CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
TAX-EXEMPT EQUIPMENT FINANCING PROGRAM
G.E. CAPITAL EQUIPMENT PROGRAM
EXECUTIVE SUMMARY

Applicant:	Emanuel Medical Center (EMC)	**Amount Requested:**	$3,500,000
	825 Delbon Avenue	**Requested Loan Term:**	5 years
	Turlock, CA 95382	**Date Requested:**	June 27, 2002
	Stanislaus County	**Resolution Number:**	E-20

Project Site: Turlock, California
Facility Type: Acute Care Hospital, Skilled Nursing & Assisted Living

Use of Loan Proceeds: Proceeds will be used to purchase a CT Scanner, MRI, various medical equipment and expand the outpatient center by approximately 2,000 square feet.

Type of Issue:	Private Placement
Security:	First lien on equipment
Expected Rating:	Unrated
Placement Agent/Lender:	G.E. Capital Public Finance, Inc/G.E. Capital Corporation
Bond Counsel:	Orrick, Herrington & Sutcliffe LLP

Financial Overview: Over staff's review period, EMC has experienced operating losses in each of the last three fiscal years. In addition, losses on its investment portfolio have resulted in a declining net asset balance. However, EMC is taking steps to increase revenues and expand services over the next two years. EMC has significant financial resources, with over $63 million in total net assets.

Sources of Revenue:		**Amount**	**Percent**
(FYE 01-31-02)	Net Patient Service	$65,653,000	93%
	Premium Revenue	3,655,000	5%
	Other	1,192,000	2%
	Total Patient Revenue	$70,500,000	100%

Estimated Sources of funds:		**Estimated Uses of funds:**	
Note Proceeds	$3,500,000	Equipment Purchase	$3,457,750
Borrower Funds	0	Costs of Issuance	42,250
Total Sources	$3,500,000	Total Uses	$3,500,000

Staff Recommendation: Staff recommends the Authority approve an equipment financing resolution for Emanuel Medical Center, Inc. in an amount not to exceed $3,500,000 with a term of five years.

(KS)

STAFF SUMMARY AND RECOMMENDATION
TAX-EXEMPT EQUIPMENT FINANCING PROGRAM
G.E. CAPITAL EQUIPMENT PROGRAM
Emanuel Medical Center, Inc. (EMC)

June 27, 2002
Resolution Number: E-20

I. PURPOSE OF FINANCING: Emanuel Medical Center intends to purchase equipment to improve operational efficiencies through better information systems and more cost-effective diagnostic and treatment technologies.

The details of the project are shown below:

Equipment ***$2,867,750***

Hitachi Altaire .7T Open Magnet MRI *$1,726,525*

The MRI will be replacing the current MRI that is old and inefficient. The replacement of the MRI will help increase efficiency and patient visits.

GE Helical CT Scanner *$724,100*

The CT Scanner will replace the current scanner that is outdated and inefficient. This will help meet future demands and will allow better service to EMC current patients.

Misc. Equipment *$417,125*

EMC will purchase computer software and hardware, a Mammography Unit, and upgrade the Angiography. These additions will help further the efficiency of the hospital and better serve patients.

Site Improvements and Expansion ***590,000***

The outpatient center will be expanded by approximately 2,000 square feet in order to provide additional space for the new MRI and future space for a CT scanner dedicated to outpatient services.

Costs of Issuance ***42,250***

Bond Counsel *$20,000*
Hospital Counsel *$20,000*
Issuer Fee *1,750*
Escrow Fees *500*

Total Uses of Funds ***$3,500,000***

Structure of Financing:

- Tax-exempt revenue note.
- Privately placed with GE. Capital Public Finance, Inc. (GECPF)/G.E. Capital Corporation (GECC).
- Five-year loan fully amortized.
- Fixed interest rate estimated range to be 5.10% - 5.45%.
- Estimated monthly payment is $67,000 (approximately $804,000 first year payment).
- GECPF/GECC will be granted a first priority security interest in the equipment.

[Financial statements and analysis on following pages]

II. FINANCIAL STATEMENTS AND ANALYSIS:

EMANUEL MEDICAL CENTER, INC.

