

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
EXECUTIVE SUMMARY**

<p>Applicant: Aldersly 326 Mission Avenue San Rafael, California (Marin County)</p> <p>Project Sites: San Rafael Facility Type: Continuing care retirement facility.</p>	<p>Amount Requested: \$7,500,000 Loan Term: 30 years Date Requested: May 30, 2002 Resolution Number: F-293</p>																											
<p>Uses of Bond Proceeds: Series 2002 Bond proceeds will be used by Aldersly to construct a new 30-unit Assisted Living Facility to expand its capacity for new residents.</p>																												
<p>Type of Issue: Fixed rate, public offering Credit Enhancement: Cal-Mortgage Insurance Expected Credit Rating: A+ (S&P), based on Cal-Mortgage Insurance. <i>(Aldersly's expected underlying credit rating: S&P BB-.)</i> Senior Underwriter: Ziegler Capital Markets Group. Bond Counsel: Hanson, Bridgett, Marcus, Vlahos & Rudy.</p>																												
<p>Financial Overview: Despite a loss in 2001, Aldersly is a stable organization with steady revenues and strong demand for its services. Its balance sheet remains strong with good liquidity, a significant net asset balance and ability to manage the increased loan obligation.</p>																												
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<p>Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																												
<p>Staff Recommendation: Staff recommends the Authority approve a resolution to provide a loan to Aldersly, in an amount not to exceed \$7,500,000, subject to a final Cal-Mortgage Insurance commitment.</p>																												

**ALDERSLY
STAFF SUMMARY AND RECOMMENDATION**

May 30, 2002
Resolution Number: F-293

- I. PURPOSE OF FINANCING:** Aldersly proposes to demolish its 6 assisted living unit (ALU) facility and construct a new 30-unit assisted living facility on its existing campus. This new facility will house approximately 90 residents in independent living units (ILU) and ALU's.

Construction **\$6,294,400**

Aldersly's existing building, Rosenborg, which currently houses the ALU, is a 3,000 square foot one story, 6-unit building constructed in 1953. The units are small and the layout is operationally inefficient. The ALU residents will temporarily move into a house owned by Aldersly, and then be relocated to the new 30-unit facility upon its completion.

The new ALU building will include approximately 38,000 square feet on three floors, including 13,000 square feet of underground parking for up to 33 vehicles. The ALU will be located on two floors and include 18 studio units and 12 one-bedroom apartments. The studio units will average 385 square feet and the one-bedroom apartments, 568 square feet. The apartments will include kitchenettes, private bathrooms with walk-in showers, and individual controls for heating and cooling.

DFD Architects has provided architectural and design services for the construction. NCB Development Services LLC will manage the development of the construction project. A construction contract has not been signed because Aldersly has not received its guaranteed maximum price for the contract. The construction cost of \$6,294,400 only represents quotations received to date. Aldersly expects to receive all building permits by the end of June 2002 and anticipates signing the construction contract in early June 2002. Construction is scheduled to start in July 2002 and completion is expected within 18 months of commencement.

Financing Costs		785,600
Bond Insurance and Certification	\$433,600	
Cost of Issuance	265,000	
Underwriters Discount	87,000	
Capitalized Interest		630,000
Debt Service Reserve		<u>540,000</u>
Total Uses of Funds		<u>\$8,250,000</u>

Financing Structure:

- Negotiated public offering.
- Fixed interest rates.
- 30-year maturity date.
- Credit enhancement – Cal-Mortgage Insurance.
- Expected Credit Rating: A+ (S&P), based on Cal-Mortgage Insurance.
- Debt Service Reserve Fund.
- Capitalized Interest Fund.
- General obligation and gross revenue pledge.
- Financial covenants acceptable to the Authority in accordance with guidelines for A rated financings.

II. FINANCIAL STATEMENTS AND ANALYSIS:

ALDERSLY Statements of Activities (Unrestricted)

