

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY (CHFFA)
BOND FINANCING PROGRAM
EXECUTIVE SUMMARY

| <p>Applicant: Asian Health Services (“AHS”) 818 Webster Street Oakland, California Alameda County</p> <p>Project Site: 818 Webster Street, Oakland, California, Alameda County</p> <p>Facility Types: Community Clinic, Federally Qualified Health Center (FQHC)</p> | <p>Amount Requested: \$4,379,000</p> <p>Date Requested: June 25, 2009</p> <p>Requested Loan Term: 11 years</p> <p>Resolution Number: 343</p> | | | | | | | | | | | | | | | | | | | | | | | | |
|---|--|------------------------------------|--------------------|---------------------------------|--|---------------------|-------------|-----------------|-------------|------------------|---------|----------------------|---------|-------------------------|----------------|-----------|---------|--|--|-----------------|----------------|---------------|--------------------|------------|--------------------|
| <p>Background: AHS is a private corporation that provides health care and health education to individuals residing in low income Asian immigrant communities in Alameda County. AHS commenced operations in 1974 and has grown to a comprehensive primary care community clinic providing medical, dental and behavioral health services to approximately 20,000 patients.</p> | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Use of Proceeds: Bond proceeds will be used to refund Revenue Certificates of Participation (“COP’s”) issued by the Association of Bay Area Government (ABAG) Finance Authority for Nonprofit Corporations.</p> | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Type of Issue: Negotiated public offering with fixed rate securities</p> <p>Credit Enhancement: Cal-Mortgage Insurance</p> <p>Underlying Credit Rating: A/A2/A (Fitch/Moody’s/S&P)) based on Cal-Mortgage Insurance</p> <p>Senior Underwriter: Wulff, Hansen & Co.</p> <p>Bond Counsel: Quint & Thimmig LLP</p> | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Financial Overview: AHS’ income statement appears to exhibit sound operating results with positive net revenue over the past two fiscal years. AHS’ balance sheet appears solid with \$8.8 million in net assets and highly liquid with \$3.3 million in cash and cash equivalent and \$6.7 million in short-term investments consisting of certificates of deposit and treasury bills. AHS has a proforma debt service coverage ratio of 1.36x.</p> | | | | | | | | | | | | | | | | | | | | | | | | | |
| <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><u>Estimated Sources of Funds:</u></th> <th style="text-align: right;"></th> <th style="text-align: left;"><u>Estimated Uses of Funds:</u></th> <th style="text-align: right;"></th> </tr> </thead> <tbody> <tr> <td>Par amount of bonds</td> <td style="text-align: right;">\$4,265,000</td> <td>Refunding bonds</td> <td style="text-align: right;">\$4,379,000</td> </tr> <tr> <td>Borrower’s funds</td> <td style="text-align: right;">775,000</td> <td>Debt service reserve</td> <td style="text-align: right;">475,000</td> </tr> <tr> <td>Original Issue Discount</td> <td style="text-align: right;"><u>270,000</u></td> <td>Insurance</td> <td style="text-align: right;">158,000</td> </tr> <tr> <td></td> <td></td> <td>Financing costs</td> <td style="text-align: right;"><u>298,000</u></td> </tr> <tr> <td>Total Sources</td> <td style="text-align: right;"><u>\$5,310,000</u></td> <td>Total Uses</td> <td style="text-align: right;"><u>\$5,310,000</u></td> </tr> </tbody> </table> | | <u>Estimated Sources of Funds:</u> | | <u>Estimated Uses of Funds:</u> | | Par amount of bonds | \$4,265,000 | Refunding bonds | \$4,379,000 | Borrower’s funds | 775,000 | Debt service reserve | 475,000 | Original Issue Discount | <u>270,000</u> | Insurance | 158,000 | | | Financing costs | <u>298,000</u> | Total Sources | <u>\$5,310,000</u> | Total Uses | <u>\$5,310,000</u> |
| <u>Estimated Sources of Funds:</u> | | <u>Estimated Uses of Funds:</u> | | | | | | | | | | | | | | | | | | | | | | | |
| Par amount of bonds | \$4,265,000 | Refunding bonds | \$4,379,000 | | | | | | | | | | | | | | | | | | | | | | |
| Borrower’s funds | 775,000 | Debt service reserve | 475,000 | | | | | | | | | | | | | | | | | | | | | | |
| Original Issue Discount | <u>270,000</u> | Insurance | 158,000 | | | | | | | | | | | | | | | | | | | | | | |
| | | Financing costs | <u>298,000</u> | | | | | | | | | | | | | | | | | | | | | | |
| Total Sources | <u>\$5,310,000</u> | Total Uses | <u>\$5,310,000</u> | | | | | | | | | | | | | | | | | | | | | | |
| <p>Legal Review: Staff has reviewed the applicant’s responses to the questions contained in the Legal Status portion of the application. The information disclosed does not appear to question the financial viability or legal integrity of this applicant.</p> | | | | | | | | | | | | | | | | | | | | | | | | | |
| <p>Staff Recommendation: Staff recommends the Authority approve a Resolution in an amount not to exceed \$4,265,000 for Asian Health Services subject to a bond rating of at least an “A” category rating by a nationally recognized rating agency and subject to a final Cal-Mortgage Insurance commitment.</p> | | | | | | | | | | | | | | | | | | | | | | | | | |

