

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
BOND FINANCING PROGRAM
EXECUTIVE SUMMARY**

Applicant:	AIDS Healthcare Foundation ("AHF") 6255 W. Sunset Blvd., 21 st Floor Los Angeles, CA 90028 Los Angeles County	Amount Requested:	\$7,625,000
		Loan Term:	17 years
		Date Requested:	May 26, 2005
		Resolution Number:	F-310
Project Site:	2146 West Adams Blvd., Los Angeles, California 1001 North Martel Ave., Los Angeles, California		
Facility Types:	Healthcare organization		

Uses of Bond Proceeds: AHF intends to refinance its 1992 Refunding Series C Bonds and its proportionate share of the STARTS 1994 Series B Bonds, resulting in approximately \$62,000 in annual savings or \$1,047,000 over the remaining life of the bonds.

Type of Issue:	Negotiated public offering, fixed interest rates
Credit Enhancement:	Cal-Mortgage Insurance
Expected Credit Rating:	A (S&P), based on Cal-Mortgage Insurance (AHF does not have an underlying credit rating)
Senior Underwriter:	Altura, Nelson & Co., Incorporated
Bond Counsel:	Quint & Thimmig LLP

Financial Overview: AHF is a profitable organization with increase in revenues and strong demand for its services. The balance sheet remains strong with good liquidity and a stable net asset balance.

Sources of Revenue:	<u>Amount</u>	<u>Percent</u>
Unrestricted (12/31/04 Unaudited)		
Pharmacy revenue	\$34,664,921	38%
Premium revenue	31,622,740	34%
Grant revenue	13,957,216	15%
Contributions	9,998,968	10%
Net assets released from restriction	1,549,320	1%
Net patient service revenue	1,293,802	1%
Other income	<u>1,228,567</u>	<u>1%</u>
Total	<u>\$94,315,534</u>	<u>100%</u>

Sources of Funds:		Uses of Funds:	
Par amount of CHFFA bonds	\$7,625,000	Refinance original bonds	\$7,240,880*
Trustee held funds	1,239,330	Debt service reserve – new bonds	708,980
Premium	72,370	Refinancing costs	643,830
		Contingency	343,010
Total Sources	<u>\$8,936,700</u>	Total Uses	<u>\$8,936,700</u>

*Includes accrued interest and miscellaneous costs.

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 to provide a loan to AIDS Healthcare Foundation, in an amount not to exceed \$7,625,000, subject to a final Cal-Mortgage Insurance commitment and submission of 2004 audited financial statements consistent with the unaudited 2004 financial statements presented in this summary.

AIDS HEALTHCARE FOUNDATION. (“AHF”)

STAFF SUMMARY AND RECOMMENDATION

May 26, 2005
Resolution Number: F-310

I. PURPOSE OF FINANCING:

AHF proposes to refinance its 1992 Refunding Series C (the 1992 Bonds) and its proportionate share of the STARTS 1994 Series B (the 1994 STARTS Bonds) bonds, which has a total outstanding balance of approximately \$6.6 million. The new refunding bonds will be issued with the same final maturity date as the existing bonds, which has the final maturity date of 2022.

Refinancing the Authority’s 1992 Series C Bonds* **\$3,992,200*

The 1992 Bonds were issued to finance the Carl Bean House, a 25-bed residential facility located at 2146 West Adams Boulevard in Los Angeles. The interest rates on the 1992 bonds range at 6.75% with final maturity date of 2017. Replacing these bonds with the proposed new bond issue will result in a projected cumulative net savings of approximately \$192,000.

Refinancing the Authority’s 1994 Series B Bonds* **\$3,248,680*

The 1994 STARTS Bonds were issued to finance the Linn House, located at 1001 North Martel Avenue in Los Angeles. Linn House was formerly a 25-bed residential facility, but is now an administrative annex for AHF. The interest rates on the 1994 bonds range from 7.40% to 8.00% with final maturity date of 2022. Replacing these bonds with the proposed new bond issue will result in a projected cumulative net savings of approximately \$855,000.

