

**CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Foothill Health Center (“FHC”) dba Foothill Community Health Center 2670 S White Road, Suite 170 San Jose, CA 95148</p>	<p>Amount Requested: \$550,000 Requested Loan Term: 5-year fixed Authority Meeting Date: April 9, 2015 Resolution Number: HII-291</p>																
<p>Project Site: 5504 Monterey Road, San Jose, CA 95138 (Santa Clara County) Facility Type: Community Clinic Eligibility: Government Code Section 15432(d)(6) – Federally Qualified Health Center Prior HELP II Borrower: Yes – outstanding balance: \$385,928 and borrower is current</p>																	
<p>Background: Established in 1984, FHC provides urgent, primary and preventive medical, dental and counseling services to low income and underserved populations of East San Jose. FHC operates four clinics and six school-based clinics. In FY 2013, FHC had approximately 60,553 patient visits.</p>																	
<p>Uses of Loan Proceeds: The HELP II loan proceeds will be used to purchase medical, dental, vision and office equipment to operate a new community health clinic located at 5504 Monterey Road, San Jose, California.</p>																	
<p>Financing Structure:</p> <ul style="list-style-type: none"> • 5-year fixed rate loan • 60 equal monthly payments of approximately \$9,883 (annual payments of approximately \$118,593). • Corporate gross revenue pledge. • UCC–1 lien on the equipment purchased. • Verification of borrower’s funds to close escrow. • Proof of lease agreement. • Proof of licensing will be provided to the Authority within 180 days of renovation completion. 																	
<p>Financial Overview: FHC’s income statement exhibits positive operating results during the review period. FHC’s balance sheet remains financially healthy with a proforma debt service coverage ratio of 8.42x.</p>																	
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: left;"><u>Estimated Sources of Funds:</u></th> <th colspan="2" style="text-align: left;"><u>Estimated Uses of Funds:</u></th> </tr> </thead> <tbody> <tr> <td style="width: 30%;">HELP II loan</td> <td style="width: 20%; text-align: right;">\$ 550,000</td> <td style="width: 30%;">Equipment</td> <td style="width: 20%; text-align: right;">\$ 570,625</td> </tr> <tr> <td>Borrower's funds</td> <td style="text-align: right;">29,500</td> <td>Financing costs</td> <td style="text-align: right;">8,875</td> </tr> <tr> <td>Total Estimated Sources</td> <td style="text-align: right;"><u>\$ 579,500</u></td> <td>Total Estimated Uses</td> <td style="text-align: right;"><u>\$ 579,500</u></td> </tr> </tbody> </table>		<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>		HELP II loan	\$ 550,000	Equipment	\$ 570,625	Borrower's funds	29,500	Financing costs	8,875	Total Estimated Sources	<u>\$ 579,500</u>	Total Estimated Uses	<u>\$ 579,500</u>
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>															
HELP II loan	\$ 550,000	Equipment	\$ 570,625														
Borrower's funds	29,500	Financing costs	8,875														
Total Estimated Sources	<u>\$ 579,500</u>	Total Estimated Uses	<u>\$ 579,500</u>														
<p>Due Diligence: Staff has received and reviewed the Eligibility, Legal Status Questionnaire, Religious Affiliation Due Diligence, Saving Pass Through and Community Service Requirement documentation. All documentation satisfies the Authority’s requirements.</p>																	
<p>Parties of Interest: Monterey Plaza LP (Landlord)</p>																	
<p>Staff Recommendation: Staff recommends approval of Resolution Number HII-291 for Foothill Health Center dba Foothill Community Health Center in an amount not to exceed \$550,000 for a term not to exceed 5 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.</p>																	

I. PURPOSE OF FINANCING:

FHC plans to renovate a lease 8,012 square foot building located at 5504 Monterey Road, San Jose into a community health center to serve low-income families and individuals for dental, vision and behavioral health services. FHC received federal grant funding for approximately \$900,000 for this initiative and plans to borrow approximately \$550,000 from the HELP II Loan Program to purchase medical, dental, vision and office equipment. This project is expected to be completed in July 2015 and will add 14 exam rooms, eight dental chairs, two behavioral health exam rooms, two optometry exam rooms, and four obstetrician/gynecologist (OB) exam rooms. According to FHC's management, this new clinic is projected to add approximately 10,000 patient visits over the next six months after opening.

