



DATE: July 11, 2011

TO: City of Alameda Health Care District, Board of Directors

THROUGH: City of Alameda Health Care District, Finance and Management Committee

FROM: Deborah E. Stebbins, Chief Executive Officer
David A. Neapolitan, Chief Financial Officer

SUBJECT: Approval to Authorize Management to Utilize the Bank of Alameda Line of Credit with the Bank of Alameda

Recommendation:

Management through the Finance and Management Committee recommends that the Board of Directors authorize management to access up to fifty percent (50%) of the \$1.5 million line of credit (LOC) with the Bank of Alameda in order to process payments to critical vendors of the hospital subject to the Bank of Alameda's granting of a waiver to the current covenants and their agreement to modify certain covenants that are currently contained in the agreements for the Wound Care Note Payable and LOC .

Background:

Since the loss of the Kaiser business in April of 2010, management has diligently tried to ration the annual parcel tax revenues in order to pay vendors as promptly as possible. However, as a result of the loss of this \$9.6 million in net patient revenues and managements efforts to reduce costs since the loss of this business, the hospital has operated at a shortfall of approximately \$328,000 per month. In addition, to this shortfall the organization has recently seen a decline in inpatient volumes over the last quarter of fiscal year 2011 as well as several other unforeseen developments that included:

- The reduction from expected intergovernmental transfers of over \$1 million.
- The removal of injunctions related to the payment for Medi-Cal services that resulted in a take back by the State of California of \$642,000.
- The unfavorable variance in our fiscal year 2011 operating budget for non-productive salary costs.

Also impacting our current cash position has been the costs associated with the development of our Electronic Health Record Implementation and the Seismic Retrofit Project during fiscal year 2011. The EHR and Seismic projects have required the payments of approximately \$1 million

over the past year and have been funded from the 2009 / 2010 Intergovernmental Transfer (IGT), 2010 / 2011 parcel tax proceeds and operating cash flows.

Discussion:

As was presented in the operating budget for fiscal year 2012, our cash flow projection is extremely tight, with a breakeven cash flow projection for the fiscal year. As there are no additional sources of cash reserves at this time, in order to immediately process payments to critical vendors for invoices that now exceed credit terms by as much as 60 days it is imperative that the LOC is accessed in order to pay past due vendor invoices so that our critical vendors continue to provide necessary medical services and supplies on a timely basis to ensure that patient care is not compromised. Currently our days in accounts payable, excluding payroll related payments and liabilities, are at 61.7 days on average as of June 24, 2011. After the payment of the selected medical supply and service vendors (\$750,000) our days in accounts payable will decline to 54.5 or an 11.6% decrease in days trade payables outstanding. However, this still remains beyond terms for the majority of our vendors whose terms are generally net 30 days. In order to reduce this performance measure to 50 and 45 days, additional vendor payments of approximately \$500,000 and \$1,000,000, respectively, would need to be processed for payment.

As the use of the LOC is a temporary financing vehicle (all principal due on or before February 23, 2012) it is anticipated that any borrowings from the line of credit will be repaid after receipt of the first installment of the parcel tax proceeds in December 2011 or through other possible financing options, such as a certificate of participation (COP) financing or other short term financing vehicles that might be available. These alternative options will be necessary in order to provide working capital for the Long-Term Care Expansion projects that are currently being evaluated.

Included with this memo is the projected cash flow for fiscal year 2012 assuming the use of 50% of the LOC in July 2011 and receiving approval from the Bank of Alameda to grant a waiver from the current covenants that will not be met as required at June 30, 2011. In addition, we will be working with the bank to modify the existing covenants to ensure that the hospital will be able meet or exceed the revised terms of the agreement.