

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
The HELP II Program
EXECUTIVE SUMMARY

<p>Applicant: Planned Parenthood Golden Gate ("PPGG ") 815 Eddy Street, Suite 100 San Francisco, California 94109 San Francisco County</p> <p>Project Site: 482 West MacArthur Blvd, Oakland, California 94609 (Alameda County)</p> <p>Facility Type: Community Clinic</p>	<p>Amount Requested: \$400,000</p> <p>Requested Loan Term: 15 years</p> <p>Date Requested: January 30, 2003</p> <p>Resolution Number: HII-134</p>																					
<p>Use of Loan Proceeds: Loan proceeds will be used to renovate the MacArthur Health Center in Oakland.</p>																						
<p>Type of Issue: HELP II Loan</p> <p>Prior HELP II Borrower: No</p>																						
<p>Financial Overview: PPGG operates on a break-even basis with the majority of its revenues derived from government and public support. Current interim results reflect a current period loss due to weaker public support and significant salaries and benefits increases. Management is taking proactive measures to ensure a balanced budget and anticipates growth in services and revenue increases through its long-range plans to expand capacity. The organization is leveraged, but the balance sheet is healthy with substantial total net assets of \$9.5 million.</p>																						
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<p>Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																						
<p>Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan for Planned Parenthood Golden Gate in an amount not to exceed \$400,000 for a term of 15 years subject to the standard HELP II loan provisions and approval of the pending \$1M HealthCAP loan.</p>																						

STAFF SUMMARY AND RECOMMENDATION

Planned Parenthood Golden Gate (“PPGG”)

January 30, 2003

Resolution Number: HII-134

I. PURPOSE OF FINANCING: PPGG is in the process of renovating its MacArthur Health Center in Oakland, CA. PPGG seeks this HELP II loan to assist with the construction costs. The renovation will allow PPGG to improve services and to increase the number of client visits provided annually at the facility.

Construction.....\$1,791,690

The MacArthur Health Center is a two-level structure, which houses the administrative and storage functions on the first level. The second level is dedicated to direct client services. PPGG purchased the property in 1955 and subsequently built the two-story, 5,400 square foot office building in 1965. The building was last remodeled in 1981 and is currently outdated with small exam rooms and inadequate water, power, etc. It is in poor condition, outmoded from current industry medical practice standards, and requires interior renovation, updated security systems, new building mechanical systems, repair of dry rot, and seismic upgrades in order to comply with the 1997 Uniform Building Code.

The new clinic will have a larger, more efficient layout. It will be clean, light filled, and provide 6 full service exam rooms. The new exam rooms will better accommodate the clientele, alleviating the wait for only 2 exam rooms currently available.

Approximately 22 % of the total cost of the construction project will be funded with the proposed HELP II loan. Additional project funds will be provided by the applicant through a \$1M HealthCAP loan from NCB Development Corporation with PPGG providing the balance. Management estimates the current unimproved value of the existing facility to be \$1,400,000. The appraised as-improved value on the property must be satisfactory to the Authority’s loan to value ratio policies, not to exceed 95%. The expected completion date of the project is June 2003.

Architectural Construction Oversight.....45,000

Financing Costs 23,000

HealthCAP fees..... \$16,000
Authority Closing Fee..... 5,000
Estimated Closing Costs 2,000

Total.....\$1,859,690

Financing structure:

- 15-year loan term, fully amortized.
- 180 equal monthly payments of approximately \$2,762 (total annual payments of approximately \$33,144).
- Total interest payments of approximately \$97,219.
- Maximum combined loan to value (consisting of a HealthCAP loan of \$1M and HELP II loan of \$400,000) ratio of 95%.
- Second position lien (Subordinate to NCBDC loan of \$1M) on the property located at
482 West MacArthur Blvd., Oakland, CA
- Corporate gross revenue pledge, second lien position (Subordinate to NCBDC).
- Verification of receipt of all permits necessary to begin construction.
- Verification that Guaranteed Maximum Price Construction Contract is in place.
- Verification of a property appraisal satisfactory to the Authority.

