CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY

Applicant:	Foothill Health Center ("FHC") (dba "Foothill Community Health Center") 2680 South White Road, Suite 170 San Jose, CA 95148 Santa Clara County	**Amount Requested:** **Requested Loan Term:** **Authority Meeting Date:** **Resolution Number:**	$570,000 7-year fixed September 27, 2012 HII-273

Project Site: 1066 South White Road, San Jose, CA 95127 (Santa Clara County)
Facility Type: Community Clinic
Eligibility: Federally Qualified Health Center (FQHC), a qualified health facility pursuant to Government Code Section 15432(d)(6)
Prior HELP II Borrower: No.

Issue to Note: Except in the case of equipment loans, the Authority generally seeks to secure its HELP II loans with first position liens on real property owned by the borrower. In this instance, FHC does not have real property to offer as security for the proposed loan. Please see page two for a more detailed discussion of why staff nevertheless recommends proceeding with this loan and the alternative security measures staff believes will be satisfactory.

Background: Founded in 1984, FHC provides urgent, primary and preventive medical, dental and counseling services to the low income, underserved population of East San Jose. FHC operates two clinics (Foothill Family Community Clinic and Montpelier Community Clinic) and two school-based clinics (Yerba Buena and Independence High Schools).

Uses of Loan Proceeds: Loan proceeds of approximately $217,000 will be used to renovate and remodel a leased commercial office to transform it into a community health clinic and roughly $353,000 will be used to purchase medical equipment and to pay for necessary permit and architect fees.

Financing Structure:

- 5-year fixed rate for the equipment.
- 7-year fixed rate for the renovation.
- 60 equal monthly payments of approximately $9,210 (accounts for both equipment and construction loans) followed by 24-equal monthly payments of approximately $2,867 (accounts for payments on the construction loan after paying off the equipment loan.)
- Debt service reserve fund of $34,404 for the entire term of the loan (equivalent to one-year of payments on the renovation portion of the loan, $217,000.)
- UCC-1 lien on the equipment purchased.
- Corporate gross revenue pledge.
- Borrower's lease requires subsequent owners of the leased property to take the property subject to the lease agreement for the term of the lease and makes clear that owner(s) shall have no ownership or security interest in any of the equipment purchased with HELP II funds while the loan remains outstanding.
- Lease shall be recorded with the Santa Clara County Office of the Clerk Recorder.

Financial Overview: FHC's net assets increased by 34% over the review period with growth most notable in patient revenue which FHC attributes to its new management team as well as its new strategic plan. FHC has no long-term debt and appears relatively liquid. With this financing, FHC's proforma debt service coverage is an acceptable 2.88x.

Estimated Sources of Funds:			**Estimated Uses of Funds:**		
HELP II Loan	$	570,000	Purchase Equipment	$	353,000
Borrower Funds		31,000	Renovation & Remodeling		240,875
			Financing Costs		7,125
Total Estimated Sources	$	601,000	**Total Estimated Uses**	$	601,000

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)*
White Road Partners, LLC. (Landlord)

Staff Recommendation: Staff recommends approval of Resolution Number HII-273for Foothill Health Center dba Foothill Community Health Center in an amount not to exceed $570,000 for a term not to exceed seven 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.

(YD)

I. ISSUE TO NOTE

FHC leases the facility it intends to improve with HELP II monies and though FHC agrees to give the Authority a first position lien on the equipment purchased with HELP II funds, FHC does not own real property to provide additional security for the construction it also seeks to fund with HELP II monies. On a few occasions, the Authority has approved requests for construction funding notwithstanding the inability to pledge real property as security for the loan. In each of these instances, staff asserted the benefits to the public exceeded the reasonable risks assumed by the Authority. In the case of FHC, it serves in a federally-designated Medically Underserved Population Area in a low-income neighborhood, its financials are strong, and the renovation portion of the loan that would not be secured is limited to $217,000 and is instead secured with a one-year reserve fund account.

Staff and the Authority's financial analyst, Macias, Gini & O'Connell, LLP have spent significant time with FHC to understand its services and its financial position and conclude the following factors justify extending HELP II funding to FHC notwithstanding the lack of real property as security: (1) FHC serves an important low income, underserved population in the East San Jose area and is a Federally Qualified Health Center (FQHC), (2) FHC's new management team appears to be effectively improving FHC's operations and, as part of that success, has reached out to more underserved populations (note, in FY 2011 the number of patients seen by the clinic increased by 153% from the prior year, and FHC realized increased revenues by 148%), (3) FHC appears to have no long term debt, (4) the borrower has negotiated a 10-year lease with two five-year extension options, and (5) both the US Department of Health and Human Services (HHS) and Santa Clara County have demonstrated a definitive vote of confidence in FHC's operations through their recent provision of a grant ($900,000 from HHS) and a 15 year rent-free lease (from Santa Clara County) bestowed on FHC to renovate and expand an abandoned health clinic known as Chaboya located in Santa Clara County. The clinic serves in a federally-designated Medically Underserved Population Area in a low-income neighborhood.

