

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**

**TAX-EXEMPT EQUIPMENT FINANCING PROGRAM**

**EXECUTIVE SUMMARY**

<b>Applicant:</b> Redlands Community Hospital (“RCH”) 350 Terracina Boulevard Redlands, CA 92373 San Bernardino County		<b>Amount Requested:</b> \$5,000,000 <b>Requested Loan Term:</b> 6 years <b>Date Requested:</b> August 30, 2007 <b>Resolution Number:</b> E-24	
<b>Project Site:</b> 350 Terracina Boulevard, Redlands, California 255 Terracina Blvd. #104, Redlands, California			
<b>Facility Type:</b> General Acute Care Hospital			
<b>Background:</b> RCH provides health care services primarily to the residents of the eastern portions of San Bernardino Valley. RCH began operation in 1929 as a 40-bed hospital. Over the years, RCH expanded and modernized its facilities to meet the increasing patient care needs of its service area. Currently, RCH has 176 beds and has expanded all ancillary and support service facilities. In 2006, RCH provided services to approximately 182,000 patients.			
<b>Use of Loan Proceeds:</b> Note proceeds will be used to purchase a Chiller (Liquid Cooling System), an MRI, IV pumps, radiological equipment, and information systems.			
<b>Type of Issue:</b>	Private Placement Equipment Purchase Financing		
<b>Security:</b>	First lien on equipment held by All Points Public Funding, LLC		
<b>Rating:</b>	Unrated		
<b>Lender:</b>	All Points Public Funding, LLC		
<b>Bond Counsel:</b>	Orrick, Herrington and Sutcliffe LLP		
<b>Financial Overview:</b> RCH’s income statement appears to have exhibited solid results with positive net income over the past three fiscal years along with continued revenue growth. The balance sheet looks to have grown with the completion of a construction project. RCH has the likelihood to manage the loan obligation.			
<b><u>Estimated Sources of Funds:</u></b>		<b><u>Estimated Uses of Funds:</u></b>	
Equipment Loan	\$5,000,000	Equipment	\$5,000,000
Borrower’s Equity Contribution	<u>100,000</u>	Financing Cost	<u>100,000</u>
Total Sources	<u>\$5,100,000</u>	Total Uses	<u>\$5,100,000</u>
<b>Legal Review:</b> No information was disclosed to question the financial viability or legal integrity of the Applicant.			
<b>Staff Recommendation:</b> Staff recommends the Authority approve a resolution for Equipment Financing for Redlands Community Hospital in an amount not to exceed \$5,000,000 for a term of 6 years and financing terms acceptable to the Authority.			

**STAFF SUMMARY**  
**Redlands Community Hospital**  
**("RCH")**

August 30, 2007

Resolution Number: E-24

- I. PURPOSE OF FINANCING:** RCH intends to replace existing equipment as well as to purchase new medical and information technology equipment. If RCH purchases the equipment prior to closing, it requests reimbursement for prior expenditures on the equipment.

***Purchase equipment*.....\$5,000,000**

*Chiller (Liquid Cooling System).....\$1,500,000*

The replacement of a 350 Ton Chiller with a new 400 Ton Chiller, and the replacement of a 600 Ton Cooling Tower with a new 1000 Ton Cooling Tower, including all the related piping, valves, interconnections, and controls. The chiller will be housed within the 2,600 square foot RCH Central Plant building.

*MRI .....1,400,000*

The MRI will replace an existing machine that is over 10 years old, which would provide an improved resolution and greater capabilities.

*IV Pumps.....1,100,000*

The IV Pump will replace Baxter's pumps, which are over 10 years old. The new pumps will have multiple capabilities include being used as epidural pumps, and the ability to interface with RCH's coordinating system (Meditech).

*Radiological Equipment ..... 650,000*

RCH will purchase radiological equipment for its outpatient imaging center with the specific purpose to cater to the specific needs of women.

*Information System (Hardware/Software).....200,000*

The information system will enhance remote access capability for radiological images.

*Various Capital Items .....150,000*

Capital items include a cardiac monitoring system and an upgrade to the radiation therapy system on the main campus.

***Cost of Issuance* ..... 100,000**

***Total*.....\$5,100,000**

**Financing Structure and Terms:**

- Tax-exempt equipment purchase financing
- Estimated fixed interest rate of 4.24%
- Estimated monthly payments of approximately \$78,774
- Privately placed with All Points Public Funding, LLC
- 6-year term
- All Points Public Funding, LLC will be granted a first priority security interest on the equipment

