

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

(CHFFA)

EXECUTIVE SUMMARY

Applicant: Clinicas de Salud del Pueblo, Inc. (the "Clinic")	Amount Requested: \$4,500,000
1166 K Street	Requested Loan Term: 15 years
Brawley, CA 92227	Date Requested: Dec. 6, 2007
Imperial County	Resolution Number: 325

Project Sites: 223 W. Cole Boulevard, Calexico, California, Imperial County
 900 Main Street, Brawley, California, Imperial County

Facility Type: Community Clinics

Background: The Clinic provides primary health care to the low income and medically underserved populations of Imperial and Riverside Counties. The Clinic offers comprehensive preventative and treatment services, pediatric care, adult medicine, family planning, perinatal care and delivery, health education, HIV testing and treatment, Women, Infant and Child food voucher program and some laboratory services.

Use of Bond Proceeds: Bond proceeds will be used to refinance the 1992 Local Medical Facilities Financing Authority Certificate of Participation and the 1998 CHFFA Bonds. This refunding will result in a net present value savings of over \$259,000 over the life of the bonds, improve cash flow and eliminate the on-going Cal-Mortgage fee.

Type of Issue:	Negotiated public offering with a fixed interest rate
Credit Enhancement:	Cal-Mortgage Insurance
Expected Credit Rating:	A+ (S&P) based on Cal-Mortgage Insurance
Senior Underwriter:	Altura, Nelson & Co., Incorporated
Bond Counsel:	Quint and Thimmig LLP

Financial Overview: The Clinic's income statement exhibits declining results with negative net income over the past two fiscal years but the Clinic appears to be taking steps to increase revenues and cut costs. The balance sheet looks to have grown with the opening of a new clinic. The Clinic has the likelihood to manage the loan obligation.

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
Bonds Par Amount	\$4,500,000	Refunding	\$3,922,083
Borrower's Equity	<u>145,140</u>	Debt Service Reserve	378,575
		Bond Insurance	168,750
		Financing Cost	<u>175,732*</u>
Total Sources	<u>\$4,645,140</u>	Total Uses	<u>\$4,645,140</u>

*Note that costs will be higher if not issued in a pool.

Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.

Staff Recommendation: Staff recommends the Authority approve a resolution for Clinicas de Salud del Pueblo, Inc. in an amount not to exceed \$4,500,000 for a term of 15 years and financing terms acceptable to the Authority subject to a final Cal-Mortgage Insurance commitment.

STAFF SUMMARY

Clinicas de Salud del Pueblo, Inc.

(the “Clinic”)

December 6, 2007

Resolution Number: 325

FINANCIAL PROVISION: A request has been made to approve this loan with the pro-forma debt service coverage ratio of 1.04x, which is below CHFFA’s guideline of 1.25x. The Clinic has taken an active approach to addressing its financial situation and implemented a Financial Recovery Plan. Cal-Mortgage agreed to insure this loan based on this Financial Recovery Plan, which has taken measures to reduce expenses while increasing revenue. Staff recommends the Authority accept the pro-forma debt service coverage ratio of 1.04x in lieu of 1.25x in consideration of Cal-Mortgage providing credit enhancement to this loan.

I. PURPOSE OF FINANCING: The Clinic intends to refund the 1992 Local Medical Facilities Financing Authority Certificate of Participation and the 1998 CHFFA Bonds. Restructuring these debts will produce an estimated net value savings of \$259,000 over the life of the bonds and improve cash flow for the Clinic.

***Refinance existing bonds*\$3,922,083**

Local Medical Facilities Financing Authority\$1,285,000

The Local Medical Facilities Financing Authority 1992 Certificate of Participation was used to construct an approximate 12,718 square foot primary health clinic in Calexico. The original bond amount was \$1,720,000 with an interest rate of 6.9% and had a final maturity of July 1, 2022. The project has been completed.

California Health Facilities Financing Authority2,637,083

The California Health Facilities Financing Authority 1998 bonds were used to construct an approximately 19,000 square foot building on donated land to be used as a health clinic in Brawley, California. The original bond amount was \$3,250,000 with a fixed interest rate of 4.5% to 5.25% and had a final maturity of June 1, 2023. The project has been completed.