FINANCIAL STATEMENTS AND ANALYSIS:

PLANNED PARENTHOOD GOLDEN GATE

Statement of Activities

	Six Months			
	Ended Dec. 31,	For the Year Ended June 30,		
	2002	2002	2001	2000
	(Unaudited)			
Revenues:				
Public support	\$ 1,997,779	\$ 6,222,931	\$ 5,495,287	\$ 5,082,525
Government fees and contracts	3,655,193	7,442,471	7,256,788	6,719,041
Program service fees	985,306	2,321,247	2,376,928	2,207,375
Other	156,854	170,152	25,409	473,548
Revenues from special events, net	45,000	83,025	152,804	107,240
Total revenues	<u>6,840,132</u>	<u>16,239,826</u>	<u>15,307,216</u>	<u>14,589,729</u>
Expenses:				
Salaries and benefits	5,392,390	9,317,172	8,679,067	8,083,648
Medical Supplies	619,265	991,360	975,368	940,900
Depreciation and amortization	354,155	721,216	690,752	624,379
Outside services	331,245	744,041	645,547	616,619
Rent	150,000	305,346	333,034	479,264
Telephone	217,252	397,896	459,866	356,118
Marketing and events	252,050	384,056	362,123	335,129
Equipment and supplies	125,000	225,305	186,322	308,314
National and regional dues	138,288	270,200	252,693	272,317
Interest	225,000	417,573	366,125	229,964
Insurance	180,000	338,680	290,308	264,153
Travel and meetings	130,000	356,860	348,907	247,127
Facilities maintenance	200,000	478,659	407,080	226,367
Laboratory fees	110,000	203,808	194,432	196,357
Utilities	151,576	231,913	206,682	180,000
Postage and shipping	50,000	91,751	131,832	144,149
Other	205,494	741,372	757,773	639,367
Total Expenses	<u>8,831,715</u>	<u>16,217,208</u>	<u>15,287,911</u>	<u>14,144,172</u>
Increase (decrease) in net assets	(1,991,583)	22,618	19,305	445,557
NET ASSETS, BEGINNING OF YEAR	<u>9,514,287</u>	<u>9,491,669</u>	<u>9,472,364</u>	<u>9,026,807</u>
NET ASSETS, END OF YEAR	<u>\$ 7,522,704</u>	<u>\$ 9,514,287</u>	<u>\$ 9,491,669</u>	<u>\$ 9,472,364</u>

PLANNED PARENTHOOD GOLDEN GATE

Statement of Financial Position

	<u>As of Dec. 31,</u>	<u>As of June 30,</u>		
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Assets	(Unaudited)			
Cash and Cash Equivalents	\$ 287,076	\$ 24,456	\$ 1,451,034	\$ 484,925
Accounts Receivable	508,691	426,396	303,360	246,069
Pledges Receivable	2,000,000	2,980,699	2,164,444	1,187,387
Inventories	346,727	261,672	154,449	99,249
Prepays and other assets	230,840	423,810	278,282	210,257
Property and equipment, net	11,190,320	10,404,465	9,105,076	8,069,879
Investments	1,266,075	1,937,143	1,893,169	2,273,319
Total Assets	<u>\$ 15,829,729</u>	<u>\$ 16,458,641</u>	<u>\$ 15,349,814</u>	<u>\$ 12,571,085</u>
Liabilities and Net Assets				
Note payable to bank	\$ 2,703,775	\$ 1,000,000	\$ -	\$ -
Current maturities of long-term debt	113,224	376,409	209,977	150,138
Accounts payable	464,321	390,136	331,334	350,092
Accrued liabilities	510,900	621,669	505,173	345,523
Deferred revenues	-	41,335	72,138	-
Long-term debt, net	4,514,805	4,514,805	4,739,523	2,252,968
Total Liabilities	<u>8,307,025</u>	<u>6,944,354</u>	<u>5,858,145</u>	<u>3,098,721</u>
Net Assets:				
Unrestricted Net Assets	4,032,644	4,026,227	5,086,350	5,296,263
Temporarily Restricted Net Assets	1,022,934	3,020,934	1,938,193	1,708,975
Permanently Restricted Net Assets	2,467,126	2,467,126	2,467,126	2,467,126
Total Net Assets	<u>7,522,704</u>	<u>9,514,287</u>	<u>9,491,669</u>	<u>9,472,364</u>
Total Liabilities and Net Assets	<u>\$ 15,829,729</u>	<u>\$ 16,458,641</u>	<u>\$ 15,349,814</u>	<u>\$ 12,571,085</u>

Financial Ratios:

	Proforma (a)			
	<u>FYE June 2002</u>			
Debt Service Coverage (x)	1.68	2.10	2.44	4.33
Debt/Unrestricted Net Assets (x)	1.81	1.46	1.01	0.48
Margin (%)		0%	0%	3%
Current Ratio (x)		2.37	2.62	4.06

(a) Recalculates June 2002 audited results to include the impact of this proposed financing and the pending HealthCAP loan in the amount of \$1M.

