	690,929
Estimated third-party payor settlements	201,476	520,798	877,343
Deferred revenue	-	413,587	6,667
Long-term debt, current portion	41,749	39,852	37,893
Total current liabilities	<u>1,264,694</u>	<u>1,785,133</u>	<u>2,052,288</u>
Long-term liabilities			
Long-term debt	989,910	1,035,795	1,237,572
Unamortized debt issuance costs	-	-	(1,754)
Long-term debt, less unamortized debt issuance costs	<u>989,910</u>	<u>1,035,795</u>	<u>1,235,818</u>
Total liabilities	2,254,604	2,820,928	3,288,106
Net Assets			
Net assets without donor restrictions	13,958,793	11,874,783	10,696,569
Net assets with donor restrictions	160,902	177,892	2,678
Total net assets	<u>14,119,695</u>	<u>12,052,675</u>	<u>10,699,247</u>
Total liabilities and net assets	<u>\$ 16,374,299</u>	<u>\$ 14,873,603</u>	<u>\$ 13,987,353</u>

	Proforma			
	FYE 06/30/2023 ^(a)	2023	2022	2021
Debt Service Coverage - Net (x)	29.3	28.8	22.0	18.1
Debt to Unrestricted Net Assets (x)	0.1	0.1	0.1	0.1
Margin (%)		11.2	7.4	23.3
Current Ratio (x)		6.6	4.3	3.8

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

Financial Discussion

Mountain Valleys' income statement appears to exhibit fluctuating operating results over the review period.

Total revenues fluctuated over the review period, decreasing from approximately \$18.3 million in FY 2021 to \$16 million in FY 2022, but then rebounded back to nearly \$18.6 million in FY 2023. The decrease in FY 2022 was driven primarily by the decrease in grant revenue from approximately \$7.3 in FY 2021 to about \$4.5 million in FY 2022. According to Mountain Valleys' management, the decrease in grant revenue was primarily due to one-time COVID-19 related funding received in FY 2021, such as the Paycheck Protection Program funding and a number of stimulus grants from the United States Department of Health and Human Services. In FY 2021, Mountain Valleys received two Payment Protection Program loans, which have both been forgiven. The subsequent increase in total revenues in FY 2023 was mainly due to a substantial increase in other operating income, which increased from approximately \$640,000 in FY 2022 to nearly \$2.6 million in FY 2023. According to Mountain Valleys' management, other operating income in FY 2023 includes the amount received for the Earned Income Tax Credit as a result of lost income due to the COVID-19 pandemic.

In FY 2022, total expenses grew at a faster rate than total revenues but returned to a sustainable path with total revenues growing at a faster rate than total expenses in FY 2023. Salaries and benefits and professional fees were the main contributors to the increase in total expenses over the review period. Salaries and benefits increased from approximately \$8.7 million in FY 2021 to nearly \$9.9 million in FY 2022, and then to about \$10.9 million in FY 2023. According to Mountain Valleys' management, the increase in salaries and benefits was due to wage inflation along with COVID-19 related costs. Professional fees increased 56% over the review period, from approximately \$595,000 in FY 2021 to nearly \$828,000 in FY 2022, and then to approximately \$929,000 in FY 2023. The increase in professional services was due to Mountain Valleys losing providers in both its medical and dental departments and having to pay higher contracted wages for physicians providing the services on a temporary basis. In its next budget cycle, Mountain Valleys projects having six permanent contracted providers along with three temporary providers, which is typical due to the lengthy recruitment process for permanent providers in a rural setting.

Mountain Valleys appears to display a strong balance sheet with a pro-forma FY 2023 net debt service coverage ratio of 29.3x.

Mountain Valleys appears to show a strong ability to repay debt, showing a debt service coverage ratio of 18.1x in FY 2021, 22x in FY 2022 and 28.8x in FY 2023. With the savings from the new HELP II loan, Mountain Valleys' pro-forma FY 2023 net debt service coverage ratio increases slightly to 29.3x, indicating its ability to comfortably repay the HELP II loan. Because Mountain Valleys has only one loan outstanding, its debt to unrestricted net assets is 0.1x in each year of the review period. As the refinancing loan is replacing existing debt, Mountain Valleys' pro-forma FY 2023 debt to unrestricted net assets ratio remains unchanged at 0.1x.

Mountain Valleys appears to demonstrate an improving current ratio, an indicator of financial liquidity, increasing from 3.8x in FY 2021 to 4.3x in FY 2022 and 6.6x in FY 2023. The strong ratios can be attributed to cash and cash equivalents increasing from approximately \$4.5 million in FY 2021 to nearly \$5.3 million in FY 2023. The increase in cash and cash equivalents was due to an increase in grants and other revenue funds.

III. UTILIZATION STATISTICS

**Client Visits / Patient Visits
Fiscal Year Ending June 30,**

	2023	2022	2021
Totals	11,341 / 49,753	11,480 / 46,779	10,780 / 45,268

IV. OUTSTANDING DEBT

	<u>Original Amount</u>	<u>Amount Outstanding as of June 30, 2023</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
EXISTING LONG-TERM DEBT			
Tri Counties Bank (2018)	\$ 1,200,000	\$ 1,031,659	\$ -
PROPOSED NEW DEBT			
HELP II Loan (2024)			1,000,000
TOTAL DEBT		<u><u>\$ 1,031,659</u></u>	<u><u>\$ 1,000,000</u></u>

V. BACKGROUND AND LICENSURE

Background

Mountain Valleys is a nonprofit, 501(c)(3) FQHC located in northeastern California. Mountain Valleys is composed of eight facilities and serves the residents in the communities of Big Valley, Fall River Mills, Burney, Butte Valley, Tulelake, Mount Shasta and Weed. Mountain Valleys' clinics provide primary medical, behavioral health, and family dentistry services to over 11,500 patients. Mountain Valleys also offers specialty care services including podiatry, pediatrics, orthopedics, psychiatry, obstetrics and gynecology, chiropractic, and cardiology.

Mountain Valleys' mission is to serve its rural communities with complete quality care and friendly customer service, providing exceptional healthcare for all.

Licensure, Certification and Accreditation

Mountain Valleys Health Centers is licensed by the State Department of Public Health to operate and maintain its community clinics.

VI. STAFF RECOMMENDATION

Staff recommends the Authority approve Resolution No. HII-356 in an amount not to exceed \$1,000,000 for Mountain Valleys Health Clinics, 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-356

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, **Mountain Valleys Health Centers** (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 **\$1,000,000** for a term not to exceed **15 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:

For refinance loan

1. First lien on real property located at 43658 State Hwy 299 E., Fall River Mills, CA 96028
2. 15-year, four percent (4%) fixed-rate loan
3. A current appraisal that exhibits a loan-to-value ratio not to exceed 95%
4. Corporate gross revenue pledge
5. 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 December 31, 2024

Date of Approval: _____

EXHIBIT A

USE OF HELP II LOAN PROCEEDS FOR RESOLUTION NO. HII-356

- Refinance existing loan with Tri Counties Bank, which was originally obtained in 2018 with a principal amount of \$1,200,000.