	For the six	For the year ended September 30		
	months ended	2001	2000	1999
	3/31/02			
	(Unaudited)			
Unrestricted Revenue:				
Residential care fees	\$ 771,665	\$ 1,440,136	\$ 1,344,669	\$ 1,302,032
Health care center fees	576,332	1,101,936	1,056,330	999,413
Personal care fees	141,717	202,710	222,751	201,791
Other fees	297,608	494,230	495,434	509,994
Net investment income	114,036	226,139	268,168	487,141
Other income	132,816	33,293	38,737	24,767
Total revenue	<u>2,034,174</u>	<u>3,498,444</u>	<u>3,426,089</u>	<u>3,525,138</u>
Expenses:				
Housekeeping	61,596	154,995	120,358	91,375
Plant operation	215,212	437,277	393,920	348,401
Social services	28,140	54,855	52,209	45,958
Dietary service	361,329	766,294	643,451	566,210
Nursing service	556,213	1,098,258	865,750	746,750
Personal care	97,137	230,187	174,628	116,244
Residential care	105,922	90,884	83,256	62,101
Marketing	51,329	122,778	123,509	117,046
Administration	238,745	481,262	365,886	300,765
Depreciation and amortization	195,537	377,797	376,614	362,039
Interest, taxes and insurance	88,563	190,855	221,209	210,037
Total expenses	<u>1,999,723</u>	<u>4,005,442</u>	<u>3,420,790</u>	<u>2,966,926</u>
Increase (decrease) in unrestricted net assets	34,451	(506,998)	5,299	558,212
Unrestricted net assets, beginning of year	<u>6,162,145</u>	<u>6,669,143</u>	<u>6,663,844</u>	<u>6,105,632</u>
Unrestricted net assets, end of period	<u>\$ 6,196,596</u>	<u>\$ 6,162,145</u>	<u>\$ 6,669,143</u>	<u>\$ 6,663,844</u>

ALDERSLY
Statements of Financial Position

	<u>As of March 31</u>	<u>As of September 30</u>		
	<u>2002</u> (Unaudited)	<u>2001</u>	<u>2000</u>	<u>1999</u>
Assets				
Current Assets:				
Cash and cash equivalents	\$ 690,945	\$ 463,702	\$ 745,695	\$ 703,286
Investments	3,875,497	3,993,197	4,082,614	4,360,657
Receivables and prepayments	378,991	184,290	73,275	63,748
Total Current Assets	<u>4,945,433</u>	<u>4,641,189</u>	<u>4,901,584</u>	<u>5,127,691</u>
Land, buildings and equipment - net	4,984,155	4,963,005	4,977,585	4,916,389
Other assets	1,077,679	1,044,411	925,331	933,626
Total Assets	<u><u>\$ 11,007,267</u></u>	<u><u>\$ 10,648,605</u></u>	<u><u>\$ 10,804,500</u></u>	<u><u>\$ 10,977,706</u></u>
Liabilities & Net Assets				
Liabilities:				
Accounts payable	\$ 40,539	\$ 85,457	\$ 87,454	\$ 98,745
Accrued expenses	175,230	94,061	81,226	74,908
Other current liabilities	13,326	13,327	17,953	17,024
Bonds payable - current	40,000	40,000	40,000	35,000
Total current liabilities	<u>269,095</u>	<u>232,845</u>	<u>226,633</u>	<u>225,677</u>
Bonds payable	1,649,799	1,669,799	1,853,162	1,749,799
Unearned fees	2,374,983	2,067,022	1,709,799	1,992,623
Total Liabilities	<u>4,293,877</u>	<u>3,969,666</u>	<u>3,789,594</u>	<u>3,968,099</u>
Net Assets				
Unrestricted net assets	6,196,596	6,162,145	6,669,143	6,663,844
Temporarily restricted net assets	516,794	516,794	345,763	345,763
Total Net Assets	<u>6,713,390</u>	<u>6,678,939</u>	<u>7,014,906</u>	<u>7,009,607</u>
Total Liabilities & Net Assets	<u><u>\$ 11,007,267</u></u>	<u><u>\$ 10,648,605</u></u>	<u><u>\$ 10,804,500</u></u>	<u><u>\$ 10,977,706</u></u>

Proforma (a)
3/31/02

Debt Service Coverage (x)	1.25	(0.07)	3.22	6.64
Debt/Unrestricted Net Assets (x)	1.94	0.35	0.32	0.33
Margin (%)		-16.00%	0.00%	19.00%
Current Ratio (x)		11.06	14.08	13.89

(a) Recalculates March 2002 unaudited results to include the impact of this proposed financing.

Financial Discussion:

Despite a loss in 2001, Aldersly is a stable organization with steady revenues, and a strong demand for its services.

Aldersly serves the continuing care retirement community needs of the elderly in Marin County, including independent living, assisted living and skilled nursing care. Aldersly's revenues have been steady over our review period and show slight improvement (on an annualized basis) for the year to date. Aldersly receives over 40% of its revenues from its residential facilities, followed by a strong 30% from health care fees. Additional revenue sources for Aldersly are other fees, investment income and other miscellaneous income. Aldersly generates over 98% of all residential related fees from private pay. For the last four years, Aldersly has maintained an average occupancy rate of 90% for its ILU, ALU and skilled nursing facility (SNF).

