CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

EXECUTIVE SUMMARY

Applicant:	Marshall Medical Center ("Marshall") Placerville, California (El Dorado County)	**Amount Requested:** **Date Requested:** **Requested Loan Term:**	$50,000,000 October 30, 2003 30 years
Facility Types:	Acute care & skilled nursing services	**Resolution Number:**	F- 300

Uses of Bond Proceeds: Marshall seeks funds for construction of an acute care wing and renovation of the second floor of the existing hospital.

Type of Issue:	Negotiated public offering with fixed (Series A) and variable rates (Series B)
Credit Enhancement:	Cal-Mortgage insurance (Series A) AMBAC & Cal-Mortgage insurance (Series B)
Expected Credit Rating:	Series A: BBB (S&P), based on Cal-Mortgage insurance Series B: AAA (S&P), based on Ambac insurance *(expected underlying rating of BBB [Fitch])*
Senior Underwriter:	UBS Financial Services, Inc.
Bond Counsel:	Orrick, Herrington & Sutcliffe LLP

Financial Overview*:* Marshall has demonstrated well-managed growth, with strong profitability in the last three years leading to sizeable unrestricted net assets, good liquidity, and modest leverage. Marshall will become leveraged with this financing, but a proforma debt service coverage ratio of 2.77x indicates an ability to manage this debt.

Sources of Revenue (000's): (FYE 10/31/02)	**Amount**	**Percent**
Medicare	$42,273	50%
Medi-Cal	10,146	12%
Managed Care	30,436	36%
Private Pay	1,691	2%
	$84,546	100%

Estimated Sources of Funds (000's):		**Estimated Uses of Funds (000's):**	
Par Amount of CHFFA Bonds	$50,000	Construction/Renovation	$42,000
Equity Contribution	7,000	Capitalized interest	7,400
Original Issue Discount	(1,000)	Debt Service Reserve	1,900
		Cal Mortgage Premium/Fee	2,500
		AMBAC Premium	1,300
		Costs of Issuance	900
Total Sources	$56,000	Total Uses	$56,000

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 in an amount not to exceed $50,000,000 for Marshall Medical Center subject to a final insurance commitment from Cal-Mortgage.

(bes)

STAFF SUMMARY AND RECOMMENDATION

Marshall Medical Center ("Marshall")

October 30, 2003
Resolution Number: F-300

I. PURPOSE OF FINANCING:

According to management, Marshall has not expanded its hospital facilities in the last 13 years, despite a population growth of 40% (and expected growth of 5.7% per year). Marshall often has few or no available beds, impacting the scheduling of surgeries and delaying emergency room treatment. Marshall seeks to build a wing adjoining its existing facility wing, creating space to add approximately 25 more beds and to expand ancillary services.

Construction/Renovation $42,000,000

The Project consists of the construction of a new wing of the hospital, creating a separate acute care facility, and remodeling shell space in the existing facility.

The new acute care wing will comprise approximately 58,500 square feet on two levels, plus basement, connected to the existing facility. Services that will be relocated to this wing include an expanded emergency room (nearly doubled in space), intensive care unit (to consist of all private rooms), and imaging. The new wing will house a new step-down unit (designed for recovery from surgical interventions) and an additional telemetry unit. Marshall may also add one floor (approximately 20,000 square feet) to the new wing to house obstetrics services, with all private rooms and an operating room specifically for C-sections.

A feasibility study, completed this month, includes forecasts for the next five years, showing sufficient cash flows to cover operating expenses, construction & renovation costs, as well as equipment needs.

The project will add 25 beds, for a total of 130. The construction of the new wing will require expansion of the parking lot.

This new construction is expected to begin in 2004 with a completion date in 2007 estimated to cost $36.2 million.

Renovations are expected to begin in early 2004 with a completion date in early 2005 and is estimated to cost $5.8 million.