Debt Service Reserve* **708,980*

Contingency* **343,010*

Financing Costs* **643,830*

Cal-Mortgage Fee 436,060
Cost of Issuance/Fees..... 134,870
Underwriters Discount 72,900

Total Uses of Funds* **\$8,936,700*

FINANCING STRUCTURE:

- Negotiated public offering with serial and term bond maturities.
- Fixed interest rates.
- 17-year loan with final maturity date of 2022.
- Credit enhancement – Cal-Mortgage Insurance.
- Expected Credit Rating: A (S&P), based on Cal-Mortgage Insurance.
- Debt Service Reserve Fund.
- General obligation and gross revenue pledge.

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II. FINANCIAL STATEMENTS AND ANALYSIS:

AIDS Healthcare Foundation, Inc.
Consolidated Statements of Operations
(Unrestricted)

	For two months ended February 28	For the year ended December 31		
	2005	2004	2003	2002
	(Unaudited)	(Unaudited)		
<u>REVENUE</u>				
Net patient service revenue	\$ 244,645	\$ 1,293,802	\$ 1,128,892	\$ 1,101,157
Premium revenue	5,470,244	31,622,740	28,006,890	24,747,702
Grant revenue	2,368,844	13,957,216	14,042,976	14,312,132
Pharmacy revenue	6,507,778	34,664,921	22,907,887	16,240,268
Contributions	1,422,333	9,998,968	9,264,823	7,412,773
Other income	24,572	1,228,567	402,217	361,354
Net assets released from restrictions	285,122	1,549,320	538,073	98,451
Total revenues	<u>16,323,538</u>	<u>94,315,534</u>	<u>76,291,758</u>	<u>64,273,837</u>
<u>EXPENSES</u>				
Salaries and benefits	4,818,488	26,638,814	23,822,788	20,947,948
Medical supplies and drugs	8,528,292	47,444,293	35,449,525	26,644,891
Cost of sales, thrift stores	2,765	27,739	25,699	13,510
Rent	694,991	4,189,013	3,760,985	3,110,086
Depreciation and amortization	255,311	1,497,808	1,379,491	1,513,839
Interest expense	180,644	1,092,597	817,807	691,364
Provision for bad debts	-	1,370,627	1,060,716	288,318
Insurance	93,797	654,485	568,765	433,034
Professional services	375,869	2,318,855	2,720,018	2,832,412
Other expenses	1,131,572	7,240,357	6,538,080	7,008,034
Total expenses	<u>16,081,729</u>	<u>92,474,588</u>	<u>76,143,874</u>	<u>63,483,436</u>
Change in unrestricted net assets	241,809	1,840,946	147,884	790,401
Unrestricted net assets at beginning of year	6,471,718	4,630,772	4,482,888	3,692,487
Unrestricted net assets at end of year	<u>\$ 6,713,527</u>	<u>\$ 6,471,718</u>	<u>\$ 4,630,772</u>	<u>\$ 4,482,888</u>