Financial Discussion:

PPGG operates on a break-even basis with the majority of its revenues derived from government and public support.

PPGG provides comprehensive reproductive and primary health care services as well as educational programs, along with advocating various public policies, and promoting health care research. PPGG serves six San Francisco Bay Area counties through nine health centers, three satellite clinics, community outreach, and school and community based education programs. Its main sources of revenues are government fees and contracts and public support, which provide 46% and 38% of its revenues, respectively in 2002.

PPGG relies on net assets released from restrictions to provide positive operating results. Contributions are reported as temporarily restricted when they are received with donor stipulations that limit the use of the donated assets. When a stipulation time restriction ends or the project/program is accomplished, the temporarily restricted funds are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Current interim results reflect a current period loss due to weaker public support and significant salaries and benefits increases.

The six-month interim results reflect a \$1.9 million loss, but management anticipates a balanced budget by the end of the year. PPGG has indicated that approximately \$2 million in temporarily restricted funds will be released into unrestricted funds by fiscal year-end resulting in break-even operations. PPGG management acknowledges that the current operating environment has become increasingly challenging due to recent declines in public support and significant salaries and benefits increases.

Public support funding is becoming more difficult to secure and management expects it to decline from \$6.2 million in 2002 to approximately \$5 million in the current fiscal year. Weakened public support has become commonplace in the industry due to poor economic conditions. PPGG is dependent upon the public support to cover the operating shortfall and this decline has negatively affected operations in the interim period.

Operations have also been impacted negatively by significant increases in salaries and benefits from fiscal year 2002 to the current fiscal year. Specifically, twelve additional positions were added in medical services, worker's compensation costs increased 30%, and fringe benefits increased approximately 20% resulting in a \$200,000 increase for the interim period. Additionally, the attrition rate of employees has recently declined leaving more employees on the payroll than the previous fiscal year.

Management is taking proactive measures to ensure a balanced budget and anticipates growth in services and revenue increases through its long-range plans to expand capacity.

Effective February 1, 2003, PPGG's revised budget plan is projected to reduce salary and benefit costs by \$900,000 for the remaining fiscal year and will provide savings of approximately \$2 million in fiscal year 2004. As part of this plan, PPGG will eliminate 18 positions, restrict travel, and mandate the use of vacation. Management indicates that this plan will reduce mostly administrative positions without affecting future patient utilization and revenues. Additionally, management intends to promote public support including issuing a major donor challenge grant in March. PPGG is closely following the Spring foundation commitments and expects March to produce very strong results.

Historically, PPGG has had strong demand for services, but the utilization statistics for the three-year review period have remained fairly flat with slight overall declines. The largest changes are the decline in MediCal clients and the increase in Family Pact (FPACT). While a segment of PPGG's clientele are no longer on MediCal and may be working, they may still need assistance and are eligible for FPACT. This trend is expected to continue as the economy remains unstable with more people needing Planned Parenthood services in general.

In order to accommodate the growing need for services, PPGG embarks on one major capital project per year. In fiscal year 2000, PPGG invested in its technology infrastructure and systems in preparation for a system-wide call center and centralized appointment center. In fiscal year 2001, the San Mateo site that housed the initial call center was purchased and the Eddy Street site was renovated in order to relocate staff in preparation for the final call center buildout. The call center costs are reflected in fiscal year 2002. Currently, renovations to the MacArthur Clinic are underway with future projects to include the purchase and renovation of the Hayward Clinic site. The newly renovated MacArthur facility is expected to begin to bear its costs and generate overall clinic profits soon after completion in June 2003.

The organization is leveraged, but the balance sheet is healthy with substantial total net assets of \$9.5 million.

