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

EXECUTIVE SUMMARY

Applicant:	Citrus Valley Health Partners, Inc. (CVHP) 210 W. San Bernardino Road Covina, CA 91723 Los Angeles County	**Amount Requested:** **Requested Loan Term:** **Date Requested:** **Resolution Number:**	$4,847,700 5 1/2 years Feb. 27, 2003 E-22

Project Sites: 210 W. San Bernardino Road, Covina, California
250 S. Grand Avenue, Glendora, California

Facility Types: Acute Care Facilities

Use of Loan Proceeds: Proceeds will be used to purchase a CT Scanner, two Cardiac Catheterization Labs and remodel the orthopedic unit to house the two cardiac catheterization labs.

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: During our review period, CVHP 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, CVHP is taking steps that it hopes will increase revenues and that may result in a breakeven for 2003. CVHP has significant financial resources, with over $102 million in total net assets.

Sources of Revenue: *(FYE 12/31/02 unaudited)*	**Amount**	**Percent**
Net patient service revenue	$224,457,000	80.6%
Premium Revenue	43,842,000	15.7%
Other income, net	9,853,000	3.5%
Net assets released from restrictions	472,000	0.2%
Investment income	12,000	0.0%
Total revenue, gains and other support	$278,636,000	100.0%

Estimated Sources of funds:		**Estimated Uses of funds:**	
Note Proceeds	$4,847,700	Equipment Purchase	$3,647,700
Borrower Funds	50,000	Construction	1,200,000
		Costs of Issuance	50,000
Total Sources	$4,897,700	Total Uses	$4,897,700

Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.

Staff Recommendation: Staff recommends the Authority approve an equipment financing resolution for Citrus Valley Health Partners, Inc. in an amount not to exceed $4,847,700 with a term of five and one-half years.

(MM)

STAFF SUMMARY AND RECOMMENDATION
TAX-EXEMPT EQUIPMENT FINANCING PROGRAM
G.E. CAPITAL EQUIPMENT PROGRAM

Citrus Valley Health Partners, Inc. ("CVHP")

February 27, 2003
Resolution Number: E-22

I. PURPOSE OF FINANCING: Citrus Valley Health Partners, Inc. intends to purchase equipment to improve operational efficiencies through cost-effective diagnostic and treatment technologies.

The details of the project are shown below:

Equipment $3,647,700

CT Scanner..$1,561,368
The CT Scanner will replace the current CT Scanner that is old and inefficient at Foothill Presbyterian Hospital. The replacement of the CT Scanner will help increase efficiency and patient visits.

Cardiac Catheterization Labs...2,086,332
Two Cardiac Catheterization Labs will be used at Citrus Valley Medical Center. The catheterization labs will expand the capability and quality of the cardiac program.

Site Improvements and Expansion...1,200,000
CVPH plans to remodel the 18-bed orthopedic unit currently located on Inter-Community's second floor at Citrus Valley Medical Center. The current orthopedic unit will be remodeled to a twin catheterization lab with a number of ancillary services attached including a nurse's station, recovery area as well as areas dedicated for use by physicians and staff. The project will also include structural, mechanical, electrical and plumbing upgrades to accommodate the new and expanded catheterization lab services.

Costs of Issuance 50,000
Bond Counsel...$25,000
Hospital Counsel...22,300
Issuer Fee 2,450
Escrow Fees 250

Total Uses of Funds..**$4,897,700**

Structure of Financing:

- Tax-exempt revenue note.
- Privately placed with G.E. Capital Public Finance, Inc. (GECPF)/G.E. Capital Corporation (GECC).
- Five and one-half year loan fully amortized.
- Fixed interest rate estimated to be 4.72%.
- Estimated monthly payment is $90,774 (approximately $1,089,288 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:

Citrus Valley Health Partners, Inc.
Consolidated Statement of Activities
Unrestricted (000s)