AIDS Healthcare Foundation, Inc.
Consolidated Balance Sheets

	As of February 28	As of December 31		
	2005	2004	2003	2002
<u>Assets</u>	(Unaudited)	(Unaudited)		
Cash	\$ 441,003	\$ 385,787	\$ 279,041	\$ 362,842
Assets limited as to use	216,830	216,829	222,842	209,585
Accounts and other receivable	19,003,091	15,771,494	14,775,421	13,359,634
Inventory	4,136,412	4,317,179	2,609,985	2,271,926
Prepaid expense	409,661	311,067	359,347	278,878
Total Current Assets	24,206,997	21,002,356	18,246,636	16,482,865
Assets limited as to use, net of current portion	810,418	672,876	695,263	778,319
Contribution receivable, net of current portion	143,365	154,447	220,939	289,427
Property and equipment, net of depreciation	12,284,813	12,325,136	13,121,928	13,094,970
Debt issuance costs, net of amortization	207,763	209,416	223,858	237,537
Deposits and other assets	677,359	673,729	517,936	353,472
Total Assets	\$ 38,330,715	\$35,037,960	\$ 33,026,560	\$31,236,590
<u>Liabilities</u>				
Accounts payable	\$ 7,925,251	\$ 7,838,558	\$ 5,832,505	\$ 5,375,696
Accrued expenses	4,491,460	3,849,012	2,409,152	2,785,034
Accrued bond interest payable	208,914	133,453	139,486	144,129
Claims payable	553,882	607,987	1,317,860	939,603
Current portion-long-term debt	946,212	946,213	949,216	1,181,117
Line of credit	-	-	2,750,000	1,775,000
Total Current Liabilities	14,125,719	13,375,223	13,398,219	12,200,579
Long-term debt, less current portion	15,219,708	13,305,172	12,574,292	13,085,263
Total Liabilities	29,345,427	26,680,395	25,972,511	25,285,842
<u>Net Assets</u>				
Unrestricted net assets	6,713,527	6,471,718	4,630,772	4,482,888
Temporarily restricted net assets	2,267,725	1,885,847	2,423,277	1,467,860
Foreign exchange	4,036	-	-	-
Total Net Assets	8,985,288	8,357,565	7,054,049	5,950,748
Total Liabilities & Net Assets	\$ 38,330,715	\$35,037,960	\$ 33,026,560	\$31,236,590

Financial Ratios:

Proforma (a)
12/31/2004

Debt Service Coverage (x)	1.86	2.17	1.17	1.77
Debt/Unrestricted Net Assets (x)	2.15	2.17	2.87	3.14
Margin (%)		1.95	0.19	1.23
Current Ratio (x)		1.57	1.36	1.35

(a) Recalculates December 2004 unaudited results to include the impact of this proposed financing.

Financial Discussion:

AHF is a profitable organization with increase in revenues, and a strong demand for its services.

AHF, as a California nonprofit public benefit corporation, provides a full spectrum of quality and affordable healthcare services to all persons affected with Human Immunodeficiency Virus (HIV) or Acquired Immune Deficiency Syndrome (AIDS). AHF receives over 30% of its total revenue from State government's capitation premium revenue, with pharmacy revenue also accounting for over 30% of the total revenue. Grant revenue and contributions averaged 15% and 10% of the total revenue respectively. The County program accounts for over 70% of the grant revenue, followed by federal grants of over 10%.

Total revenues had a significant increase of 46% over our review period from fiscal 2002 to fiscal 2004. While the grant revenue remained steady, the pharmacy revenue had a substantial increase of 113% and premium revenue had increase of 27%. The increases in pharmacy revenue of 51% in 2004 were significant due to the changes in the pharmacy management and its expansion to new locations. Premium revenue increased due to the growth of patients in the capitation premium program. Other revenues had increases, but no significant contribution was made due to the revenue size.

The operating expenses also had a significant increase of 45% over our review period. The increases were significant as medical supplies and drugs increased by 33% in fiscal 2003 and again by 33% in fiscal 2004 due to sudden surge in pharmacy sales. The salaries and benefit expenses increased by 27%. The costs rose due to the increases in salaries and benefits for program expansion to meet additional demand from patient visits. Although not significant in amount, other expense items had increases, but did not have a great impact on total cost increases.

AHF has been a profitable organization with profit margins averaging just over 1% for fiscals 2002 and 2004. The exception was fiscal 2003, which had a breakeven profit margin situation due to significant increases in expenses without the compensating increases in revenue. However, for the review period, the unrestricted net assets increased 44%. No provision was made for bad debts as expense for the current interim period, since AHF had not identified any accounts having collection problem. The current interim period indicates a profit of approximately \$241,800 in unrestricted net assets. The positive trend is the result of continuous increases in revenue over the increases in expenses. As a result, AHF will continue to maintain a profit margin of approximately 1%. In addition, this refinancing will improve AHF's financial position by reducing total debt service cost by approximately \$780,000 in net present value savings.