***Debt Service Reserve* 378,575**

***Bond Insurance* 168,750**

Financing Costs **175,732**

Cost of issuance \$132,392

Underwriter's discount 43,340

Total..... **\$4,645,140**

Financing Structure and Terms:

- Negotiated public offering with serial and term bond maturities.
- Fixed interest rates.
- 15-year loan with final maturity date of 2023.
- Credit enhancement – Cal-Mortgage Insurance.
- Expected Credit Rating: A + (S&P), based on Cal-Mortgage Insurance.
- Debt Service Reserve Fund.
- Contractual obligation to repay, including gross revenue pledge.
- Financial covenants acceptable to the Authority.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Clinicas de Salud del Pueblo, Inc. Statement of Activities

	<u>For the year ended December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
<u>REVENUES</u>			
Support			
Net patient services	\$ 12,220,992	\$ 12,147,838	\$ 11,968,523
Grant revenue	2,155,386	1,928,674	1,717,473
Other income	136,484	77,944	49,061
Total support and revenue	<u>14,512,862</u>	<u>14,154,456</u>	<u>13,735,057</u>
Net assets released from restrictions	2,715,690	2,022,316	2,152,153
Total revenues	<u>17,228,552</u>	<u>16,176,772</u>	<u>15,887,210</u>
<u>EXPENSES</u>			
Salaries and fringe benefits	11,460,997	10,594,372	10,635,281
Contracted services	1,923,370	1,888,242	1,492,205
Equipment	68,496	96,535	123,286
Medical supplies	234,165	217,627	182,368
Office supplies	180,686	166,561	150,725
Laboratory supplies	37,495	16,156	10,313
Dental supplies	186,334	165,662	131,927
X-ray supplies	14,730	16,342	14,186
Housekeeping supplies	25,016	28,387	82,174
Other supplies	85,006	82,853	23,912
Durable supplies	49,782	57,751	60,364
Pharmacy supplies	302,770	277,047	345,370
Rent/Lease	468,721	392,623	356,215
Utilities	265,216	219,553	203,741
Maintenance repair of buildings	73,611	72,545	52,329
Property tax	6,898	8,512	19,149
Interest	292,630	255,512	271,808
Hazardous waste	53,292	43,972	37,420
Telephone	272,623	241,221	230,519
Postage	29,284	24,517	18,085
Advertising	11,806	4,460	12,400
Pagers and answering services	10,498	9,646	10,024
Publications	4,488	9,612	5,935
Freight	26,085	24,603	22,915
Travel	386,108	448,607	277,081
Dues/Licenses	41,603	37,252	57,306
Insurance	196,366	287,753	257,278
Training/Education	177,305	136,871	122,386
Recruitment	47,772	67,792	29,001
Other expenses	159,530	150,184	150,672
Depreciation	278,338	250,571	263,038
Total expenses	<u>17,371,021</u>	<u>16,293,341</u>	<u>15,649,413</u>
Change in unrestricted net assets	(142,469)	(116,569)	237,797
Temporarily restricted net assets	41,839	676,559	360,457
Change in net assets	(100,630)	559,990	598,254
Net assets at beginning of year	6,132,202	5,572,212	4,973,958
Net assets end of year	<u>\$ 6,031,572</u>	<u>\$ 6,132,202</u>	<u>\$ 5,572,212</u>