Statement of Activities ($ in 000's)

	Three months Ending April 30	For the Year Ended January 31,		
	2002	2002	2001	2000
	(Unaudited)			
Operating Revenues:				
Net patient service revenue	$ 17,045	$ 65,653	$ 47,457	$ 46,700
Premium revenue	-	3,655	16,579	14,991
Other revenue	277	1,192	1,022	1,084
Total revenues	17,322	70,500	65,058	62,775
Operating Expenses:				
Salaries and wages	7,442	27,506	25,274	23,640
Employee benefits	2,216	9,073	7,887	7,883
Professional fees	1,301	4,643	2,368	2,271
Supplies	2,731	10,081	9,093	8,750
Purchased services	811	3,774	3,195	2,460
Purchased services-capitation	-	1,940	8,913	6,804
Depreciation and amortization	880	3,533	3,623	3,768
Utilities	133	677	667	689
Insurance	141	527	393	842
Interest expense	(802)	475	1,303	1,584
Bad debt	1,643	6,155	4,357	2,938
Other	721	2,248	2,124	1,877
Total operating expenses	17,217	70,632	69,197	63,506
OPERATING INCOME/LOSS	105	(132)	(4,139)	(731)
Nonoperating Revenue (Expense):				
Investment income	387	2,084	2,620	1,465
Realized (loss) gain on investments- net	(830)	(3,101)	5,707	7,885
Contributions	70	688	489	415
Total nonoperating (expense) revenue - net	(373)	(329)	8,816	9,765
INCOME (LOSS)	(268)	(461)	4,677	9,034
OTHER CHANGES IN UNRESTRICTED NET ASSETS:				
Unrealized loss on investments - net	(460)	(2,676)	(8,357)	3,848
Change in accounting principle	-	941	-	
Transfer to Covenant Ministries of Benevolence	-			(1,000)
Total other changes in unrestricted net assets	(460)	(1,735)	(8,357)	2,848
INCREASE/DECREASE IN UNRESTRICTED NET ASSETS	(728)	(2,196)	(3,680)	11,882
TEMPORARILY RESTRICTED NET ASSETS				
Contributions/pledges	-	1,689	-	-
TOTAL INCREASE (DECREASE) NET ASSETS	(728)	(507)	(3,680)	11,882
TOTAL NET ASSETS, BEGINNING OF YEAR	63,471	63,978	67,658	55,776
TOTAL NET ASSETS, END OF YEAR	$ 62,743	$ 63,471	$ 63,978	$ 67,658

EMANUEL MEDICAL CENTER, INC.

Statement of Financial Position ($ in 000's)

	As of April 30 2002 (Unaudited)	As of January 31 2002	2001	2000
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 1,076	$ 484	$ 650	$ 4,315
Trustee held funds, investments	389	524	574	599
Patient accounts receivable	10,701	10,987	9,650	7,708
Other receivables	1,242	1,870	1,423	1,434
Pledges receivable		936	-	-
Inventory	1,055	1,043	1,073	1,054
Prepaid expenses	366	365	246	15
Total current assets	14,829	16,209	13,616	15,125
Assets Whose Use is Limited:				
Board designated investments	47,554	47,589	52,689	54,781
Trustee held funds less current portion	2,146	2,228	2,300	2,033
Total assets whose use is limited	49,700	49,817	54,989	56,814
Property and equipment, net	30,112	29,827	30,586	31,252
Other Assets	1,198	1,166	1,317	1,785
TOTAL ASSETS	$ 95,839	$ 97,019	$ 100,508	$ 104,976
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable	$ 1,102	$ 1,617	$ 1,929	$ 1,238
Payroll and related liabilities	2,810	2,171	3,088	2,692
Interest payable	61	415	423	430
Other current liabilities	1,964	2,056	1,668	2,672
Line-of-credit	-	-	600	-
IBNR Liability	170	-	-	-
Current portion of long-term debt	615	615	630	964
Accrued capitation claims		288	1,582	1,273
Estimated third-party payor settlements	2,498	2,272	2,184	3,047
Total current liabilities	9,220	9,434	12,104	12,316
Long-term debt (less current portion)	23,876	23,865	24,426	25,002
Other liabilities		249	-	-
TOTAL LIABILITIES	33,096	33,548	36,530	37,318
NET ASSETS				
Unrestricted net assets	60,901	61,630	63,939	67,619
Temporarily restricted net assets	1,750	1,751	-	-
Permanently restricted net assets	92	90	39	39
Total Net Assets	62,743	63,471	63,978	67,658
TOTAL LIABILITIES AND NET ASSETS	$ 95,839	$ 97,019	$ 100,508	$ 104,976