The renovation involves the second floor of the existing facility and will include the relocation and expansion of clinical lab suites, pharmacy, and remodeling of the conference rooms, and electrical/mechanical systems upgrades. Simultaneously with this renovation project, work will be done that will bring Marshall into full compliance with the seismic retrofit requirements.

Capitalized Interest	7,400,000
Debt Service Reserve	1,900,000
Cal-Mortgage Insurance Premium/ Fee	2,500,000
Ambac Insurance Premium	1,300,000
Financing Costs	900,000
Cost of Issuance $512,500	
Underwriters Discount 387,500	
Total Uses of Funds	**$56,000,000**

Structure of Financing:

- Series A:
  Fixed rate bonds ($30 million), 30 year maturity
  Credit Enhancement: Cal-Mortgage insurance
  Expected Credit Rating: BBB (S&P), based on Cal-Mortgage insurance
  (expected underlying rating of BBB [Fitch])
  Negotiated public offering.

- Series B:
  Variable, auction rate bonds ($20 million), 30 year maturity
  Credit Enhancement: Cal-Mortgage insurance and Ambac insurance
  Expected Credit Rating: AAA (S&P), based on Ambac insurance
  (expected underlying rating of BBB [Fitch])
  Negotiated public offering.

II. FINANCIAL STATEMENTS AND ANALYSIS

Marshall Medical
Statements of Operations ($000's)
(Unrestricted)

	For the ten months ended 8/31/03 (Unaudited)	For the year ended October 31, 2002	2001	2000
Unrestricted Revenue:				
Net patient service revenue	76,584	$ 84,546	$ 71,436	$ 55,012
Capitation premium revenue	-	-	229	11,532
Other revenue	647	808	848	594
Total revenues	77,231	85,354	72,513	67,138
Operating Expenses:				
Salaries and benefits	42,839	42,767	36,901	32,889
Professional fees	3,993	3,780	3,820	3,593
Supplies	8,419	8,859	8,584	7,624
Depreciation and amortization	4,985	5,373	4,928	4,890
Purchased services	3,175	3,863	3,620	4,155
Provision for bad debts	2,659	3,973	3,636	3,016
Registry	2,065	2,451	1,361	885
Capitated services - outside providers	-	-	615	5,471
Interest	1,762	2,202	2,328	2,368
Other	2,260	4,073	2,750	2,172
Total operating expenses	72,157	77,341	68,543	67,063
Operating income	5,074	8,013	3,970	75
Investment income	878	854	770	1,119
Other	284	569	678	(142)
Increase in unrestricted net assets	**6,236**	**9,436**	**5,418**	**1,052**
Unrestricted net assets, beginning of year	34,632	25,196	19,778	18,726
Unrestricted net assets, end of year	$ 40,868	$ 34,632	$ 25,196	$ 19,778

Marshall Medical (Marshall Hospital)
Balance Sheet ($000's)

	As of August 31 2003 (Unaudited)	As of October 31, 2002	2001	2000
Assets				
Current Assets:				
Cash and cash equivalents	$ 7,570	$ 14,320	$ 14,901	$ 6,697
Assets limited to use, held by trustee	2,058	2,519	2,480	2,450
Patients accounts receivable, less allowance	16,207	13,875	14,075	12,499
Other receivables	309	140	155	355
Inventories	1,307	1,290	1,110	1,114
Prepaid expenses	849	801	423	548
Total Current Assets	28,300	32,945	33,144	23,663
Assets limited as to use, held by trustee, net	5,833	5,855	5,565	5,079
Assets, board designated for capital acquisition	17,845	18,081	12,224	9,860
Property and equipment, net	39,179	41,703	40,071	39,633
Construction in progress [1]	10,039	2,727	1,267	2,161
Other assets	1,245	987	1,094	1,230
Total Assets	$ 102,441	$ 102,298	$ 93,365	$ 81,626
Liabilities & Net Assets				
Liabilities:				
Current portion of long term debt	$ 2,229	$ 1,915	$ 1,480	$ 1,832
Bond interest payable	651	1,019	1,050	1,080
Accounts payable and accrued expenses	2,307	3,279	2,302	3,695
Accrued compensation and related costs	5,534	4,999	3,462	2,902
Patient balances payable	-	174	1,219	527
Estimated third-party payor settlements	12,952	16,106	17,409	9,226
Total current liabilities	23,673	27,492	26,922	19,262
Estimated malpractice premium costs	741	825	632	541
Long-term debt, net of current portion	37,150	39,349	40,615	42,045
Total Liabilities	61,564	67,666	68,169	61,848
Unrestricted net assets	40,877	34,632	25,196	19,778
Temporarily restricted net assets	-	-	-	-
Permanently restricted net assets	-	-	-	-
Total Liabilities & Net Assets	$ 102,441	$ 102,298	$ 93,365	$ 81,626