Staff recommends approval of the requested loan with the following conditions to minimize the risk associated with making a loan without real property as one of the security measures: (1) the loan term shall be for a maximum of seven (7) years to narrow the Authority's risk exposure, (2) FHC will provide a one-year debt service reserve fund of $34,404 for the entire term of the loan, (3) the lease agreement will make clear that the landlord will have no ownership or security interest in any equipment purchased with HELP II Loan Funds while the loan remains outstanding, (4) the lease agreement will be recorded with the Santa Clara County Office of the Clerk Recorder and will reflect that all existing and future owners of the leased property take the property subject to the lease agreement for the term of the lease, (5) the Authority will place a lien on all purchased equipment with HELP II Loan Funds, and (6) the Authority will require the borrower to allow a lien to be placed on its gross corporate revenues for the entire term of the loan.

II. PURPOSE OF FINANCING: FHC plans to use HELP II loan proceeds to renovate and remodel leased commercial office space to meet a growing community need for the provision of health care services. With the remaining funds, FHC seeks to purchase the equipment necessary for operation in the new location and to pay for needed permit and architect fees.

FHC seeks to establish a new clinic to serve the increased healthcare demands of the medically low-income, underserved population in East San Jose. One of FHC's active health centers (2880 Story Road) is located approximately one-half mile away from the proposed location (1066 South White Road). The existing clinic is open seven days a week and is unable to accommodate its growing patient volume. The new facility would lessen wait times and increase the ability of FHC to expand its healthcare services for low-income individuals and families. In addition, the proposed new clinic would increase FHC's patient visits by an additional 2,000 visits per month.

Purchase Medical Equipment.. ***$353,000***
FHC seeks to purchase medical exam tables, physician chairs, workstations, exam lamps, wall mounted systems for comprehensive vital sign measurement and recording, defibrillators, patient weight scales, autoclaves, and Electrocardiography (ECG/EKG) machines.

Renovation of the facility located at 1066 South White Road, San Jose, CA........ ***240,875***
Realizing the need for expansion, FHC seeks to enter into a lease of 4,800 square feet of vacant commercial office space and transform it into a community health center. The renovation involves installing approximately 42 drop walls to create 14 separate exam rooms, installing a sink in each of the exam room and updating the electrical wiring.

Financing Costs ***7,125***

Authority Fees.. $7,125

Estimated Uses of Funds ***$601,000***

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III. FINANCIAL STATEMENTS AND ANALYSIS

Foothill Health Center
(dba "Foothill Community Health Center")
Consolidated Statements of Operations
(Unrestricted)

	As of December 31,		
	2011	**2010**	**2009**
Supportive and Revenue			
Federal grants	$ 1,036,287	$ 783,376	$ 740,322
Patient revenue	1,029,435	1,262,015	831,698
Other income	141,218	155,367	341,367
Foundation - Blue Cross	6,250	63,420	-
Interest income	541	602	-
Other contracts	-	10,500	20,000
Net asset released from restriction	1,107,719	-	-
Total Support and Revenue	3,321,450	2,275,280	1,933,387
Expenditures			
Salaries and wages	1,643,242	1,214,778	1,053,827
Professional fees	295,548	223,654	317,222
Payroll taxes/benefits	269,959	171,256	195,425
Bad debts	181,449	150,914	(77,667)
Other operating costs	156,515	45,461	64,734
Depreciation	155,893	130,489	137,947
Consumable supplies	143,848	106,107	133,919
Rent	93,412	112,049	107,552
Travel/meals	35,977	9,865	17,565
Insurance	30,721	29,541	28,388
Telephone/fax	26,558	18,458	17,609
Repairs and maintenance	6,420	2,693	6,284
Total expenditure	3,039,542	2,215,265	2,002,805
Increase (Decrease) in unrestricted net asset	**281,908**	**60,015**	**(69,418)**
Prior period adjustment	-	(84,458)	
Unrestricted net assets - beginning of year	722,002	746,445	815,863
Unrestricted net assets - end of year	$ 1,003,910	$ 722,002	$ 746,445

Payor Source	Percent
Medi-Cal	19.9
Medi-Cal Supplement	16.7
Denti-Cal	13.8
Private/Sliding Fee Scale	11.4
Private Insurance	10.9
Medicare	8.5
Santa Clara Family Health Plan	8.1
Medi-Cal Blue Cross	4.1
Cancer Detection Program	3.6
Family Pact	3
	100