Financial Ratios:	Proforma (a) FYE 2002	2002	2001	2000
Debt Service Coverage (x)	1.65	2.24	0.35	1.94
Debt/Unrestricted Net Assets (x)	0.45	0.40	0.39	0.38
Margin (%)		(0.19)	(6.36)	(1.16)
Current Ratio (x)		1.72	1.12	1.23

(a) Recalculates 2001 audited results to include the impact of this proposed financing.

Financial Discussion:

Over staff's review period, EMC has experienced operating losses in each of the last three fiscal years. In addition, losses on its investment portfolio have resulted in a declining net asset balance. However, EMC has taken steps to increase revenues that are resulting in positive financial results.

Over our three year review period, EMC has shown operating losses, largely due to inadequate capitation contracts, and fluctuating investment income. While two years have shown relatively modest losses, in fiscal year 2001, EMC had a loss of over $4 million. This loss was due to increased salaries and wages, purchased services-capitation and bad debt. EMC increased salaries and wages to attract and retain quality staff, due to the significant competition for hospital staff from other area hospitals. In addition, the purchased services under their capitation contracts spiked to nearly $9 million in 2001. As a result, in fiscal 2001, EMC discontinued its capitation contracts and returned to a fee-for-service system.

Bad debt has more than doubled over our review period, from $2.9 million in 2000 to $6.2 million in 2002. EMC does not anticipate a significant decline in the number of uninsured and low-income patients as the area's small businesses continue to drop health insurance coverage in the current uncertain economy.

In addition, EMC has experienced significant fluctuations in its investment returns (realized and unrealized) over our review period with large gains observed during fiscal year 2000, basically break-even in fiscal 2001, and sizeable losses in fiscal 2002. These fluctuations are consistent with other investment returns observed amongst other health facilities in the industry, due to the volatile stock and bond markets. Fortunately, EMC has sizeable financial resources to handle the wide swings that have occurred in the financial markets.

EMC has taken several steps to stem its operating losses and return to positive financial operations. After discontinuing its capitation contracts in 2001, revenues outpaced expenses, increasing from $65 million in 2001 to $70.5 million in 2002. As a result, EMC's operating loss fell from $4.1 million in 2001 to $132,000 in 2002, a $4 million turnaround. EMC is also recruiting 25 physicians over the next two years, which it projects will increase revenues by approximately $18 million by 2004. In addition, EMC is in the process of replacing its birthing center at a cost of $4 million. EMC has raised $1.5 million through donations, as well as a $2 million matching grant from the Mary Stewart Rogers Foundation. EMC anticipates the birthing center to be complete and operational by January 2004. The new birthing center is projected to increase deliveries by approximately 300 per year, which will increase revenues by approximately $600,000 annually. EMC has retained more than 60% of its market share for the last five years and with the anticipated growth in physicians and new birthing center, projects strong future demand for its services.

EMC has significant financial resources, with over $63 million in total net assets.

EMC's investment portfolio consists of over $50 million in fixed income and equity securities. EMC has relatively low level of long-term debt at $23 million when compared to equity of over $63 million, leading to a debt to unrestricted net assets ratio of 0.36x. The proposed financing will increase this ratio to 046x. Debt service coverage is currently 2.24x and will decrease to 1.65x with the proposed financing, indicating that EMC should be able to manage the proposed loan payments comfortably.

