

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY  
POOLED LOAN PROGRAM, 1985 SERIES B**

**EXECUTIVE SUMMARY**

<b>Applicant:</b>	AltaMed Health Services Corp. ("AltaMed") 500 Citadel Drive, Suite 490 Los Angeles, California 90040 Los Angeles County	<b>Amount Requested:</b> \$1,446,000 <b>Loan Term:</b> 6 years <b>Date Requested:</b> August 26, 2004 <b>Resolution Number:</b> P-38
<b>Project Sites:</b>	El Monte, California	
<b>Facility Types:</b>	Community Clinic, Adult Day Health Center	
<b>Uses of Loan Proceeds:</b> Proceeds will be used to purchase new medical equipment and currently leased equipment for the new clinic facility and the adult day health care facility.		
<b>Type of Issue:</b>	CHFFA's 1985 Series B Pooled Loan Program (PLP), 7 day Variable Rate	
<b>Existing Borrower:</b>	Yes, payments are current.	
<b>Credit Enhancement:</b>	Financial Guaranty Insurance Company ("FGIC"), <i>as bond insurer</i> Wells Fargo Bank, <i>as Letter of Credit</i>	
<b>Expected Credit Rating:</b>	Aaa/AAA Moody's/Standard & Poor's (based on FGIC Insurance)	
<b>Senior Underwriter:</b>	Not Applicable	
<b>Bond Counsel:</b>	Orrick, Herrington & Sutcliffe LLP	
<b>Financial Overview:</b> Over the past three years, AltaMed has experienced increased growth. AltaMed's balance sheet remains adequate with good liquidity and an acceptable projected debt service coverage ratio.		
<b>Sources of Revenue:</b> (FYE 4/30/04 unaudited)		
	<u>Amount</u>	<u>Percent</u>
Government grants and contracts	\$14,471,322	27%
Patient fees	19,060,718	35%
Managed care contracts	17,245,007	32%
Non-government grants	1,039,917	2%
Other	<u>1,896,948</u>	<u>4%</u>
Total	<u>\$53,713,912</u>	<u>100%</u>
<b>Sources of Funds:</b>		
1985B loan	\$1,446,000	<b>Uses of Funds:</b>
		Equipment purchases
		1,337,439
		Financing costs
		<u>108,561</u>
Total Sources	<u>\$1,446,000</u>	Total Uses
		<u>\$1,446,000</u>
<b>Legal Review:</b> No information was disclosed to question the financial viability or legal integrity of the Applicant.		
<b>Staff Recommendation:</b> Staff recommends the Authority approve a resolution providing for a Pooled Loan Program 1985 Series B Bonds loan in an amount not to exceed \$1,446,000 for AltaMed Health Services Corporation, subject to a stand-by letter of credit as required by FGIC.		

**STAFF SUMMARY AND RECOMMENDATION**

**AltaMed Health Services Corporation (“AltaMed”)**

August 26, 2004

Resolution Number: P-38

- I. PURPOSE OF FINANCING:** AltaMed seeks to purchase updated equipment for its new clinic and adult day health care facility in El Monte, California.

***New equipment purchases* ..... \$1,000,354**

AltaMed plans to purchase the following equipment:

Office equipment/furniture .....	\$263,950
Medical equipment .....	218,040
12-Passenger/2 wheelchair Diamond Bus .....	165,000
Computer LAN .....	109,014
Activities equipment .....	57,950
Facility equipment .....	34,550
Physical occupational/therapy equipment .....	34,100
Telephone equipment.....	30,000
Kitchen equipment .....	27,500
Storage rooms .....	20,000
Conference room equipment.....	18,750
Staff lounges .....	14,200
Personal care room.....	7,300

***Lease equipment purchases* ..... \$337,085**

AltaMed plans to purchase various equipment that is currently being leased. Some of the leased equipment includes Gendex 770 x-ray system, Matrix Vac Pump, MaxiMizer dual, Matrix CP-3 Control Panel: 2V, 1A, Midmak Soniclean Ultrasonic Cleaner and Jovden Economy Curing Light.

***Financing Costs* ..... 108,561**

FGIC Insurance Premium .....	\$22,500
Loan Discount.....	28,877
Letter of Credit.....	21,690
Application fee.....	8,315
Legal costs .....	6,719
Other costs .....	<u>20,460</u>

***Total Uses of Funds*..... \$1,446,000**

### **Financing Structure:**

- Proposed loan to be funded under the Pooled Loan Program 1985 Series B Bonds. (See below for a description of the program).
- Secured by Financial Guaranty Insurance Company (“FGIC”) bond insurance with an approved Stand-by Letter of Credit to be issued by Wells Fargo Bank.
- Variable interest rate with a 7-day reset.
- Loan term not to exceed 6 years.