[1] Construction in Progress consists primarily of construction costs of a surgery center building in Cameron Park (being financed with internal funds).

Financial Ratios:

	Proforma [a]			
Debt Service Coverage (x)	**2.77**	**4.62**	**3.05**	**2.25**
Debt/Unrestricted Net Assets (x)	**2.64**	**1.19**	**1.67**	**2.22**
Margin (%)		**10.9%**	**6.4%**	**1.5%**
Current Ratio (x)		**1.35**	**1.23**	**1.23**

[a] Recalculates October 2002 results to include the impact of this proposed financing.

Financial Discussion:

Marshall has demonstrated well-managed growth, with strong profitability in the last three years leading to sizeable unrestricted net assets, good liquidity, and modest leverage.

Marshall has exhibited impressive, and increasing, net revenues. Despite eliminating capitated contracts in 2000, Marshall has increased utilization in our three year review period, with an approximate 15% increase in average daily census. Expenses in this period also increased by approximately 15%, while revenues increased by over 27%.

Marshall has also conservatively set aside an increasing amount of assets designated for capital acquisition, investing these funds, to be used for future construction needs. In addition, in our review period, Marshall conservatively estimated the effect of recent changes in Medicare's prospective payment system (recorded as "estimated third-party payor settlements").

Marshall will become leveraged with this financing, but a proforma debt service coverage ratio of 2.77x indicates an ability to manage this debt.

Proforma debt to net assets will be 2.64x. In addition to a satisfactory proforma debt service coverage ratio, interim results indicate further growth in operating income as well as a reduction in estimated third-party liabilities.

III. UTILIZATION STATISTICS:

	Fiscal Year End October 31			10 Months
	2000	2001	2002	Ended 8-31-03
Acute beds:				
Licensed Beds	89	89	89	91
Occupancy % *	59%	66%	72%	72%
Average Daily Census	52.73	59.08	64.59	65.59
Discharges	5,395	5,625	5,901	4,763
Outpatient Procedures	189,186	178,435	176,819	154,203
Emergency Room Visits	22,628	23,921	24,030	20,924
Skilled nursing:				
Licensed Beds	14	14	14	14
Occupancy %	78%	75%	77%	81%

* Management notes that occupancy may be considerably higher than indicated above. Because most licensed beds are in shared rooms, restrictions on the types of patients that may be housed in the same room decreases occupancy.

IV. ORGANIZATION:

Background: Marshall began operations at its present site as a 49 bed acute care facility in 1959, expanding to its 105 bed capacity in the 1980's. The main hospital facility is a two-story structure on a six-acre campus, consisting of 74 medical/surgical beds, eight intensive care beds, nine perinatal beds as well as 14 skilled nursing beds. Marshall provides a range of primary and secondary acute care and outpatient services and 24 hour emergency care services as well as a primary care clinic, pediatric services, and home health. A second two story building, completed in 1997, contains certain clinical and administrative services. Marshall leases three other facilities in Placerville providing outpatient radiology, laboratory and other ancillary services. Marshall operates a rural health clinic in Georgetown and a primary care and cancer treatment services center in Cameron Park. In the next twelve months Marshall expects to open a three suite ambulatory surgery center in Cameron Park and a local gastrointestinal center, both as joint ventures with physicians, and both expected to be financed with internal funds.

