

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY (CHFFA)**

**BOND FINANCING PROGRAM**

**EXECUTIVE SUMMARY**

<p><b>Applicant:</b> Petaluma Health Center                  ("PHC")                  1304 Southpoint Blvd, Ste 110                  Petaluma, California 94954                  Sonoma County</p> <p><b>Project Site:</b> 1179 N. McDowell Blvd, Petaluma, CA. Sonoma County</p> <p><b>Facility Types:</b> Community Clinic</p> <p><b>Prior Borrower:</b> No</p>	<p><b>Amount Requested:</b> \$6,000,000</p> <p><b>Date Requested:</b> March 25, 2010</p> <p><b>Requested Loan Term:</b> 30 years</p> <p><b>Resolution Number:</b> 353</p>																																
<p><b>Background:</b> PHC is a community clinic with a mission to provide access to high quality health care for all in Southern Sonoma County. PHC provides health information, education and clinical care to all members of the community in a financially sustainable manner, regardless of economic, financial, or cultural barriers. PHC commenced operations in 1992 with an outpatient program and has since grown into a comprehensive primary care community clinic providing medical, dental, and behavioral health services to approximately 13,335 patients with nearly 69,000 total patient encounters in 2008.</p>																																	
<p><b>Use of Proceeds:</b> Bond proceeds will be used to purchase an existing building in Petaluma and to fund modifications to convert the building into a state-of-the art clinic facility. PHC has successfully secured a federal grant in the amount of \$9.4 million, plus a grant in the amount of \$642,000 from United Health Group (for costs of issuance) as an additional source of funding for the project. PHC will consolidate three locations that it currently leases, including its administrative offices, into the new facility and expand patient services by 50%.</p>																																	
<p><b>Type of Issue:</b> Limited public offering with fixed rate securities</p> <p><b>Credit Enhancement:</b> Cal-Mortgage Insurance (Pending Decision)</p> <p><b>Underlying Credit Rating:</b> A- (S&amp;P) based on Cal-Mortgage Insurance (Pending Decision)</p> <p><b>Senior Underwriter:</b> Piper Jaffray &amp; Co.</p> <p><b>Bond and Disclosure Counsel:</b> Quint &amp; Thimmig, LLP</p> <p><b>Financing Team Other Parties:</b> See Exhibit I (Page 8)</p>																																	
<p><b>Financial Overview:</b> PHC's most recent income statement appears to exhibit improved operating results supported by an increasing revenue stream over the three year review period. PHC's balance sheet appears solid with \$1.56 million in unrestricted net assets. PHC has an adequate proforma debt service coverage ratio of 2.01x.</p>																																	
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<p><b>Legal Review:</b> No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																																	
<p><b>Staff Recommendation:</b> Staff recommends the Authority approve Resolution Number 353 in an amount not to exceed \$6,000,000 for Petaluma Health Center subject to financing terms acceptable to the Authority and pending final Cal-Mortgage Insurance commitment. Macias Gini &amp; O'Connell, LLP, the Authority's financial analyst, has reviewed all relevant financial documentation submitted by Petaluma Health Center to the Authority and has advised of its concurrence with the Authority's staff recommendation.</p>																																	

**STAFF SUMMARY AND RECOMMENDATION**

**Petaluma Health Center (“PHC”)**

March, 25, 2010

Resolution Number: 353

- I. PURPOSE OF FINANCING:** PHC is seeking funds to purchase an existing building in Petaluma and to fund the costs of modifications necessary to convert it into a state-of-the art clinic facility. PHC has secured federal grants in the amount of \$9.4 million, plus a grant in the amount of \$642,000 from United Health Group (for costs of issuance) as an additional source of funding for the project. According to the borrower, this transaction represents a strategic opportunity for PHC to expand its patient services by approximately 50%. PHC will control its occupancy cost by owning its facility rather than leasing its current facilities. PHC currently leases these buildings for \$30,753 per month. The occupancy costs will increase 7%, compared to the patient service increase of 50%.

<b><i>Project Funds</i></b> .....	<b><i>\$14,505,889</i></b>
The new 51,660 square-foot facility will be the medical home for PHC’s current 13,335 patients, plus an additional 6,743 patients. The total number of “care” rooms will increase from 30 to 61, which will enable PHC to provide services to low income and uninsured members of the community as well as others who face barriers to accessing primary care. The new facility is located approximately one mile from PHC’s existing main clinic. PHC will consolidate three locations that it currently leases, including its administrative offices, into the new facility.	
<b><i>Debt Service Reserve</i></b> .....	<b><i>442,943</i></b>
<b><i>Cal-Mortgage Bond Insurance (pending decision)</i></b> .....	<b><i>414,052</i></b>
<b><i>Capitalized Interest</i></b> .....	<b><i>314,825</i></b>
<b><i>Contingency</i></b> .....	<b><i>173,000</i></b>
<b><i>Financing Costs</i></b> .....	<b><u><i>295,474</i></u></b>
<i>Underwriter’s expense</i> .....	<i>\$65,000</i>
<i>Cost of issuance</i> .....	<u><i>230,474</i></u>
<b><i>Total Uses of Funds</i></b> .....	<b><u><i>\$16,146,183</i></u></b>