### **Description of 1985 Series B Program:**

The Authority established the 1985 Series B Program in October 1985 with a \$100 million bond issue. To qualify for participation in the program, the healthcare provider must be an eligible health facility, as defined in the Authority’s statute and the project to be funded must be an eligible project under the statute. The bonds are rated “AAA” based on FGIC bond insurance. FGIC normally requires a stand-by Letter of Credit for each loan approved.

In addition to bond funds, monthly borrower repayments into the program are available for new loans, with the limitation that any loan term cannot exceed the bond’s maturity date of August 23, 2010. After a number of bond redemptions over the years, the program currently has \$24.9 million in bonds outstanding, \$13 million reserve fund, \$8.1 million in existing loans, and \$5.7 million of available, loanable funds.

One benefit of the program is its low, tax-exempt interest rate. The rate is set weekly, averaging .99359% for 2003, and approximately 1% since the beginning of this calendar year. Another significant advantage is borrower payment offsets. Any earnings on the invested reserve funds over amounts required to pay bondholders are proportionately distributed to borrowers to offset their payments.

## II. FINANCIAL STATEMENTS AND ANALYSIS:

### AltaMed Health Services Corporation Statement of Activities

	<b>For the Year Ended April 30</b>			
	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
	<b>(unaudited)</b>			
Revenue, gains and other support				
Government grants and contracts	\$ 14,471,322	\$ 13,792,250	\$ 12,507,844	\$ 10,853,446
Patient fees	19,060,718	17,558,013	14,006,820	12,599,476
Managed care contracts	17,245,007	13,936,586	11,649,288	9,525,682
Non-government grants	1,039,917	1,387,316	1,112,008	752,634
Other	1,896,948	566,732	1,088,616	1,375,807
Net assets released from restrictions	-	-	160,000	160,000
Total revenues, gains and other support	<u>53,713,912</u>	<u>47,240,897</u>	<u>40,524,576</u>	<u>35,267,045</u>
Expenses				
Salaries and benefits	30,942,832	26,000,207	22,507,000	19,132,689
Specialty services	4,271,584	4,307,322	3,820,970	3,000,096
Therapeutic services	243,298	359,917	443,133	456,465
Administrative services	1,484,905	1,358,435	965,563	585,634
Medical services	2,244,286	1,768,008	1,642,133	1,643,072
Purchased services	636,401	700,761	628,745	508,179
Equipment, rental, repairs and maintenance	618,038	518,759	451,431	344,361
Insurance	534,167	389,792	352,032	181,365
Patient transportation	828,705	743,833	587,512	1,323,050
Postage/printing	282,180	290,229	365,943	212,054
Rent	1,743,818	1,598,308	1,264,313	1,224,486
Staff development	519,908	426,469	475,903	192,003
Subscription/dues/licenses	303,180	196,397	199,926	202,643
Health promotion/education	941,261	499,924	333,813	181,244
Pharmacy/medical supplies	2,328,409	1,584,723	1,412,582	1,626,742
Office/facility and other supplies	693,454	603,165	654,779	-
Telephone	535,763	508,727	443,129	365,176
Travel	280,199	262,794	225,827	167,259
Utilities and facilities	855,310	573,708	536,340	307,173
Minor equipment	851,532	504,020	412,626	365,561
Bad debt	620,924	325,783	-	174,334
Depreciation and amortization	934,328	859,701	812,922	751,908
Interest	340,127	360,642	443,059	562,725
Other expenses/interdepartment transfer	82,630	79,986	93,725	(618,289)
Reversionary equipment capitalized	-	(86,555)	(6,000)	(69,000)
Depreciation on reversionary equipment	40,224	44,077	24,833	19,632
Total expenses	<u>53,157,463</u>	<u>44,779,132</u>	<u>39,092,239</u>	<u>32,840,562</u>
Change in temporarily restricted net assets		-	(160,000)	(160,000)
<b>Increased in net assets</b>	<b>556,449</b>	<b>2,461,765</b>	<b>1,272,337</b>	<b>2,266,483</b>
Net assets, beginning of year	<u>10,609,621</u>	<u>8,147,856</u>	<u>6,875,519</u>	<u>4,609,036</u>
Net assets, end of year	<u>\$ 11,166,070</u>	<u>\$ 10,609,621</u>	<u>\$ 8,147,856</u>	<u>\$ 6,875,519</u>