The balance sheet remains strong with good liquidity and a stable net asset balance.

AHF has maintained positive cash flows with adequate liquidity as demonstrated by a current ratio of approximately 1.35x. With sudden surge in business activities, the increases in accounts-other receivable and inventory with corresponding increases in accounts payable and accrued expenses are expected, especially when the line of credit for working capital has been

cancelled and reclassified as a long-term loan. AHF intends to maintain its cash position by effective cash flow management. AHF is slightly leveraged, with a proforma debt-to-unrestricted net assets ratio of 2.15x. With this proposed loan, management anticipates meeting all of its debt obligations, as evidenced by a proforma debt service coverage ratio of 1.86x.

III. BACKGROUND

AHF, formerly known as the Hospice Foundation, a California nonprofit public benefit corporation, was incorporated in 1987 and is dedicated to providing a full spectrum of quality and affordable healthcare services to all persons affected with HIV or AIDS. With headquarters in Los Angeles, AHF participates in scientific research and patient advocacy for those in need. AHF has a network of fourteen outpatient healthcare centers, seven pharmacies, and a residential skilled nursing facility that are located mainly in Los Angeles County, San Bernardino County, Oakland, San Francisco and Jacksonville, Florida. AHF also operates healthcare centers in Africa, Central America and India. AHF operates 21 thrift stores for resale of the donated goods, the profits of which assists its commitment to provide HIV- and AIDS-related healthcare services without regard to a person's financial resources.

Carl Bean House, AHF's sole residential skilled nursing facility, has 25 licensed beds, and has increased its patient days from 6,706 in fiscal 2000 to 7,836 in fiscal 2004, an increase of 16% over the period. Based on capitation fee premium program, AHF provides HIV healthcare to Medi-Cal beneficiaries in California under Positive Healthcare plan and to Medicaid beneficiaries in Florida under Disease Management plan. Apart from capitation fee premium program, AHF's inpatient and outpatient services rendered to Medi-Cal and Medicaid program beneficiaries are reimbursed at contracted per diem rates for inpatient care and prospectively determined rates for outpatient care. Medi-Cal and Medicaid program accounts for approximately 41% of net patient service revenue. Healthcare service rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification that is based on clinical, diagnostic and other factors. Medicare program accounts for approximately 35% of net patient service revenue. The third party payers, such as insurance carriers, health maintenance organizations account for approximately 24% of net patient service revenue.

IV. 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.

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

V. 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".

AHF has executed this certification and submitted its current list of physicians, specialties, languages spoken, telephone numbers and whether Medi-Cal and Medicare patients are accepted.

A copy of this certification is provided in Exhibit B.

VI. OUTSTANDING DEBT:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 12/31/04 (a)(b)</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
CHFFA 1992 Series C Bond	\$5,855,000	\$3,890,000	\$-0-
CHFFA 1994 Series B Bond	\$3,300,000	\$2,835,000	\$-0-
City of L A Note Payable	\$1,100,000	\$1,100,000	\$1,100,000
McKesson Note Payable	\$4,950,000	\$4,357,900	\$4,357,900
Other Loan Payables	\$847, 270	\$418,485	\$418,485
Line of Credit	\$1,650,000	\$1,650,000	\$1,650,000
Proposed:			
CHFFA 2005 Series A Bond	\$7,625,000	-0-	\$7,625,000
TOTAL DEBT		<u>\$14,251,385</u>	<u>\$15,151,385</u>

(a) Includes current portion. (b) Un-audited amount.

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.

IX. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution to provide a loan to Aids Healthcare Foundation, in an amount not to exceed \$7,625,000, subject to a final Cal-Mortgage Insurance commitment and submission of 2004 audited financial statements consistent with the unaudited 2004 financial statements presented in this summary.