	For the Year Ended December 31,			
	2002	2001	2000	1999
	(Unaudited)			
Revenue, gains and other support:				
Net patient service revenues	$ 224,457	$ 201,971	$ 191,932	$ 197,869
Premium revenues	43,842	41,162	40,210	33,996
Investment income	12	1,690	3,638	4,868
Other income, net	9,853	10,864	10,758	12,418
Net assets released from restrictions	472	995	240	973
Total revenue, gains and other support	278,636	256,682	246,778	250,124
Expenses				
Salaries and benefits	144,656	130,243	131,516	132,136
Supplies	41,669	38,943	39,185	39,142
Purchased services	44,005	44,686	46,575	39,360
Provision for bad debts	6,073	6,982	10,479	13,886
Depreciation and amortization	12,412	12,812	12,715	12,144
Interest expense	3,801	4,084	4,686	3,661
Special charge	-	1,346	558	3,400
Other	32,162	26,644	21,428	19,203
Total expenses	284,778	265,740	267,142	262,932
Operating (loss)	(6,142)	(9,058)	(20,364)	(12,808)
Unrealized (losses) on investments	(2,767)	(1,674)	(1,566)	(2,258)
Net asset released from restrictions used for purchase of property and equipment	204	276	377	-
Other	16	-	-	299
Decreased in unrestricted net assets	**(8,689)**	**(10,456)**	**(21,553)**	**(14,767)**
Unrestricted net assets, beginning of year	99,872	110,328	131,881	146,648
Unrestricted net assets, end of year	$ 91,183	$ 99,872	$ 110,328	$ 131,881

Citrus Valley Health Partners, Inc.
Consolidated Balance Sheets (000s)

	As of December 31,			
	2002 (Unaudited)	2001	2000	1999
Assets				
Current assets:				
Cash and cash equivalent	$ 10,304	$ 4,156	$ 3,038	$ 643
Investments	1,213	2,989	4,677	5,556
Patient accounts receivable	39,547	45,023	50,214	50,837
Due from California under SB 855 program	6,000	6,000	-	-
Supply inventories	4,117	3,892	3,804	4,244
Prepaid expenses and other	5,638	7,285	8,981	8,039
Total current assets	66,819	69,345	70,714	69,319
Assets limited as to use:				
By Board	35,071	28,961	27,296	57,334
By Trustee	13,300	14,163	14,925	5,722
Total assets limited as to use	48,371	43,124	42,221	63,056
Charitable remainder trust assets	2,053	2,262	3,060	3,500
Property and equipment, net	115,749	121,283	130,857	131,628
Other assets	10,712	10,599	9,527	9,524
Total assets	$ 243,704	$ 246,613	$ 256,379	$ 277,027
Liabilities and net assets				
Current liabilities:				
Accounts payable and accrued expenses	$ 21,167	$ 18,959	$ 14,123	$ 19,394
Accrued payroll and related expenses	9,659	8,115	10,405	9,646
Accrued interest	887	911	979	990
Current maturities of long-term debt	1,890	1,815	1,740	1,922
Due to third-party payors	1,350	1,801	2,274	403
Other current liabilities	14,890	12,247	11,882	6,827
Total current liabilities	49,843	43,848	41,403	39,182
Long-term debt, net of current maturities	90,196	92,066	93,862	95,584
Charitable remainder trust obligations	1,375	1,446	1,933	2,259
Net assets:				
Unrestricted	91,183	99,872	110,328	131,881
Temporarily restricted	5,974	4,695	5,068	4,355
Permanently restricted	5,133	4,686	3,785	3,766
Total net assets	102,290	109,253	119,181	140,002
Total liabilities and net assets	$ 243,704	$ 246,613	$ 256,379	$ 277,027

Financial Ratios:

	Proforma (1) FYE 2002				
Debt Service Coverage (x)	1.12	1.34	1.11	(0.63)	0.19
Debt/Unrestricted Net Assets (x)	1.06	1.01	0.94	0.87	0.74
Margin (%)		(2.20%)	(3.53%)	(8.25%)	(5.12%)
Current Ratio (x)		1.34	1.58	1.71	1.77

(1) Recalculates December 2002 unaudited results to include the impact of this financing.