Foothill Health Center
(dba "Foothill Community Health Center")
Consolidated Balance Sheet

	As of December 31,		
	2011	**2010**	**2009**
Current assets:			
Cash and cash equivalents	$ 268,164	$ 583,062	$ 218,394
Account receivable	511,351	303,898	178,413
Grant receivable	206,368	12,190	167,942
Other current assets	128,754	114,557	-
Contract and other receivables	-	-	5,000
Prepaid expenses and other	-	-	28,870
Total current assets	1,114,637	1,013,707	598,619
Property and equipment	383,547	243,127	317,596
Deferred compensation asset	-	-	87,156
Total assets	$ 1,498,184	$ 1,256,834	$ 1,003,371
Current liabilities:			
Account payable	$ 38,604	$ 43,415	$ 78,046
Accrued expenditures	162,147	72,333	76,924
Deferred revenue	206,368	331,506	14,800
Other current liabilities	87,155	87,578	87,156
Total current liabilities	494,274	534,832	256,926
Net assets:			
Unrestricted	1,003,910	722,002	746,445
Total net assets	1,003,910	722,002	746,445
Total Liabilities and Net Assets	$ 1,498,184	$ 1,256,834	$ 1,003,371

Financial Ratios:

	Proforma [a] FYE December 31, 2011			
Debt Service Coverage (x)	2.88	N/A	N/A	N/A
Debt to Unrestricted Net Assets (x)	0.57	N/A	N/A	N/A
Margin (%)		8.49	2.64	(7.96)
Current Ratio (x)		2.26	1.90	2.33

[a] Recalculates FY 2011 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

FHC's net assets increased by 34% over the review period with growth most notable in patient revenue which FHC attributes to its new management team as well as its new strategic plan.

Particular Facts to Note:

- In late December 2006, a fire destroyed FHC's clinic. As a result, FHC opened a temporary and much smaller clinic. The temporary facility served the needs of an underserved community for the following two years. In February 2009, FHC opened a new clinic and its Chief Executive Officer (CEO) resigned later that year. Due to these circumstances and the ensuing low patient encounters, FHC experienced losses of approximate $69,000 in FY 2009.

- As an FQHC, FHC serves an assigned target population known as East San Jose. There are approximately 139,488 people in this area living below the federal poverty level. With a new CEO and a new management team recruited in 2010, a new strategic plan was devised to provide more services (e.g. dental and behavioral health services,) and to reach out to FHC's targeted population by adding more health clinics. FHC's current financial statements appear to reflect a successful turnaround from FY 2009.

- Over the review period, unrestricted net assets increased by 34% from $746,000 to $1 million due to the opening of three (3) additional health clinics (Montpelier Community Clinic, Yerba Buena High School, and Independence High School). Also, FHC started offering new dental and behavioral health services to the community, which has resulted in increased patient encounters and revenues.

- Since FY 2009, revenues appear to have increased by 72% while expenses appear to have increased by 52%, indicating a healthy growth in operations. FHC's management attributes this growth to its new strategic plan, increased patient encounters, and tapping into the new markets in the K-12 student population, as well as parents of this K-12 population and the immediate neighbors to FHC's school-based clinics. According to FHC's management, the strategic plan prescribes effective and cost-efficient care to FHC's target population. Another factor that contributed to FHC's containment of expenses was that all of the new school-based locations were rent-free, which offered more revenues than expenses.

- Patient revenue constituted the major source of revenues as it increased by 148% over the review period. According to FHC's management, from FY 2010 to FY 2011, revenues increased by 64% due to an increase of patient encounters (from 40-45 encounters a day to over 100 encounters a day).

- In FY 2010 financial audits, FHC posted an adjustment of negative $84,000 for the prior fiscal year due to a federal grant online payment system that mistakenly overcompensated FHC within the same billing period.

- In FY 2011, FHC's income statement shows an approximate $1.1 million in assets released from restrictions. The source of these funds is from federal grants (Section 330 of the Public Health Service Act) dedicated to support the services provided by organizations that care for underserved populations. Of note, this amount is for the services provided by FHC in FY 2011 and is different from the recent award that FHC received (4/16/2012) from HHS to rehabilitate a vacant building in Santa Clara County.

- FHC acknowledges that it receives significant State funding at risk for elimination or curtailment because of current economic circumstances, but FHC reports that it has worked on a contingency plan that considers a variety of alternatives to ensure the continuity of its services to the community. These alternatives include a sliding fee-for-service scale, private insurance billing, local government funding, corporate/foundation grants, individual donor program, and in-kind services. Additionally, FHC may adjust the spectrum of services it offers in the event the State decreases or halts its funding.