PPGG maintains a strong current ratio, which is at 2.37x for the most recent fiscal year. Total net assets are substantial and have remained consistent over the review period with \$9.5 million for fiscal 2002. In addition to a large fund balance, PPGG also has appreciated real estate that further improves its financial position.

The debt-to-unrestricted net assets ratio indicates that PPGG is becoming more leveraged with the proforma ratio at 1.81x. The proforma ratio includes this proposed \$400,000 Help II loan as well a pending \$1M HealthCAP loan. Historically, debt service coverage has been good and it remains adequate with the proforma ratio at 1.68x. Management anticipates meeting all of its additional debt obligations.

III. UTILIZATION STATISTICS:

Type of Service	Fiscal Year Ending June 30,					
	2001-2002		2000-2001		1999-2000	
	# Visits	# Clients	# Visits	# Clients	# Visits	# Clients
Medicare	308	136	324	140	317	150
Medi-Cal	12,786	4,307	13,453	4,434	16,425	5,464
Private Insurance	1,332	512	1,302	492	970	377
Private Pay	18,786	9,850	22,355	12,014	22,073	12,394
EAPC	991	377	1,153	469	1,187	442
FPACT	70,739	32,579	67,151	31,513	65,669	30,620
Other Programs	<u>5,749</u>	<u>2,821</u>	<u>5,413</u>	<u>2,555</u>	<u>5,826</u>	<u>2,594</u>
Grand Total	110,691	50,582	111,151	51,617	112,467	52,041

Interim utilization numbers for the first three months, indicate a 1.3% increase over the fiscal 2002 year data. Management attributes the recent improvement to better access to services in renovated spaces as well as the centralized appointment system. These two factors combined with the projected rise in services result in long-term increases for PPGG. Management also believes there is a larger client base that needs to be served and is working towards further expanding its capacity to accommodate more clients and remain competitive.

IV. ORGANIZATION:

Background: Planned Parenthood Golden Gate is a non-profit, community-based health care provider serving low-income women and their families. It's mission is to provide comprehensive reproductive and primary health care services, provide educational programs, advocate public policies that guarantee individual rights, dignity, and privacy, and to promote health care research. PPGG was formed in 1995 through a merger of three Bay Area Planned Parenthood affiliates with roots dating back to 1929.

PPGG serves the six San Francisco Bay Area counties including San Francisco, San Mateo, Alameda, Marin, Sonoma, and Mendocino. There are nine health centers, three satellite clinics, community outreach (especially to teens and Latinas), and school and community based education programs.

PPGG is a safety net for people who might otherwise lack access to comprehensive reproductive and primary care. Most of its clients have family incomes at or below 250% of the Federal Poverty Level. PPGG provides reproductive and primary health care for little or no cost on a sliding-scale fee.

Licenses: Planned Parenthood Golden Gate is licensed through the State Department of Health Services.

Competition: The Planned Parenthood Golden Gate – MacArthur Health Center is the sole provider of comprehensive reproductive and family planning services in West Oakland. Choice Medical Group is 31 miles away in the city of Fremont and Family Planning Associates is 2.5 miles away, but does not provide the same services. The MacArthur Health Center provides easy access for the low-income residents of the community that typically face transportation barriers.

V. OUTSTANDING DEBT:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 06/30/02 (a)</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
Union Bank of CA, 2001	\$2,700,000	\$2,613,265	\$2,613,265
Bank of America, 1997	1,000,000	866,521	866,521
Luther Burbank Savings & Loan, 1993	600,000	575,749	575,749
Eastmont Towncenter, 1998	600,000	470,050	470,050
Pending:			
HealthCAP loan, 2003		N/A	1,000,000
Proposed:			
CHFFA HELP II Loan, 2003		N/A	400,000
TOTAL DEBT		<u>\$4,525,585</u>	<u>\$5,925,585</u>

(a) Includes current portion.

VI. SECTION 15438.5 OF THE ACT:

The improvement to the facility resulting from this proposed financing contributes to PPGG's long-term viability. It allows PPGG to continue to provide services to the residents of West Oakland at little or no cost.

VII. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

VIII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan for Planned Parenthood Golden Gate in an amount not to exceed \$400,000 for a term of 15 years subject to the standard HELP II loan provisions and the pending \$1M HealthCAP loan.