Marshall Hospital Foundation coordinates fund raising activities for the Corporation, with Marshall Medical as the sole corporate member. The Foundation's net assets (approximately $1.5 million as of September 30, 2003) are not included in Marshall's financial statements. In addition to nominal amounts given to the Marshall on an annual basis for capital projects and equipment purchases, annual gifts from the Foundation have averaged $380,000 in the last two fiscal years.

Service Area and Competition: Marshall's nearest competitor is Mercy Folsom Hospital, approximately 27 miles from Placerville. Marshall also competes with Sacramento area hospitals, approximately 45 miles away. The only other general acute care hospital in El Dorado County is Barton Memorial Hospital, which operates a 127-bed facility in South Lake Tahoe, approximately 60 miles east of Placerville.

Licenses and Contracts: The California Department of Health Services licenses Marshall as a general acute care facility. Marshall is certified as a provider of care for beneficiaries of the Medicare and Medi-Cal programs.

Marshall contracts with 15 health plans organized and operating in its service area. All of Marshall's managed care revenue is based on negotiated fee-for-service arrangements.

V. SECTION 15438.5 OF THE ACT (Savings Pass Through):

It is the intent of the Legislature in enacting this part to provide financing only to health facilities that can demonstrate the financial feasibility of their projects. It is further the intent of the Legislature that all or part of any savings experienced by a participating health institution, as a result of that tax-exempt revenue bond funding, be passed on to the consuming public through lower charges or containment of the rate of increase in hospital rates.

Marshall has provided a description of its savings pass through in Attachment A.

VI. SECTION 15459.1 OF THE ACT (Community Service Requirement):

As a condition of the issuance of revenue bonds, whether by the Authority or any local agency, each borrower shall give reasonable assurance to the Authority that the services of the health facility will be made available to all persons residing or employed in the area served by the facility. As part of this assurance, borrowers shall agree to a number of actions, including (a) To advise each person seeking services at the borrower's facility as to the person's potential eligibility for Medi-Cal and Medicare benefits or benefits from other governmental third-party payers, (b) To make available to the authority and to any interested person a list of physicians with staff privileges at the borrower's facility, and (c) To post notices in appropriate areas within the facility regarding services being available to all in the service area. This agreement is a standard "Certification and Agreement Regarding Community Service Obligation".

Marshall has executed this certificate, included as Attachment B and submitted its current list of physicians, specialties, languages spoken, telephone numbers and whether Medi-Cal and Medicare patients are accepted.

VII. COMPLIANCE WITH SEISMIC REGULATIONS:

SB 1953 (Chapter 740, 1994) requires that all acute care hospitals in California meet specific seismic safety standards by 2008 and 2030.

Marshall has provided a description of its seismic requirements. See Attachment C.

VIII. OUTSTANDING DEBT: As of October 31, 2002, the outstanding debt issued through the Authority for Marshall was $40,215,000. Following the proposed financing, Marshall will have outstanding approximately $90,215,000 of Authority debt. The composition of Marshall's total long-term debt structure is as follows:

Date Issued:	**Original Amount**	**Amount Outstanding As of 10/31/02**	**Estimated Amount Outstanding after Proposed Financing**
Existing Authority Debt:			
Series 1993A	$19,975,000	$14,415,000	$14,415,000
Series 1998A	$28,030,000	$25,800,000	$25,800,000
Other Debt:		1,048,993	1,048,993
Proposed Authority Debt			
2003 Series A			50,000,000
Total Debt		$41,263,993	$91,263,993

IX. 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.

X. STAFF RECOMMENDATION: Staff recommends the Authority approve a Resolution in an amount not to exceed $50,000,000 for Marshall Medical Center subject to a final insurance commitment from Cal-Mortgage.