Equipment Purchases..... \$570,625

FHC is planning to use the HELP II loan proceeds to equip the new clinic by purchasing the following dental, medical, optometry and computer equipment identified below:

1. **Dental Equipment:** FHC seeks to purchase dental chairs, X-ray machines, autoclaves & sterilizer cleaners, air compressors & vacuums, amalgam separators, dexis imaging Sensors, digital IRIS USB cameras, boost transformers, illumination systems, VistaPure water systems, water bypass systems, and CP3 control panels.
2. **Medical Equipment:** FHC seeks to purchase audiometers, automatic external defibrillators, medical exam tables, utility carts, side chairs, a wall mounted diagnostic system for comprehensive vital signs, measurement and recording, physician chairs, electrocardiogram machines, workstations, exam lamps, digital weight scales, eyewash stations, mayo stands, pulse oximeters, and portable oxygen tanks.
3. **Optometry Equipment:** FHC seeks to purchase a reichert seven auto tonometer, a keeler intellipuff tonometer, a lombart, full diametric lens, a lombart metal trial frame, a volk 20D Lg aspheric lens, a volk 90D Lg, aspheric lens, a keeler all pupil II direct, an essilor digital pupilometer, a lombart electric table, a small lombart electric table, a large lombart electric table, and a pinhole occluder.
4. **Computer Equipment:** FHC seeks to purchase server room equipment, patch panel/switches, desktop computers with monitors, and ergotron mobile carts.

Financing Costs..... 8,875
 Authority Fees \$6,875
 Title and Escrow Fees 2,000
Total Uses of Funds \$579,500

II. FINANCIAL STATEMENTS AND ANALYSIS

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

	As of December 31,		
	2013	2012	2011
Support and Revenue			
Patient revenue *	\$ 10,880,551	\$ 5,136,252	\$ 2,065,722
Foundation - Blue Cross	-	35,000	6,250
Interest income	2,309	328	541
Other income	168,984	72,716	141,218
Net asset released from restriction	1,368,544	940,186	1,107,719
Total support and revenue	<u>12,420,388</u>	<u>6,184,482</u>	<u>3,321,450</u>
Expenditures			
Salaries	6,186,800	3,626,384	1,643,242
Payroll taxes/benefits	1,194,666	604,965	269,959
Insurance	-	-	30,721
Consumable supplies	744,512	296,809	143,848
Travel/meals	43,368	57,453	35,977
Rent	306,153	157,883	93,412
Depreciation	176,961	198,561	155,893
Telephone/fax	153,080	87,575	26,558
Utilities	57,855	68,768	-
Bad debt expense	162,896	14,957	181,449
Professional fees	986,986	407,688	295,548
Repair and maintenance	-	-	6,420
Other operating costs	574,097	275,071	156,515
Total expenditures	<u>10,587,374</u>	<u>5,796,114</u>	<u>3,039,542</u>
Increase in unrestricted net assets	1,833,014	388,368	281,908
Unrestricted net assets - beginning of year	<u>1,392,278</u>	<u>1,003,910</u>	<u>722,002</u>
Unrestricted net assets - end of year	<u>\$ 3,225,292</u>	<u>\$ 1,392,278</u>	<u>\$ 1,003,910</u>

***Patient Revenue for FYE December 31, 2013**

<u>Payor Source</u>	<u>Percent</u>
Medi-Cal	20
Medi-Cal Supplement	16
Denti-Cal	21
Private/Sliding Fee Scale	13
Private Insurance	4
Medi-care	2
Santa Clara Family Health Plan	18
Medi-Cal Blue Cross	2
Cancer Detection Program	1
Family Pact	3
Total	<u>100</u>