Clinicas de Salud del Pueblo, Inc.
Statement of Financial Position

As of December 31,

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<u>Assets</u>			
Current assets:			
Cash	\$ 137,705	\$ 693,378	\$ 473,016
Cash-restricted	871,417	945,990	819,755
Patient accounts receivable, net	1,813,892	1,040,536	1,282,158
Grants receivable	3,009,186	2,983,258	2,383,811
Estimated third party payor settlements	459,782	825,820	309,100
Other receivables	36,237	3,163	1,768
Prepaid expenses	92,088	101,518	104,566
Inventory	30,142	23,607	26,903
Deposits	-	-	250,000
Total current assets	<u>6,450,449</u>	<u>6,617,270</u>	<u>5,651,077</u>
Property and equipment	5,982,745	5,614,400	5,640,960
Total assets	<u>\$ 12,433,194</u>	<u>\$ 12,231,670</u>	<u>\$ 11,292,037</u>
<u>Liabilities & Net Assets</u>			
Current liabilities:			
Accounts payable	\$ 671,447	\$ 644,185	\$ 517,003
Line of credit	500,000	500,000	150,000
Accrued expenditures	363,497	322,266	300,656
Other liabilities	266,639	157,859	280,815
Accrued interest	163,166	162,538	147,816
Current portion long-term debt	304,756	214,467	165,316
Total current liabilities	<u>2,269,505</u>	<u>2,001,315</u>	<u>1,561,606</u>
Long-term debt	<u>4,132,117</u>	<u>4,098,153</u>	<u>4,158,219</u>
Total liabilities	6,401,622	6,099,468	5,719,825
Unrestricted	3,001,092	3,143,560	3,260,130
Temporarily restricted	<u>3,030,480</u>	<u>2,988,642</u>	<u>2,312,082</u>
Total net assets	6,031,572	6,132,202	5,572,212
Total liabilities & net assets	<u>\$ 12,433,194</u>	<u>\$ 12,231,670</u>	<u>\$ 11,292,037</u>

Financial Ratios:

Proforma (a)
12/31/2006

Debt service coverage (x)	1.04	0.68	0.83	1.77
Debt/unrestricted net assets (x)	1.66	1.49	1.37	1.33
Margin (%)		(0.83)	(0.72)	1.50
Current ratio (x)		3.62	3.31	2.84

(a) Recalculates 2006 audited results to include the impact of this proposed financing.

Financial Discussion:

The Clinic's income statement exhibits declining results with negative net income over the past two fiscal years but the Clinic appears to be is taking steps to increase revenues and cut costs.

For the past three fiscal years, net patient revenue has remained in a positive trend. However, fiscal years ending 2005 and 2006 appeared to exhibit losses of \$116,569 and \$142,469, respectively. The Clinic attributes the decline to the following:

- (1) The relocation of two of its larger sites resulting in a drop in revenue for a short duration of time.
- (2) In fiscal year 2005, the Clinic incurred higher expenses for contracted services due to the vacancies of five physician positions and one dentist position.

In fiscal year 2006, the Clinic replaced the physicians that had left but the Clinic continued to use locum tenems for provider absences. This practice was not monitored efficiently until this year.

- (3) In fiscal year 2006, the Clinic purchased a practice management program and equipment and opened its West Shores satellite clinic.
- (4) The Clinic self-insures its employees and experienced a high number of health claims in fiscal year 2006.
- (5) When El Centro Clinic, one of the Clinic's nine clinics relocated, the rent increased by approximately \$2,000 a month and the Clinic incurred the property tax expense as part of the lease, in the amount of approximately \$25,000 a year. Upon moving to its new location with the guidance of the Director of Operations, the El Centro Clinic increased its encounters and revenue. Presently, management is researching if the Clinic can qualify the landlord for exempt status on payment of its property taxes due to the Clinic being a non-profit.

Mecca Clinic is another one of the Clinic's nine clinic that was renting a 1,935 square foot facility from Mecca Housing Associates. The facility had 4 exam rooms and rented for \$1,645 a month plus utilities.

Mecca Clinic then moved with the County of Riverside into a new facility, which used 6,893 square feet for 10 exam rooms and an additional space of 1,792 square feet for a dental facility. The Clinic's rental expense increased to \$7,382 a month plus utilities. Utilities increased because of the larger facility. The County of Riverside required the Clinic to use the County's maintenance staff. This maintenance expense is \$6,348 a month.

The Clinic expects to improve operating results by having implemented the following multi-faceted strategic plan:

- (1) Embarked upon an aggressive cost control initiative to reduce operating costs which included replacing locum tenens and related travel expenses with regular full-time employees that float from one clinic to another based on need and/or provider absences. Analyzed clinic sites for provider need based on patient base and eliminated one provider. Also reduced staffing by attrition.