III. UTILIZATION STATISTICS

Inpatient Data

	2002	2001	2000
Acute Beds:			
Licensed Beds/In Service Beds	150/119	150/119	150/119
Occupancy, Beds In Service (%)	62.18	57.67	58.74
Average Length of Stay (Days)	4.09	3.80	3.78
Admissions	6,599	6,586	6,755
Patient Days	26,989	25,026	25,533

Skilled Nursing Beds

Licensed Beds/In Service Beds	145/145	145/145	145/145
Occupancy, Beds in Service (%)	91.47	92.81	85.87

Assisted Living Beds

Licensed Beds/In Service Beds	49/38	49/38	49/38
Occupancy, Beds in Service (%)	93.5	99.3	92.4

Outpatient Data

Emergency Visits	41,145	38,934	37,478
Outpatient Surgery Visits	4,022	3,746	3,971
Outpatient Visits	41,488	40,063	39,160
	86,655	82,743	80,609
Other Outpatient Services*	15,949	16,225	16,779

Percentage of Revenues

Inpatient Revenues	62%	64%	66%
Outpatient Revenues	37%	35%	33%
Other Outpatient Services	1%	1%	1%
Totals	100.0%	100.0%	100.0%

*Includes Hospice visits and home health visits.

IV. BACKGROUND:

EMC opened in 1917 and is currently licensed for 150 acute care beds, 145 skilled nursing beds, a 49 bed assisted living facility, emergency services, ambulatory surgery, outpatient diagnostic facility, home health care, a hospice, and an occupational medicine clinic.

Services: EMC provides the following services: 24-hour emergency care, Cancer treatment and services, Family Birth Center, NICU, Medical and surgical services, Outpatient Surgery Center, Inpatient and outpatient rehabilitation services, Intensive Care Unit, Skilled nursing facility, Home Care services, Hospice services, Diabetes care, Inpatient and outpatient diagnostic imaging , Wellness programs and classes, Physical Therapy, Cardiac rehabilitation.

Service Area: EMC service area covers a portion of both Stanislaus and Merced Counties.

Competition: EMC faces competition from hospitals in the area. EMC has had greater than 60% market share for the last five years. EMC is the only independent hospital remaining in the Turlock area.

Licenses: EMC is licensed by the State Department of Health Services to operate as a General Acute Care Hospital with approved outpatient services. EMC participates in Medicare, Medi-Cal and managed care programs as discussed below:

Medicare: EMC is accredited by the Joint Commission on Accreditation of Healthcare Organizations which provides deemed status for Medicare. Medicare contracts run concurrent with accreditation next scheduled in 2004. Medicare revenues provide approximately 43% of total support and revenue.

Medi-Cal: EMC has a Medi-Cal contract with a renewal date of August 1, 2002. Medi-Cal revenues provide approximately 21% of total support and revenue.

Managed Care: EMC contracts with over thirty (30) managed care organizations that include: Blue Cross, Blue Shield, Aetna, PacifiCare, and many other large networks with varying expiration dates. Managed care revenues provide approximately 29% of total support and revenue.

V. OUTSTANDING DEBT

Date Issued	Original Amount	Amount Outstanding as of 1/31/02	Estimated Amount Outstanding after Proposed Financing
Existing Debt:			
Certificates of Participation, Series 1993	$28,790,000	$24,199,000	$24,199,000
Notes:			
Covenant Trust Company	362,400	281,000	281,000
Proposed:			
CHFFA Equipment Financing 2002			3,500,000
Total Debt		$24,480,000	$27,980,000

VI. SECTION 15438.5 OF THE ACT (Savings Pass Through)

EMC will pass on the savings of tax exempt debt by continuing to provide quality, comprehensive patient care to the community. This financing will enable EMC to bring state of the art technology to the community. EMC routinely charge less than half of its competitors for the same services. By obtaining tax exempt debt, EMC will be able to continue this practice.

VII. SECTION 15459.1 (b) OF THE ACT (Community Service Requirement)

EMC has submitted its physicians' list dated May 30, 2002 as required by Section 15459.1 (b) of the Act.

VIII. 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. All general acute care hospital owners must have performed seismic evaluations on each hospital building by January 1, 2001, and submit a plan for achieving compliance if the buildings do not meet SB 1953 seismic standards to the Office of Statewide Health Planning and Development (OSHPD) for review by January 1, 2002.

EMC has completed the required evaluation. It is expected that the remaining required improvements for 2008 will be handled through the routine capital budget and financed by operating funds. The remaining budget for seismic compliance is anticipated to be less than $1,000,000 for the 2008 requirements. The 2030 requirements will be much more extensive and will require bond financing at that time.

IX. STAFF RECOMMENDATION: Staff recommends the Authority approve an equipment financing resolution for Emanuel Medical Center, Inc. in an amount not to exceed $3,500,000 with a term of five years.