**AltaMed Health Services Corporation**  
**Balance Sheet**

	As of April 30			
	2004	2003	2002	2001
	(unaudited)			
<b>Assets</b>				
Cash and cash equivalents	\$ 1,653,807	\$ 6,240,822	\$ 3,842,327	\$ 4,325,539
Marketable securities	3,845,760	3,005,111	5,348,562	3,937,783
Contracts receivable	3,199,280	2,525,438	2,511,953	1,954,492
Accounts receivable	4,760,344	1,677,517	1,536,663	1,535,261
Prepaid expenses	100,586	61,474	64,717	165,331
Other assets	491,591	393,449	85,532	53,981
Assets limited as to use	1,677,360	2,082,373	434,590	438,523
Propert and equipment, net	13,160,875	12,483,040	9,560,344	9,350,770
<b>Total assets</b>	<b>\$ 28,889,603</b>	<b>\$ 28,469,224</b>	<b>\$ 23,384,688</b>	<b>\$ 21,761,680</b>
<b>Liabilities</b>				
Accounts payable	6,315,623	\$ 4,995,087	\$ 3,613,924	\$ 2,425,990
Accrued vacation	1,309,892	1,145,271	1,030,646	910,166
Claims payable	1,263,302	1,320,520	1,082,438	-
Other accrued liabilities	641,148	1,249,634	1,018,010	1,687,528
Grant and contract advances	751,181	1,317,112	107,337	258,993
Notes payable	6,748,367	7,323,619	8,134,517	361,747
Capitalized leases	620,159	413,610	249,960	9,241,737
Other long-term liability	73,861	94,750	-	-
<b>Total liabilities</b>	17,723,533	17,859,603	15,236,832	14,886,161
<b>Net assets:</b>				
Unrestricted	11,166,070	10,609,621	8,147,856	6,715,519
Temporarily restricted		-	-	160,000
<b>Total net assets</b>	11,166,070	10,609,621	8,147,856	6,875,519
<b>Total liabilities and net assets</b>	<b>\$ 28,889,603</b>	<b>\$ 28,469,224</b>	<b>\$ 23,384,688</b>	<b>\$ 21,761,680</b>

**Financial Ratios:**

	<b>Proforma (1)</b>				
	<b>FYE 2004</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Debt Service Coverage (x)	1.3	1.67	2.85	1.47	2.56
Debt/Unrestricted Net Assets (x)	0.84	0.74	0.81	1.14	1.62
Margin (%)		1.04	5.21	3.53	6.88
Current Ratio (x)		1.37	1.39	1.95	2.27

(1) Recalculates April 2004 unaudited results to include the impact of the financing.

## **Financial Discussion:**

### **Over the past three years, AltaMed has experienced increased growth.**

While the majority of health care providers in Southern California have seen a decline in revenue and downsizing, AltaMed's revenues have increased approximately 52% in the last three years. This is due to three major factors: 1) affordable costs of high quality medical and health care services; 2) accessibility to underserved populations; and 3) the continued shift of health care away from the model stressing treating sickness and expensive in-patient care to wellness, prevention and more cost efficient outpatient services.

In fiscal year 2004, AltaMed had a profit of \$556,449. The overall revenues increased approximately \$6.5 million compared to fiscal year 2003. A large portion of the increase is in the managed care classification, which went from \$13.9 million in fiscal year 2003 to \$17.2 million in fiscal year 2004. Most of this growth resulted from increased enrollment in the Program of All Inclusive Care for the Elderly (PACE) that provides for all health care for frail elderly including primary care, specialty care, nursing home and hospitalization. Patient fees also increased approximately \$1.5 million attributed mostly to Adult Day Health Care center expansion. Revenues classified as other also increased significantly, up \$1.3 million during the same periods mostly due to foundation grants, fundraising programs and investment gains.

In the past three years, government grants and contracts have increased from \$10.9 million to \$14.7 million in fiscal year 2004. This is mostly due to increased federal funding for primary care and HIV services. Patient fees increased from \$12.6 million in fiscal year 2001 to \$19 million in fiscal year 2004. This is mostly due to growth in existing primary care clinics and Adult Day Health Care centers. Also contributing to this increase is the result of two new primary care clinics and three new dental clinics that opened up in the last year. Managed care programs continue to be the fastest growing source of revenues for AltaMed. Managed care revenue increased from \$9.5 million in 2001 to \$19 million in fiscal year 2004. This is due to enrollment growth in both the PACE program and in the managed care lives contracted with HMOs.