<u>Financial Discussion:</u>

During our review period, CVHP 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, CVHP is taking steps that it hopes will increase revenues and that may result in a breakeven for 2003.

During our three year review period, CVHP has shown operating losses, largely due to an increase in salaries and wages, decreases in investment income and increases in other expenses. In 2002, CVHP improved its operations by reducing its loss from $20.3 million to $6.1 million.

CVHP increased salaries and wages to attract and retain quality staff, due to significant competition for hospital staff from other area hospitals. CVHP has tried to maintain a very competitive cost structure but has been faced with significant cost increases. Medical malpractice and other insurance premiums, higher premiums for health insurance and workers' compensation coverage, pension improvements, and market adjustments in salaries to remain competitive are the primary areas of significant cost increases.

CVHP has a substantial decrease in investment returns from $2.1 million income in 2000 to $2.7 million loss in 2002. This decrease was due to the overall performance of the equity markets. Fortunately, CVHP has sizeable financial resources to handle the wide swings that have occurred in the financial markets.

Other expenses have also increased 50% during the review period from $21.4 million in 2000 to $32.1 million in 2002. CVHP experienced a significant increase in higher fees for utilities, insurance and contract labor.

CHVP was in technical covenant default on its bonds for FY 2000. The default was waived by the MBIA Insurance Corporation who is the bond insurer. No payments have been missed as a result of the technical covenant default. CHVP has taken steps to remedy this technical covenant default.

Although CVHP's has reduced its operating losses by $14.2 million during our review period, CVHP is taking taken additional steps to stem its operating losses and return to positive financial operations. Beginning in 2003, CVHP has cancelled three non-Medi-Cal capitated contracts while the Medi-Cal capitated contracts will remain. CVHP is continuing the implementation of two product line business plans for the Heart Center and the Family Birth and Newborn Center (FBNC) that are projected to result in increases in volume by 10% and an increase in revenue by over $1 million for FBNC and over $5 million for cardiac procedures.

CVHP's budget for 2003 is to achieve a breakeven from operations. A key focus is to keep improving net revenue by renegotiating HMO/PPO contracts, terminating most of the capitated contracts and continuing the collection and revenue management efforts. Terminating all of the capitated contracts except the Medi-Cal contracts should have a positive impact of $8 million.

Continued qualification for Disproportionent Share Hospital (DSH) funds is essential to achieve breakeven. The fiscal year 2003 budget includes SB 855 and SB 1255 funds of $7.6 million. In addition, by qualifying as a DSH hospital, CVMC will receive supplemental Medicare reimbursement.

CVHP recently implemented a revenue cycle improvement program that significantly improved the Accounts Receivable performance and collection. This improvement is evidenced by a reduction in Accounts Receivable days from 90 days in 2001 to 69 days in 2002.

CVHP has significant financial resources, with over $102 million in total net assets.

CVHP's investment portfolio consists of over $48 million in fixed income and equity securities. CVHP has long-term debt at $92 million compared to unrestricted net assets of $91.1 million, leading to a debt to unrestricted net assets ratio of 1.01x. The proposed financing will slightly increase this ratio to 1.06x. Debt service coverage is currently 1.34x and will decrease to 1.12x with the proposed financing, indicating that CVHP should be able to manage the proposed loan payments.

III. UTILIZATION STATISTICS:

Citrus Valley Health Partners, Inc.
Patient Data

	2002	2001	2000
Inpatient Data			
Acute Beds:			
Licensed Beds/In Service Beds	580	580	580
Occupancy, Beds In Service (%)	58.4%	57.5%	57.5%
Average Length of Stay (Days)	4.3	4.2	4.2
Admissions	29,059	28,876	29,329
Skilled Nursing Beds			
Licensed Beds/In Service Beds	48	48	48
Occupancy, Beds in Service (%)	58%	62%	59%
Outpatient Data			
Emergency Visits	87,191	93,052	91,436
Outpatient Surgery Visits	155,055	158,149	175,435
Outpatient Visits	9,340	8,858	9,053
Percentage of Revenues			
Inpatient Revenues	73.75%	74.79%	73.40%
Outpatient Revenues	26.25%	25.21%	26.60%
Totals	100.0%	100.0%	100.0%

IV. BACKGROUND:

CVHP is comprised of Citrus Valley Medical Center, Inc. (CVMC), Citrus Valley Hospice (Hospice), Foothill Presbyterian Hospital (FPH), Citrus Valley Health Foundation, Inc. (CVHF), and a for-profit management services organization.