STAFF SUMMARY AND RECOMMENDATION

Asian Health Services (“AHS”)

June 25, 2009

Resolution Number: 343

PURPOSE OF FINANCING:

AHS is seeking to refund Revenue Certificates of Participation fixed rate bonds, Series 1995 (“COP’s”) to take advantage of current lower interest rates. With the proposed refunding, AHS should realize approximately \$51,000 in savings annually over the life of the bonds.

| | |
|--|----------------------------------|
| <i>Refunding of existing ABAG Bonds</i> | <i>\$4,379,000</i> |
| Bond proceeds will be used to refund COP’s issued by the ABAG Finance Authority for Nonprofit Corporations. The prior COP’s were used to construct, renovate, and equip certain portions of a three-story community health clinic located at 818 Webster Street, Oakland, California. AHS has in previous years renovated the first floor to increase medical records storage space and convert an additional 1,600 square feet into seven exam rooms now used for pediatric services. Proceeds of the prior financing was also used to retire a bank promissory note, which was used as a bridge loan to acquire the Webster Street property. | |
| <i>Debt Service Reserve</i> | <i>475,000</i> |
| <i>Bond Insurance</i> | <i>158,000</i> |
| <i>Financing Costs</i> | <i>298,000</i> |
| <i>Underwriters discount</i> | <i>\$41,000</i> |
| <i>Cost of issuance</i> | <i>257,000</i> |
| <i>Total Uses of Funds</i> | <u><i>\$5,310,000</i></u> |

II. FINANCIAL STATEMENTS AND ANALYSIS:

Asian Health Services Statement of Activities

| | For the Year Ended June 30, | | |
|--|-----------------------------|-------------------|-------------------|
| | 2008 | 2007 | 2006 |
| Unrestricted Revenue: | | | |
| Grants and contributions | \$4,844,189 | \$4,492,541 | \$4,180,943 |
| Net patient service revenue | 8,550,196 | 7,830,190 | 7,337,493 |
| Contributions and in-kind | 1,751,179 | 1,615,603 | 1,448,662 |
| Premium revenue | 1,213,657 | 1,579,583 | 1,547,919 |
| Other income | 648,415 | 362,580 | 398,539 |
| Interest and dividend income | 398,369 | 434,720 | 306,078 |
| Net assets released from restrictions | 1,090,223 | 1,205,290 | 1,124,104 |
| Total unrestricted revenue | 18,496,228 | 17,520,507 | 16,343,738 |
| Unrestricted expenses: | | | |
| Personnel | 10,709,700 | 10,053,684 | 9,228,037 |
| Fringe benefits | 2,765,134 | 2,629,950 | 2,478,124 |
| Contracted services | 2,585,930 | 2,405,655 | 2,360,191 |
| Supplies and incentives | 462,031 | 476,037 | 417,724 |
| Rent, utilities and maintenance | 409,645 | 387,260 | 401,693 |
| Depreciation and loss on disposal of assets | 392,456 | 370,988 | 343,636 |
| Interest expense | 289,805 | 302,652 | 315,432 |
| Special events | 158,644 | 143,460 | 123,563 |
| Insurance | 107,127 | 106,478 | 104,645 |
| Telephones, postage and communications | 106,794 | 105,032 | 83,606 |
| Equipment lease and maintenance | 94,278 | 107,060 | 107,579 |
| Training and subscriptions | 78,110 | 70,601 | 64,708 |
| Fees, dues and membership | 75,459 | 71,259 | 76,623 |
| Minor equipment and software purchases | 66,572 | 110,580 | 108,527 |
| Travel | 44,649 | 56,556 | 45,050 |
| Printing and duplicating | 36,242 | 31,905 | 16,122 |
| Bad debt expense | 27,000 | 14,000 | 94,000 |
| Property taxes, income taxes and amort. Bond | 15,454 | 10,985 | 16,793 |
| Recruitment and media advertising | 14,497 | 6,563 | 6,644 |
| Total unrestricted expenses | 18,439,527 | 17,460,705 | 16,392,697 |
| Increase in unrestricted net assets | 56,701 | 59,802 | (48,959) |
| Net assets, beginning of year | 8,730,548 | 8,670,746 | 8,719,705 |
| Net assets, end of year | \$8,787,249 | \$8,730,548 | \$8,670,746 |