**Foothill Health Center
dba Foothill Community Health Center
Consolidated Balance Sheet**

	As of December 31,		
	2013	2012	2011
Current assets:			
Cash and cash equivalents	\$ 1,102,443	\$ 340,617	\$ 268,164
Account receivable	2,350,858	1,243,772	511,351
Grant receivable	20,138	13,871	206,368
Deferred annuity	113,886	97,986	87,155
Other current assets	53,154	104,527	41,599
Total current assets	<u>3,640,479</u>	<u>1,800,773</u>	<u>1,114,637</u>
Property and equipment	884,931	313,169	383,547
Total assets	<u>\$ 4,525,410</u>	<u>\$ 2,113,942</u>	<u>\$ 1,498,184</u>
Current liabilities:			
Account payable	\$ 95,425	\$ 188,960	\$ 38,604
Accrued expenditures	583,637	291,155	162,147
Deferred revenue	-	143,563	206,368
Loan payable - current	110,523	-	-
Deferred compensation	113,886	97,986	87,155
Total current liabilities	<u>903,471</u>	<u>721,664</u>	<u>494,274</u>
Loan payable ^(a)	396,647	-	-
Total liabilities	<u>1,300,118</u>	<u>721,664</u>	<u>494,274</u>
Net assets:			
Unrestricted	3,225,292	1,392,278	1,003,910
Total net assets	<u>3,225,292</u>	<u>1,392,278</u>	<u>1,003,910</u>
Total liabilities and net assets	<u>\$ 4,525,410</u>	<u>\$ 2,113,942</u>	<u>\$ 1,498,184</u>

Financial Ratios:

	Proforma ^(b)			
	<u>FYE December 31, 2013</u>			
Debt Service Coverage (x)	8.42	16.65	N/A	N/A
Debt to Unrestricted Net Assets (x)	0.33	0.16	N/A	N/A
Margin (%)		0.15	0.06	0.08
Current Ratio (x)		4.03	2.50	2.26

^(a) FHC had no debt in FY 2011 and FY 2012.

^(b) Recalculates FY 2013 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities

FHC's income statement exhibits positive operating result during the review period.

Unrestricted net assets increased from \$281,908 in FY 2011 to \$1.8 million in FY 2013, a 550% increase. This increase is primarily attributed to an increase in patient revenues from \$2 million in FY 2011 to \$10.9 million in FY 2013. According to FHC's management, the organization opened three additional health clinics (Montpelier Community Clinic, Yerba Buena High School, and Independence High School) and expanded its service scope in dental, optometry, OB and behavioral health. This expansion resulted in an increase of patient visits from 9,337 in FY 2011 to 60,553 in FY 2013, a 549% increase. FHC's management attributes this growth to its new strategic plan by entering into a new market segment that targeted the K-12 student population, as well as parents of this K-12 population and the immediate neighbors to FHC's school-based clinics. This expansion also increased the total expenditures from approximately \$3 million in FY 2011 to \$10.6 million in FY 2013, primarily due to the increase in salaries, consumable supplies, rent, telephone, fax, professional fees and other operating costs. The increase of expenses grew proportionally with the increase of revenue during the review period.

Particular Facts to Note:

- Salaries increased from \$1.6 million in FY 2011 to \$6.2 million in FY 2013, an increase of 276%. This increase was primarily attributed to an increase of patient visits from approximately 20,103 in FY 2011 to 60,553 FY 2013 to accommodate the growing services in dental, optometry, OB and behavioral health. The total number of employees increased from 50 to 102 in FY 2012 and to 166 by the end of FY 2013, according to FHC's management.

Financial Discussion – Statement of Financial Position

FHC's balance sheet remains financially healthy with proforma debt service coverage of 8.42x

Total unrestricted net assets increased from \$1 million in FY 2011 to \$3.2 million in FY 2013, primarily attributed to the opening of three new health clinics Montpelier Community Clinic, Yerba Buena High School, and Independence High School and new services in dental, optometry, OB and behavioral health, according to FHC's management. During the review period, FHC has a minimal debt-to-unrestricted net asset ratio of 0.33x. With the proposed financing, the debt service coverage decreases from 16.69x to 8.44x. FHC is nevertheless well positioned to take on the additional debt.