## II. FINANCIAL STATEMENTS AND ANALYSIS:

### Petaluma Health Center Statement of Activities

	For the Year Ended June 30,		
	2009	2008	2007
<b>Changes in unrestricted net assets:</b>			
Revenues and other support:			
Patient service revenue, net	\$ 7,652,405	\$ 6,871,930	\$ 6,379,827
Grant revenue and other contributions	943,984	1,419,570	1,317,021
Other revenue	185,098	154,920	93,222
Total unrestricted revenue & other support	8,781,487	8,446,420	7,790,070
Expenses:			
Salaries and benefits	6,428,199	6,301,206	5,353,360
Rents & leases	441,850	439,830	430,097
Purchased services	348,549	428,673	437,560
Medical supplies and drugs	332,367	294,150	391,335
Professional fees	159,706	155,547	211,342
Provision for bad debts	148,924	96,442	184,272
Office supplies	112,102	125,525	158,798
Utilities	67,951	55,169	55,481
Depreciation and amortization	64,030	69,981	333,718
Insurance	62,675	58,385	58,449
Dues and subscriptions	59,677	84,436	83,720
Meetings and training	49,822	39,045	80,020
Repairs and maintenance	44,844	9,577	21,860
Interest	19,425	36,825	16,585
Travel	11,980	21,096	17,752
Other	9,833	174,168	94,392
Total expenses	8,361,934	8,390,055	7,928,741
<b>Increase/decrease in unrestricted net assets</b>	<b>419,553</b>	<b>56,365</b>	<b>(138,671)</b>
Net assets, beginning of year	1,149,221	1,092,856	1,231,527
Net assets, end of year	\$ 1,568,774	\$ 1,149,221	\$ 1,092,856

**Petaluma Health Center**  
**Financial Position**

	As of June 30,		
	2009	2008	2007
<b>ASSETS:</b>			
Current assets:			
Cash	\$ 389,814	\$ 318,753	\$ 306,148
Patient accounts receivable, net	914,549	1,032,489	1,067,093
Other receivables	37,998	590,448	267,065
Inventory	14,302	12,151	3,695
Prepaid expenses and deposits	77,313	34,348	118,998
Estimated third-party settlements	551,175	96,766	-
Total current assets	1,985,151	2,084,955	1,762,999
Property and equipment, net	380,889	239,641	203,511
Total assets	\$ 2,366,040	\$ 2,324,596	\$ 1,966,510

**LIABILITIES AND NET ASSETS:**

Current liabilities:			
Accounts Payable	\$ 236,768	\$ 434,285	\$ 247,806
Accrued payroll and other expenses	515,934	414,827	139,190
Deferred revenue	23,803	85,834	180,318
Line-of-Credit	-	200,000	224,594
Long-term debt, current portion	20,761	19,668	41,157
Total current liabilities	797,266	1,154,614	833,065
Long-term debt, net of current portion	-	20,761	40,589
Total liabilities	797,266	1,175,375	873,654
Unrestricted net assets	1,568,774	1,149,221	1,092,856
Total Liabilities and net assets	\$ 2,366,040	\$ 2,324,596	\$ 1,966,510

Financial Ratios:	Proforma (a)			
	FYE June 30, 2009			
Debt service coverage (x)	2.01	12.83	2.09	1.65
Debt/Unrestricted Net Assets (x)	3.70	0.04	0.04	0.07
Margin (%)		4.78	0.67	(178.00)
Current Ratio (x)		2.49	1.81	2.12

(a) Recalculates 2009 audited results to include the impact of this proposed financing.

## **Financial Discussion**

**PHC's most recent income statement appears to exhibit improved operating results supported by an increasing revenue stream over the three year review period.**

PHC's total revenues grew by 17% over the review period. In fiscal year 2009 (FY 09), PHC reported revenues of \$8.4 million compared to \$7.8 million in FY 07. PHC's revenue mix has remained relatively stable with patient fees making up over 80% of total revenues in each year of the review periods. Grant revenues have also represented a relatively constant proportion of the revenue budget, generating roughly 17% of revenues for FY 07 and FY 08. In FY 09, the proportion of grant revenue declined slightly to 10% of total revenue due to reductions in state and local government grants and contracts.