## II. FINANCIAL STATEMENTS AND ANALYSIS:

### Redlands Community Hospital and Affiliates Statement of Activities

	<b>For the year ended September 30,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b><u>REVENUES</u></b>			
Net patient services	\$ 88,499,100	\$ 81,201,951	\$ 77,058,149
Capitation premiums	81,991,956	77,208,660	69,676,313
Investment income, net	3,479,592	3,212,066	1,500,479
Other	715,554	650,279	783,150
Net assets released from restrictions	-	-	15,170
Total revenues	<u>174,686,202</u>	<u>162,272,956</u>	<u>149,033,261</u>
<b><u>EXPENSES</u></b>			
Salaries and wages	54,190,909	52,384,914	47,588,443
Employee benefits	10,784,513	9,294,334	10,260,761
Supplies	26,458,222	24,088,638	20,953,803
Purchased services	12,012,927	11,759,013	10,869,634
Outside providers	40,500,183	35,544,626	30,277,435
Depreciation and amortization	5,981,487	5,645,556	5,328,266
Provision for doubtful accounts	6,716,853	6,531,995	6,353,597
Interest	228,516	410,151	232,239
Maintenance, utilities, and rentals	5,529,274	4,924,792	4,129,887
Insurance	2,758,221	2,094,795	2,183,513
Professional fees	458,343	411,399	365,760
Other	3,814,949	3,484,925	2,974,858
Total expenses	<u>169,434,397</u>	<u>156,575,138</u>	<u>141,518,196</u>
<b>Excess revenue over expenses</b>	<b>5,251,805</b>	<b>5,697,818</b>	<b>7,515,065</b>
Transfer from Redland Community Hospital Foundation	250,000	250,000	200,000
Loss of settlement of construction liens	-	(1,226,642)	-
Transfer to RHS Corporation	(2,000,000)	-	-
Change in market value of interest swap agreement	519,242	(524,814)	-
Change in net unrealized gains and losses on investment	1,471,779	2,489,223	2,144,021
Net assets at beginning of year	<u>86,922,503</u>	<u>80,236,918</u>	<u>70,377,832</u>
Net assets end of year	<u>\$ 92,415,329</u>	<u>\$ 86,922,503</u>	<u>\$ 80,236,918</u>

**Redlands Community Hospital and Affiliates**  
**Statement of Financial Position**

	<b>As of September 30</b>			
	<b>2006</b>	<b>2005</b>	<b>2004</b>	
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 333,603	\$ 2,125,473	\$ 4,588,479	
Patient accounts receivable, net	13,521,255	11,950,749	13,252,992	
Assets limited as to use	20,383,807	25,450,435	3,339,145	
Inventories	1,688,137	1,187,622	1,063,485	
Estimated third-party payor settlements	1,113,919	903,868		
Prepaid expenses and other	1,470,483	1,508,962	1,297,274	
Total current assets	<u>38,511,204</u>	<u>43,127,109</u>	<u>23,541,375</u>	
Assets limited as to use, less current portion	65,875,870	78,035,099	40,686,056	
Property and equipment, net	66,410,059	50,736,790	41,859,226	
Note receivable	4,549,701	4,769,747	5,000,000	
Note receivable from affiliate	3,044,487	3,411,487	3,244,487	
Due from affiliates	1,130,927	1,139,693	623,598	
Unamortized bond issuance costs	2,982,160	3,291,007	12,686	
Total assets	<u>\$ 182,504,408</u>	<u>\$ 184,510,932</u>	<u>\$ 114,967,428</u>	
<b>Liabilities &amp; Net Assets</b>				
Current liabilities:				
Accounts payable	\$ 4,222,939	\$ 9,294,203	\$ 7,019,431	
Accrued compensation and benefits	6,388,141	6,657,576	9,393,160	
Liabilities associated with capitated programs	11,102,224	10,243,669	9,575,684	
Estimated third-party payor settlements	-	-	522,147	
Current portion of long-term debt	603,238	3,431,694	3,339,145	
Accrued interest	652,204	552,633	30,256	
Other	769,283	545,117	1,083,468	
Total current liabilities	<u>23,738,029</u>	<u>30,724,892</u>	<u>30,963,291</u>	
Long-term debt, less current portion	<u>65,971,083</u>	<u>66,239,398</u>	<u>3,431,696</u>	
Total liabilities	89,709,112	96,964,290	34,394,987	
Unrestricted	92,415,329	86,922,503	80,236,918	
Temporarily restricted	379,967	357,139	335,523	
Total net assets	<u>92,795,296</u>	<u>87,279,642</u>	<u>80,572,441</u>	
Total liabilities & net assets	<u>\$ 182,504,408</u>	<u>\$ 184,243,932</u>	<u>\$ 114,967,428</u>	
<b>Financial Ratios:</b>				
	<u>Proforma (a)</u>			
	<u>6/30/2006</u>			
Debt service coverage (x)	6.45	13.78	3.06	3.57
Debt/unrestricted net assets (x)	0.77	0.72	0.80	0.08
Margin (%)		3.01	3.51	5.04
Current ratio (x)		1.62	1.40	0.76

(a) Recalculates 2006 audited results to include the impact of this proposed financing.