Particular Facts to Note:

- Accounts receivable increased from \$511,351 in FY 2011 to approximately \$2.4 million in FY 2013, primarily attributed to an increase of patient visits from 9,337 in FY 2011 to 60,553 in FY 2013 during the expansion period. According to FHC's management, the increase is primarily attributed to the high volume of low income patients that were unable to timely make payments. FHC conducts weekly meetings with its billing staff to monitor the progress of the outstanding balances in accounts receivable. FHC plans to reduce accounts receivable by at least 20% in FY 2015 by hiring two billing clerks in FY 2014. In addition, FHC plans to hire two more billing clerks in FY 2015 to increase its collection rate.
- Currently, the CHFFA HELP II Loan is FHC's only long-term debt.

EXHIBIT 1
UTILIZATION STATISTICS
CLIENTS SERVED/ (PATIENT VISITS)

	As of December 31,		
	2011	2012	2013
Total	9,337/ (20,103)	8,061/ (19,286)	12,713/ (60,553)

EXHIBIT 2
OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding ^(a) As of December 31, 2013</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
-EXISTING LONG-TERM DEBT:			
CHFFA HELP II Loan, 2012	\$ 570,000	\$ 507,170	\$ 507,170
- PROPOSED NEW DEBT:			
CHFFA HELP II Loan, 2015			550,000
- TOTAL DEBT		<u><u>\$ 507,170</u></u>	<u><u>\$ 1,057,170</u></u> ^(b)

(a) Includes current portion of long-term debt.

(b) The outstanding balance of the HELP II Loan will be \$935,928.04 (\$550,000+ \$385,928.04) instead of \$1,057,170 after closing.

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

As a Federally Qualified Health Care Center (FQHC), Foothill Health Center dba Foothill Community Health Center (FHC) provides comprehensive primary and preventive healthcare service to the residents in the underserved population of East San Jose. FHC's purpose is "To Help People" by providing accessible, high-quality, comprehensive services to those in need, regardless of their ability to pay.

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

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 for 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.

Afterwards, FHC's management relocated its only clinic at the time into a space in a local physician's building. The new facility opened in February 2009. Currently, FHC operates four clinics and six school-based clinics. The clinics are respectively: San Jose Foothill Family Community Clinics, Foothill Family Community Clinic, Montpelier Community Clinic, Mount Pleasant Health Center, Yerba Buena High School Clinic, Silver Creek High School Clinic, Andrew Hill High School Clinic, MACSA Clinic, San Jose Conversation Corps 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, California.

Licensure, Certification and Accreditation

All four FHC facilities identified on Exhibit 4 are licensed to operate as community clinic by California Department of Public Health. According FHC's management, the school based clinics do not require individual licensing because it is operating less than 20 hours a week. However, it is considered a subdivision or satellite site under the four main community clinics identified on Exhibit 4.

EXHIBIT 4

FOOTHILL HEALTH CENTER'S CLINICS

Community Clinics:

1. San Jose Foothill Family Community Clinic
2880 Story Road,
San Jose, CA 95127
2. Foothill Family Clinic
1066 S White Rd, Suite 170
San Jose, CA 95127
3. Montpelier Clinic
2380 Montpelier Drive, Suite 200,400
San Jose, CA 95127
4. Mount Pleasant Health Center
1650 South White Road
San Jose, CA 95127

School Based Clinics:

1. Yerba Buena High School Clinic
1855 Lucretia Ave, Room 112
San Jose, CA 95122
2. Silver Creek High School Clinic
3434 Silver Creek Road, Room M1
San Jose, CA 95121
3. Andrew Hill High School Clinic
3200 Senter Road, Room S104
San Jose, CA 95111
4. MACSA Clinic
660 Sinclair Drive
San Jose, CA 95116
5. San Jose Conversation Corps Clinic
1560 Berger Drive
San Jose, CA 95112
6. Independence High School Clinic
1776 Educational Park Drive, H Building
San Jose, CA 95133

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-291

**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 refinance existing debt and 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 Community Health Center, dba Foothill Community 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 an amount not to exceed **\$550,000** for a term not to exceed **5 years** for the purpose described in the application filed with the Authority (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 loan;
2. Corporate gross revenue pledge;
3. UCC–1 lien on equipment purchased;
4. Verification of Borrower’s funds to close escrow;
5. Proof of lease agreement; and
6. Proof of licensing shall be provided to the Authority within 180 days of renovation completion.

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: _____