### *Particular Facts to Note:*

- Most of PHC's current grant revenue comes from the Federal 330 grant program, which has historically proven to be a stable revenue source and is designed to assist health centers with covering the costs of treating uninsured patients.
- In FY 08, PHC salary expenses increased by 18% primarily due to an increase in full time employees hired to accommodate an increased patient load. Patient visits increased by 9% from FY 07 to FY 09. PHC also implemented performance-based compensation measures to improve provider recruitment and retention. PHC also paid a one-time performance bonus and a 3% cost of living increase.
- In FY 08, PHC experienced improved operations, posting an increase of \$56,000 in unrestricted net assets, primarily due to significantly higher patient revenues and visits.
- In FY 07, PHC reported an operating loss of \$138,671. According to the PHC, the operating loss can be attributed primarily to a significant accounting change in reporting the depreciation of assets. The accelerated depreciation resulted in depreciation expense of approximately \$333,000 compared to \$70,000 in FY 06, a difference of \$263,000. PHC would have had an operating gain of \$125,000 without this one-time accounting change.

**PHC's balance sheet appears solid with \$1.56 million in unrestricted net assets. PHC has a proforma debt service coverage ratio of 2.01x.**

PHC has historically operated with moderate cash reserves. As of FY 09, PHC had \$390,000 in cash, which represents 16 days cash on hand. Although PHC maintains moderate cash reserves, it appears to have managed its current liabilities well, since the current ratio is 2.49x. The current ratio indicates that PHC appears to have sufficient liquidity to meet its short-term obligations. As of FY 09, PHC had a low debt to unrestricted net asset ratio of only 0.01x, and with the proposed financing the ratio will be highly leveraged at 3.70x. Current debt service coverage ratio appears to be very strong at 12.83x. The debt service coverage ratio will be a satisfactory 2.01x, with the proposed financing, indicating PHC should be able to meet its debt obligations.

### III. BACKGROUND

The Petaluma Health Center (PHC) is a community clinic with a mission to provide access to high quality health care in Southern Sonoma County. PHC provides health information, education, and clinical care to all members of the community in a financially sustainable manner, regardless of economic, financial, or cultural barriers.

PHC began as an outpatient department of the Petaluma Valley Hospital in 1992, when a local administrator realized that too many members of the community were receiving their primary care in the emergency department. A local physician, who cared deeply for people who struggled to pay for health care services, was hired as the first physician to run the department. Over the next few years, more physicians, nurse midwives, and nurse practitioners were hired. In 1996, the department became a health center and was moved to its current location.

Since 1996, PHC has provided high quality, compassionate and culturally competent primary and preventive health care services to many thousands of residents of Petaluma, a Medically Underserved Area of Sonoma County. In 2000, having met the federal standards required, PHC received Federally Qualified Health Center status and simultaneously received Federal Section 330(e) funding to support expansion of services to the uninsured.

PHC serves a community in which 61% of residents live below 200% of the poverty level, 49% are Latino, and 32% are uninsured. These patients face many barriers to care, including financial burdens, lack of personal or public transportation, and cultural and linguistic barriers. With significant contributions of diverse providers, dedicated support staff, essential funding, and backing by the community, PHC's capacities have grown rapidly and in 2008, 18 bilingual full-time equivalents of physicians, mid-levels, mental, and dental health providers served 13,335 unduplicated patients, with more than 67,000 in-person encounters. PHC provides over \$1 million annually in uncompensated care, offset by \$620,000 in Federal Section 330(e) operating grant funds. According to federal data, PHC is the only safety-net provider in South Sonoma County, where the demand for primary care services continues to exceed the health center's current capacity.

#### **Licenses :**

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

### IV. UTILIZATION STATISTICS

**Patient Visits  
Per Fiscal Year Ended June 30,**

<b>2007</b>	<b>2008</b>	<b>2009</b>
51,530	64,280	66,291

**V. OUTSTANDING DEBT:**

<u>Description</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding as of 06/30/09*</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
<b><u>Existing Debt:</u></b>			
Petaluma Health Care District**	\$92,925	\$20,761	\$20,761
<b><u>Proposed Debt:</u></b>			
CHFFA Bonds, 2010		N/A	6,000,000
<b>TOTAL DEBT</b>		<b><u>\$20,761</u></b>	<b><u>\$6,020,761</u></b>

\*Includes current portion.

\*\*The last payment is due on 06/01/2010.

**VI. DUE DILIGENCE:**

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

- **Section 15438.5(a) of the Act (Savings Pass Through)** : PHC 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)** : PHC 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):** PHC 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.**

**VII. STAFF RECOMMENDATION:**

Staff recommends the Authority approve Resolution Number 353 in an amount not to exceed \$6,000,000 for Petaluma Health Center subject to financing terms acceptable to the Authority and pending final Cal-Mortgage Insurance commitment.

**EXHIBIT I**

**Other Parties Affiliated with this Transaction:**

Law Office of Emilio J. Huerta (Borrower's Counsel)

Cal-Mortgage (Bond Insurer)

U.S. Bank, Corporate Trust Services (Trustee)

Dorsey & Whitney LLP (Trustee's Counsel)

TCA Partners LLP (Borrower's Auditor)

Standard & Poor's (Rating Agency)