## **Financial Discussion:**

**RCH's income statement exhibits solid results with positive net income over the past three fiscal years along with continued revenue growth.**

RCH's income statement appears to exhibit solid profitability over our review period with income remaining solid from \$7.5 million in fiscal year 2004 to \$5.2 million in fiscal year 2006. In addition, RCH seems to display strong margins of 5.04%, 3.51%, and 3.01% for fiscal years 2004, 2005 and 2006 respectively. RCH's revenues appears to consist primarily of net patient service and capitation premium accounting for approximately 97.5% of total revenues in fiscal year ending 2006. Total revenue appears to show an increase from \$149 million in fiscal year 2004 to \$ 174.6 million in fiscal year 2006, an increase of 14.7%. RCH indicated the increase came as a result of higher volume and reimbursement rate changes. RCH seems to keep total expenses in line with revenues, increasing from \$141.5 million in fiscal year 2004 to \$169.4 million in fiscal year 2006, an increase of 16.7%.

**The balance sheet looks to have grown with the completion of a construction project. RCH has the likelihood to manage the loan obligation.**

RCH's current balance sheet looks to have grown over the review period. RCH reports net property and equipment increased while cash and cash equivalent decreased, due to the cost involved with the completion of a new surgical and an obstetric unit in 2007. In fiscal year 2005, RCH had to pay \$1.2 million to settle their mechanic liens due to the bankruptcy of their general contractor. Despite the associated new debt, RCH remains liquid and only moderately leveraged. The proforma debt service ratio of 6.45x indicates that RCH can likely manage the proposed debt.

### III. UTILIZATION STATISTICS:

	Redlands Community Hospital		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Acute Beds:</b>			
Licensed Beds	160	156	156
Occupancy	86%	89%	86%
Average Length of Stay	4.1	4.1	4.0
Admissions	12,401	12,674	11,995
<b>Skilled Nursing Beds:</b>			
Licensed Beds	16	16	16
Occupancy	59%	61%	66%
<b>Outpatient Data:</b>			
Emergency Visits	39,362	39,976	37,285
Outpatient Visits	139,473	131,115	128,720
Outpatient Surgery Visits	3,206	3,002	2,665

### IV. ORGANIZATION:

#### **Background:**

Redlands Community Hospital (“RCH”) is a general acute care facility with 176 licensed beds, located in Redlands, approximately 60 miles east of Los Angeles. RCH is a subsidiary corporation of RHS Corp, which is a California nonprofit public benefit corporation.

RHS Corp, incorporated in 1985, is the parent organization of the following organizations: 1) RCH and its affiliate, Redlands Hospital Foundation, 2) Redlands Community Hospital Foundation, and 3) Redlands Surgical Services.

In 2007, RCH completed a new building (located next to its existing patient care towers), which will house obstetrics, labor and delivery services, neonatal intensive care unit services, and eight operating rooms. RCH expects to obtain an occupancy permit in mid to late October 2007.

RCH provides health care services primarily to the residents of the eastern portions of San Bernardino Valley. In 2006, RCH provided service to approximately 182,000 outpatients and had more than 12,000 hospital admissions. RCH began operation in 1929 as a 40-bed hospital. Over the years, RCH expanded and modernized its facilities to meet the increasing patient care needs of its service area. Currently, RCH has 176 beds (including 16 skilled nursing) and has expanded all ancillary and support service facilities.

#### **Licenses:**

RCH is licensed as a General Acute Care Hospital with the Department of Health Services.

**V. OUTSTANDING DEBT:**

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 6/30/06*</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
<b>Existing:</b>			
CSCDA 2005 Series A Revenue Bonds	\$20,000,000	\$21,074,321	\$21,074,321
CSCDA 2005 Series B Revenue Bonds	45,000,000	45,000,000	45,000,000
Line of Credit	500,000	500,000	-0-
<b>Proposed:</b>			
CHFFA Revenue Notes, 2007			5,000,000
<b>TOTAL DEBT</b>		<u><u>\$66,574,321</u></u>	<u><u>\$71,074,321</u></u>

\*Does not include current portion.

**VI. DUE DILIGENCE:**

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

- Section 15438.5 of the Act (Savings Pass Through): RCH provided a description of its savings pass through in Exhibit A.
- Section 15459.1 of the Act (Community Service Requirement): RCH executed this certification indicating that Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as Exhibit B.
- SB 1953 (Chapter 740, 1994) seismic safety requirement. RCH has provided a description of its seismic requirements as Exhibit C.
- Compliance with CEQA: RCH provided the necessary documents to show compliance with CEQA.
- Religious Due Diligence.
- Legal Review.

**VII. STAFF RECOMMENDATION:**

Staff recommends the Authority approve a resolution for Equipment Financing for Redlands Community Hospital in an amount not to exceed \$5,000,000 for a term of 6 years and financing terms acceptable to the Authority.