### **AltaMed's balance sheet remains adequate with good liquidity and an acceptable projected debt service coverage ratio.**

AltaMed balance sheet is adequate with good liquidity and significant net assets of over \$10 million. AltaMed's net assets continue to grow and its debt-to-net assets ratio is satisfactory at 0.84x. AltaMed has successfully expanded its operations without the issuance of a large amount of long-term debt. With the proposed financing, AltaMed's debt service coverage ratio will remain acceptable at 1.30x, indicating AltaMed should be able to meet the proposed debt service payments.

AltaMed's cash and cash equivalents decreased to \$1.7 million at the end of fiscal year 2004 over the prior year's balance of \$6.2 million. This is mostly due to temporary increases in accounts receivable for both the PACE program and regular patient fees. The PACE program is behind in paying AltaMed nearly \$500,000, pending the State's processing of contract amendments that incorporate retroactive rate adjustments. Also, accounts receivable increased substantially mostly due to cash owed AltaMed that was tied up with the County of Los

Angeles in connection with its Private/Public Partnership (PPP) program's inability to process claims in a timely fashion. Subsequent to AltaMed's fiscal year end, the county began making payments under their PPP contract. In addition, with AltaMed's two new primary care and three dental clinics, cash was tied up in Medi-Cal receivables category due to the State's delay in providing a Medi-Cal provider number (used to bill for services).

### **III. BACKGROUND:**

AltaMed was founded as the East Los Angeles Barrio Free Clinic in 1969, a volunteer-staffed storefront providing basic medical services to the underserved. It has been providing affordable primary health care medical services in Los Angeles County to numerous communities since 1969. AltaMed provides health care to populations at the neighborhood level and in the language of their choice, the majority being delivered in Spanish.

AltaMed has experienced substantial growth in the past five years, with revenues that have nearly doubled. AltaMed has maintained its position in the community at the local level, responding to the patients and their family's needs, with the Board of Directors drawn equally from consumers of service and representatives of the communities they serve. The majority of staff also lives in the communities they serve.

AltaMed now operates 17 sites, serving more than 43,000 families annually through a network of medical clinics, HIV services, senior services, drug treatment and youth services.

**Licenses:** AltaMed is licensed by the Department of Health Services and currently provides contracted clinic services to Medi-Cal beneficiaries under the Federally Qualified Health Center (FQHC) model. AltaMed has contracts with several Health Maintenance Organizations (HMOs) for the provision of medical services for both Medi-Cal and commercial members. AltaMed is responsible for the health care of approximately 15,000 lives under this managed care arrangement.

**Service Area, Competition, and Market Share:** AltaMed's service area is Los Angeles County. However, AltaMed targets the Latino population in the East Los Angeles and El Monte areas, which have received federal designations as Medically Underserved Areas. Approximately 67% of AltaMed's target population lives at or below 200% of the poverty level established by the Federal Government. AltaMed does not have substantial competition in its service area for clients it serves under its subsidized funding sources.

#### IV. UTILIZATION STATISTICS:

	Client Visits			
	Year ending April 30			
	2004	2003	2002	2001
Primary care visits	101,627	84,232	78,881	71,180
Senior services	79,330	84,808	76,582	73,097
Drug abuse programs	62,295	57,690	63,399	65,850
AIDS/HIV	8,399	7,392	7,030	7,685
Teen program	12,671	16,005	20,073	18,976
Totals	264,322	250,127	245,965	236,788

#### 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.

AltaMed has provided a description of its savings pass through in **Exhibit A**.

#### VI. SECTION 15459.1 (b) 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".

A copy of AltaMed's certification is included as **Exhibit B**.

**VII. OUTSTANDING DEBT:**

<b>Description</b>	<b>Original Amount</b>	<b>Amount Outstanding As of 04/30/03 (a)</b>	<b>Estimated Amount Outstanding After Proposed Financing</b>
<b>Existing:</b>			
CSCDA, Certificates of Participation, 2000	\$5,250,000	\$4,825,000	\$4,825,000
1985 Series B PLP, 1997	2,003,000	1,224,056	1,224,056
1985 Series B PLP, 2001	1,228,000	971,236	971,236
NCB, notes payable	500,000	130,412	130,412
<b>Proposed:</b>			
1985 Series B PLP, 2004		N/A	1,446,000
<b>TOTAL DEBT</b>		<b>\$7,150,704</b>	<b>\$8,596,704</b>

(a) does not include current portion

**VIII. 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 integrity of this applicant.

**IX. STAFF RECOMMENDATION:**

Staff recommends the Authority approve a resolution providing for a Pooled Loan Program 1985 Series B Bonds loan in an amount not to exceed \$1,446,000 for AltaMed, subject to a stand-by letter of credit as required by FGIC.