Asian Health Services
Financial Position

| | As of June 30, | | |
|--|---------------------|---------------------|---------------------|
| | 2008 | 2007 | 2006 |
| ASSETS: | | | |
| Current assets | | | |
| Cash and cash equivalents | \$3,301,438 | \$1,594,553 | \$1,672,984 |
| Short-term investments | 6,746,890 | 7,627,803 | 7,404,320 |
| Assets limited as to use | 350,097 | 361,746 | 350,854 |
| Patient accounts receivable, net of allowance for doubtful accounts | 809,975 | 1,064,868 | 1,172,880 |
| Estimated third party payor settlements | 56,207 | 156,365 | 335,336 |
| Grants and contracts receivables | 431,232 | 227,606 | 424,948 |
| Other receivable | 46,510 | 46,706 | 60,402 |
| Prepaid expenses | 123,639 | 126,762 | 149,243 |
| Total current assets | <u>11,865,988</u> | <u>11,206,409</u> | <u>11,570,967</u> |
| Property, plant, and equipment | 5,719,047 | 6,005,822 | 6,092,072 |
| Assets limited as to use, net of current portion | 509,725 | 509,725 | 509,725 |
| Other Assets | 124,713 | 110,214 | 80,246 |
| Total assets | <u>\$18,219,473</u> | <u>\$17,832,170</u> | <u>\$18,253,010</u> |
| LIABILITIES AND NET ASSETS: | | | |
| Current liabilities: | | | |
| Accounts payable | \$210,008 | \$154,245 | \$335,804 |
| Accrued liabilities | 1,789,580 | 1,714,081 | 2,023,309 |
| Accrued interest | 103,876 | 108,163 | 113,557 |
| Current portion of long-term obligations | 240,000 | 230,000 | 215,000 |
| Total current liabilities | <u>2,343,464</u> | <u>2,206,489</u> | <u>2,687,670</u> |
| Long-term obligations | 4,188,259 | 4,421,952 | 4,645,645 |
| | <u>6,531,723</u> | <u>6,628,441</u> | <u>7,333,315</u> |
| Net assets: | | | |
| Unrestricted | 8,787,249 | 8,730,548 | 8,670,747 |
| Temporarily restricted | 2,900,501 | 2,473,181 | 2,248,948 |
| Total net assets | <u>11,687,750</u> | <u>11,203,729</u> | <u>10,919,695</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$18,219,473</u> | <u>\$17,832,170</u> | <u>\$18,253,010</u> |

| Financial Ratios: | Proforma (a) | | | |
|----------------------------------|--------------------------|------|------|--------|
| | <u>FYE June 30, 2008</u> | | | |
| Debt service coverage (x) | 1.36 | 1.42 | 1.42 | 1.36 |
| Debt/Unrestricted Net Assets (x) | 0.51 | 0.50 | 0.53 | 0.56 |
| Margin (%) | 0.31 | 0.34 | 0.34 | (0.30) |
| Current Ratio (x) | 5.06 | 5.08 | 5.08 | 4.31 |

(a) Recalculates 2008 audited results to include the impact of this proposed financing.

Financial Discussion:

AHS's income statement appears to exhibit sound operating results with positive net income over the past two fiscal years.

AHS's income statements for FY 2007 and FY 2008 show a surplus from operations. FY 2006 shows a loss of \$48,959 resulting from AHS' Board and Management's decision to make a one-time investment in human capital in order to attract and retain healthcare providers. This investment included a retroactive increase in retirement contributions for long-term employees and implementation of sabbatical program.