In addition, a dental facility was added to Mecca Clinic, which provides a service to an underserved population. These dental encounters provide more revenue. Also, since the Mecca medical facility increased the number of exam rooms, they are able to see more patients, generating more encounters and revenue.

- (2) Hired a Director of Operations to oversee and revamp operational flow.
- (3) Re-aligned salaries for various staff groups to industry standards.
- (4) Analyzed staffing ratios since salaries are over budget.

Operating income for the interim period through September 30, 2007 was a negative \$68,000, primarily due to timing issues for Medicare and Medi-Cal. According to management, the financial outlook for the next three fiscal years is one of stability and recovery from the financial deficits. Emphasis will be placed on efficient patient flow as well as an increase in provider productivity, which in turn will bring in more revenues to cover the Clinic's budgeted expenses.

The balance sheet looks to have grown with the opening of a new clinic. The Clinic has the likelihood to manage the loan obligation.

The Clinic's current balance sheet looks to have grown over the review period. The Clinic is taking steps to improve its cash position, which has declined while accounts receivable has increased. With the restructuring of the debt, the Clinic remains liquid and is leveraged. The proforma debt service ratio of 1.04x indicates that the Clinic can likely manage the proposed debt.

III. UTILIZATION STATISTICS:

	Clinicas de Salud del Pueblo, Inc.		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Clinicas Total			
Number of patients	43,483	41,537	39,995
Units of service	160,019	150,376	156,552
Facilities refunded:			
Units of service- medical (Brawley)	46,614	47,590	50,831
Units of service – medical/dental (Calexico)	34,684	35,536	36,138

IV. ORGANIZATION:

Background:

Clinicas de Salud del Pueblo, Inc. is a California nonprofit public benefit corporation incorporated in 1970 to provide primary health care to the low income and medically underserved populations of the Imperial and Riverside Counties.

The Clinic provides primary health care, dental services, case management, support and diagnostic test screening services at various clinics located in the community of Brawley, Calexico, El Centro, Niland, Winterhaven and West Shores in Imperial County and Blythe, Mecca and Coachella in Riverside County. The Clinic offers comprehensive preventative and treatment services, pediatric care, adult medicine, family planning, perinatal care and delivery, health education, HIV testing and treatment, Women, Infant and Child food voucher program, various special services and laboratory services. The Brawley Clinic provides x-ray and pharmacy services and the Mecca clinic provides x-ray service as well. Preventative and restorative dental services are provided at the Brawley, Calexico and Mecca Clinics. The Clinic's primary administrative officers are currently located in the City of Brawley.

Licenses: The Clinic sites are licensed as community clinic with the Department of Health Services.

V. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 12/31/06*	Estimated Amount Outstanding After Proposed Financing
Existing:			
Local Medical Facilities Financing Authority III - 1992	\$1,720,000	\$1,285,000	\$-0-
California Health Facilities Financing Authority – 1998	3,250,000	2,637,083	-0-
Notes payable CPCA Ventures – 2005	540,965	440,849	440,849
Notes payable Bob Stall Chevrolet - 2004	14,487	4,049	-0-
Notes payable Ford Credit Corporation - 2006	25,475	22,622	22,622
Notes payable Bob Stall Chevrolet - 2004	18,659	11,236	11,236
Proposed: <i>California Health Facilities Financing Authority – 2008</i>			<i>4,500,000</i>
TOTAL DEBT		<u>\$4,400,839</u>	<u>\$4,974,070</u>

*Does not include current portion.

VI. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- Savings Pass Through: The Clinic has provided a description of its savings pass through in Exhibit A
- Section 15459.1 of the Act (Community Service Requirement): The Clinic executed this certification indicating that Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as Exhibit B.
- Compliance with CEQA: The Clinic provided the necessary documents to show compliance with CEQA.
- Religious Due Diligence.
- Legal Review.

VII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for Clinicas de Salud del Pueblo, Inc. in an amount not to exceed \$4,500,000 for a term of 15 years and financing terms acceptable to the Authority subject to a final Cal-Mortgage Insurance commitment.