Services: CVMC provides inpatient, outpatient and emergency care services for the communities surrounding its two medical center campuses: Queen of the Valley Campus (QVC) and Inter-Community Campus (ICC). QVC, which is located in West Covina, California, operates a general acute care hospital with 329 licensed beds. ICC, which is located in Covina, California, operates a general acute care medical center with 235 licensed beds.

FPH, which is located in Glendora, California, operates a general acute care hospital with 106 licensed beds.

Hospice, which is located in West Covina, operates a skilled nursing facility for terminally ill patients and a home health care agency doing business as Citrus Valley Home Health.

Service Area: CVHP is located in the east San Gabriel Valley and its service area covers a portion of both San Bernardino and Orange Counties.

Competition: CVHP faces competition from East Valley Hospital, San Dimas Community Hospital, Doctors Hospital of West Covina, Greater El Monte Community Hospital and Kaiser Foundation Hospital – Baldwin Park. CVHP has had greater than 33% of the market share for the last several years. CVHP is the only independent hospital remaining in the east San Gabriel Valley area.

Licenses: CVMC and FPH are licensed by the State Department of Health Services to operate as Acute Care Facilities with approved outpatient services. CVHP participates in Medicare, Medi-Cal and managed care programs as discussed below:

Medicare: CVHP 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 2005. Medicare revenues provide approximately 27.4% of total support and revenue.

Medi-Cal: CVHP has a Medi-Cal contract with a renewal date of January 2005. Medi-Cal revenues provide approximately 17.4% of total support and revenue.

Managed Care: CVHP contracts with various managed care organizations that include: Blue Cross, Blue Shield, Aetna, Cigna, HealthNet and PacifiCare/Secure Horizon with varying expiration dates. Managed care revenues provide approximately 40.3% of total support and revenue.

V. OUTSTANDING DEBT:

Date Issued	Original Amount	Amount Outstanding as of 12/31/02 (unaudited)	Estimated Amount Outstanding after Proposed Financing
Existing Debt:			
Certificates of Participation, 1998 CSCDA, fixed rate	$75,000,000	$67,086,000	$67,086,000
Certificates of Participation, 1998 CSCDA, variable rate	25,000,000	25,000,000	25,000,000
Proposed:			
CHFFA Equipment Financing, 2003		-	4,847,000
Total Debt		$92,086,000	$96,933,000

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

CVHP will pass on the savings of tax-exempt debt by continuing to provide quality, comprehensive patient care to all its constituents including those which have limited financial resources.

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

CVHP has submitted its physicians' list dated January 17, 2003 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. CVHP has completed the required evaluation. CVHP has completed NPC-2 upgrade projects at each of its acute care hospitals. Through the completion of these projects, including the anchoring and bracing of certain critical non-structural building systems, all of the acute care hospital buildings will be in compliance with SB 1953 regulations until 2008.

On March 1, 2002, OSHPD issued a Code Application Notice allowing hospitals to seek a delay if compliance will result in diminished health care capacity that cannot be provided by other general acute care hospitals within a reasonable proximity. CVHP has requested a five-year extension of compliance from 2008 to 2013 based on this diminished capacity. Amended compliance plans have been submitted to OSHPD identifying the various phases and critical dates for incremental progress toward compliance in 2013. At that time, all of CVHP's acute care hospital buildings will be classified at a minimum as SPC-2 and NPC-3. The 2030 requirements will be much more extensive and compliance to those standards has not yet been calculated.

IX. 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.

X. STAFF RECOMMENDATION:

Staff recommends the Authority approve an equipment financing resolution for Citrus Valley Health Partners, Inc. in an amount not to exceed $4,847,700 with a term of five and one-half years.