Over the review period, operating revenues increased by \$2,152,000 or 13% resulting from new grants and a 16% increase in Net Patient Service Revenue. Increases in operational expenses was nominal, increasing at a rate of 6% annually over the past three fiscal years. Overall AHS had positive increase in unrestricted net assets for the past two years.

AHS's balance sheet appears solid with \$8.8 million in net assets and highly liquid with \$3.3 million in cash and \$6.7 million in short-term investments consisting of certificates of deposit and treasury bills. AHS has a proforma debt service coverage ratio of 1.36x.

AHS appears to be solvent with a current ratio of 5.06x and a low debt to unrestricted net asset ratio of 0.50x. Debt service coverage appears to be fair at 1.42x and with the proposed financing will remain adequate at 1.36x, indicating that AHS should be able to meet its debt obligations.

III. BACKGROUND:

Asian Health Services is a private California nonprofit public health benefit corporation. In 1974, AHS was founded to address the unmet health care needs of Asian & Pacific Islanders (APIs) and advocate on their behalf for improved health care. As the API population grew rapidly and became more diverse, AHS also grew in size and diversity to meet the needs of the community. Accordingly, AHS grew from a one-room clinic to a large community health center with 36 exam rooms and seven dental operatories at three sites and one school-based site. The staff of 188 employees includes 24 providers and 27 nurses and medical assistants. AHS provides over 93,000 medical, dental and behavioral health visits to over 20,000 patients annually and is a nationally recognized comprehensive community health center model for serving a primarily low income, limited English speaking population. AHS offers a continuum of primary health care services to patients in five life cycles: prenatal, pediatric, adolescent, adult and geriatric. AHS provides services in English and eight Asian languages: Cantonese, Vietnamese, Mandarin, Korean, Khmer (Cambodian), Mien, Tagalog, and Lao.

AHS' primary service area is Alameda County and the majority of its patients reside in the City of Oakland. Nearly half of AHS patients have less than 10 years of education, 88% are considered linguistically isolated, and 99% live at or below 200% of poverty level. About 37% of our patients are uninsured and 32% of our patients are on Medicaid, 17% are dual eligible Medicare/Medicaid, 10% in other public insurance programs, and 5% of AHS patients have private insurance.

AHS is governed by its Board of Directors (the “Board”), consisting of 12 members. The Board is responsible for establishing policies and approving budgets, activities, programs and capital expenditures.

Licenses :

AHS is a community clinic licensed by State of California Department of Public Health and is a Federally Qualified Health Center.

IV. UTILIZATION STATISTICS:

| | Calendar Year | | |
|------------------------------|---------------|--------|--------|
| | 2008 | 2007 | 2006 |
| Medical Patients | 18,853 | 18,232 | 17,217 |
| Dental Patients | 3,401 | 2,942 | 2,593 |
| Behavioral Patients | 534 | 498 | 453 |
| | | | |
| % Annual Medical Increase | 3% | 6% | - |
| % Annual Dental Increase | 16% | 13% | - |
| % Annual Behavioral Increase | 7% | 10% | - |
| | | | |
| Medical Encounters | 78,830 | 78,939 | 75,536 |
| Dental Encounter | 11,400 | 10,010 | 9,396 |
| Behavioral | 1,316 | 1,244 | 1,178 |
| | | | |
| % Annual Medical Increase | 0% | 5% | - |
| % Annual Dental Increase | 14% | 7% | - |
| % Annual Behavioral Increase | 6% | 6% | - |

VI. OUTSTANDING DEBT:

As of the fiscal year ending June 30, 2008, AHS has approximately \$4.2 million in outstanding long-term debt. This amount will be refunded in its entirety with the proposed financing.

VII. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- **Section 15438.5(a) of the Act (Savings Pass Through):** AHS properly completed and submitted the “Pass-Through Savings Certification,” in addition to a narrative explaining how it intends to pass through savings.
- **Section 15491.1 of the Act (Community Service Requirement):** AHS properly completed and submitted this certification and indicated that Medi-Cal and Medicare patients are accepted.
- **Compliance with Section 15455(b) of the Act (California Environmental Quality Act):** AHS properly submitted documentation to the Authority demonstrating the proposed project has either complied with Division 13 (commencing with Section 21000) of the Public Resources Code, or is otherwise not a project under that division.
- **Religious Due Diligence.**
- **Legal Review.**