Financial Discussion – Statement of Financial Position (Balance Sheet)

FHC has no long-term debt and appears to be liquid, and with this financing its proforma debt service coverage appears to be a solid 2.88x.

Particular Facts to Note:

- In FY 2011, FHC appears to be liquid with current assets of $1,114,637, which accounts for most of its assets of $1,498,184 while cash on hand is adequate at approximately 31 days.

- FHC has no long-term debt and with this financing its proforma debt service coverage appears to be solid at 2.88x, indicating that FHC is likely capable of servicing its obligation to the Authority.

- With this financing, FHC's debt to unrestricted net assets would be 0.57x, which is better than the acceptable level of 1.0x, indicating that FHC seems to be able to reasonably manage the new debt.

- FHC seemingly has manageable short-term liability of $494,274 when compared to its $1,114,637 in current assets, resulting in a strong current ratio of 2.26x, suggesting that FHC appears to be in a favorable position to repay its short-term obligations.

- In FY 2011, FHC's cash decreased by 54% due to the acquisition of medical equipment and furniture for the aforementioned three additional health clinics.

EXHIBIT 1

NUMBER OF PATIENTS
FISCAL YEAR ENDED JUNE 30

	2009	2010	2011
Totals	3,498	3,682	9,337

EXHIBIT 2

OUTSTANDING DEBT

As of the date of this application, FHC has no long-term debt. Upon approval of this financing, FHC will have a total of $570,000 of long-term debt.

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

In 1984, Drs. Michael Podlone and Mark O'Connor opened a private physician practice serving the East Side residents of San Jose. In 1996, the Clinic was donated to a newly formed non-profit called the San Jose Foothill Family Community Clinic. Mark O'Connor became the CEO while continuing to see patients.

FHC applied for FQHC look-alike status in 1998 and then applied for an FQHC 330 grant which was awarded in January 2006. However, in late December 2006, the Clinic was destroyed by fire. Within three weeks, the clinic was temporarily relocated to a small space at the local Mexican American Community Services Agency (MACSA), a service provider to Spanish-speaking residents. However, the limited working space meant downsizing to a single provider, resulting in a cash flow decrease, and needed to be tightly managed to survive financially.

FHC's management relocated their only clinic at the time into a space in a local physician's building. The new facility opened in February 2009. Currently, FHC operates two clinics and two school-based clinics. The clinics are respectively: Foothill Family Community Clinic, Montpelier Community Clinic, Yerba Buena High School Clinic, and Independence High School Clinic.

FHC provides urgent, primary and preventive medical, dental and counseling services to the residents in the underserved population of East San Jose.

Licensure, Certification and Accreditation

FHC is licensed to operate a community clinic by the State of California Department of Public Health.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-273

RESOLUTION APPROVING EXECUTION AND DELIVERY OF HELP II LOAN PROGRAM 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 (the "Act") to provide secured or unsecured loans to participating health institutions, to finance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing, or equipping of a health facility;

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

WHEREAS, **Foothill Health Center (dba "Foothill Community Health Center")** (the "Borrower"), a California nonprofit corporation and 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 the amount of **$570,000** for a term not to exceed **7 years** for the purpose described in the application filed with the Authority and Exhibit A attached hereto (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. 5-year fixed rate for the equipment;
2. 7-year fixed rate loan for the renovation;
3. 60 equal monthly payments of approximately $9,210 (annual payments of $110, 523) to account for payments for both equipment and construction loans, followed by 24-equal monthly payments of approximately $2,867 (annual payments of $34,404) to account for payments on the construction loan only after having paid off the equipment loan;
4. Debt service reserve fund of $34,404 for the entire term of the loan (this fund is equivalent to one-year of payment on the renovation portion of the loan, $217,000);
5. UCC-1 lien on equipment being purchased;

6. Corporate gross revenue pledge;
7. The lease agreement shall provide that current and future owners of the leased property shall take subject to the lease agreement for the term of the lease, and that the owners of the leased property shall have no ownership or security interest in any equipment purchased with HELP II Loan funds while the loan remains outstanding; and
8. The lease shall be recorded with the Santa Clara County Office of the Clerk Recorder.

Section 2. The Executive Director is 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 said officer shall deem appropriate and authorized under the Act (provided that the amount of the loan may 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). 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 is 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 is 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 funds.

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

Section 5. This resolution expires six months from the date of approval.

Date of Approval: ____________________________

EXHIBIT A

PROJECT DESCRIPTION

Loan proceeds of approximately $217,000 will be used to renovate and remodel a leased commercial office to transform it into a community health clinic and roughly $353,000 will be used to purchase medical equipment and to pay for necessary permit and architect fees.

Project Site: 1066 South White Road, San Jose, CA 95127