In 2001, Aldersly suffered a loss, mostly due to an increase in operating expenses of over 17% from 2000. This increase was a result of several factors including higher salaries and benefits, an increase in worker's compensation and liability insurance, a sudden surge in utility costs, and an unanticipated reliance on professional services. Despite the loss in 2001, Aldersly has maintained a viable operation. To improve its profitability, Aldersly's management implemented cost saving measures including a reduction of three full time employees and a hiring freeze. In addition, Cal-Mortgage required financial feasibility study projects that the assisted living facility to be constructed with the proceeds of this financing will improve Aldersly's profitability and cash flow.

Aldersly's balance sheet remains strong with good liquidity, a significant net asset balance and ability to manage the increased loan obligation.

Aldersly has maintained positive cash flows with adequate liquidity, as demonstrated by a strong current ratio that has exceeded 9x from 1999 to 2002. In addition, Aldersly has in excess of \$6 million in net assets. While the proforma debt-to-unrestricted net assets ratio is leveraged at 1.94x, based upon the current year unaudited financial results, Aldersly's proforma debt service coverage is satisfactory at 1.25x, indicating an ability to meet all of its debt obligations.

III. BACKGROUND

Aldersly, commonly known as Aldersly Garden Retirement Community, is a non-profit 501(c)(3) organization founded in 1921 as a continuing-care retirement community. While Aldersly has a strong historical connection to the Danish-American community, the campus is nonsectarian and is open to all those who need senior living arrangements and health care services.

Aldersly provides a broad range of living options for its residents. The current facility provides for 61 ILU apartments, 6 ALU (in a temporary location), and a 20-bed skilled nursing facility (SNF). Living arrangements are complemented by housekeeping services two times per month, three meals per day, property maintenance, a nursing-wellness clinic, a 24-hour emergency response system, linen laundry, a wide ranging activities program, on campus dining room, library, exercise area and an outside recreational space. The SNF was completed in 1993 and includes dementia care, intravenous therapy, and incontinence care in its array of services. The ILU residents have priority for placement into the existing ALU and SNF.

Aldersly operates on a nondiscriminatory basis and affords equal treatment and access to services to all persons. An applicant's eligibility is based on age, financial guidelines and other related criteria. Residents pay one time entrance fee, which ranges from \$33,000 to \$125,000, and ongoing monthly fees for services described in the Residency Agreement. A pro-rated share of the entrance fee is returned to the resident or the estate in five years. The residents who are unable to meet their expenses are provided with benevolence funds and cannot be asked to leave for financial reasons.

Governance

Aldersly is governed by a 15-member Board of Directors. Board members are initially elected to three-year term and may serve up to two additional three-year terms for a total of nine consecutive years. The board has appointed an Executive Committee and has several standing committees, including committees related to finance and construction. The board is responsible for setting general policy and approving budgets as well as rate increases.

Licenses

Aldersly is licensed by the State Department of Social Services (DSS) to operate as a Residential Care Facility for the Elderly with the capacity of 100 for ILU's and ALU's. Aldersly's SNF is licensed by the State Department of Health Services for 20 skilled nursing beds. The SNF is also certified to participate in the Medicare and Medi-Cal programs. Aldersly is also a member of the California Association of Services and Homes for the Aging (CASHA). In connection with the proposed project for the 30 ALU, management expects that the new license will be approved, pending clearance from the Office of Statewide Health Planning and Development, the local fire department, and a DSS site survey.

Service Area, Competition, and Market Share

The primary market area for the proposed ALU facility has been defined as an 82-square mile area of Marin County, including the communities of San Rafael, Tiburon, Corte Madera, Larkspur, Mill Valley and San Anselmo. Aldersly also had a market feasibility study prepared which indicates the primary target market for their expanded, new facility as an older, 80-plus population. This population in Marin County is expected to grow 14% to 9,354 by 2006. Also by 2006, almost seven in ten of the 80-plus households will have annual incomes above \$50,000.

Aldersly's primary competition consists of four other facilities in Marin County. These competitors are: Drake Terrace with 30 ALU's and Tamalpais Creek with 59 ALU's (both are 100% occupied); Hampton Court, which has been open for 11 months, has 56 ALU's and is 80% occupied; Aegis of Corte Madera has 83 ALU's and is 56% pre-leased. None of these other facilities offer full continuous care, including nursing care, that is offered by Aldersly. In addition, Aldersly's monthly fees average \$1,000 less than its competitors.

IV. UTILIZATION STATISTICS:

	<u>Year Ended September 30</u>		
	<u>2001</u>	<u>2000</u>	<u>1999</u>
Independent Living			
Apartment Units Available	61.0	62.0	63.0
Apartment Units Occupied	57.0	57.0	58.0
% Occupancy	93.4%	91.9%	92.1%
Assisted Living			
Facility Units Available	6.0	6.0	6.0
Facility Units Occupied	5.5	6.0	6.0
% Occupancy	91.7%	100.0%	100.0%
Skilled Nursing			
Facility Bed Available	20.0	20.0	20.0
Facility Beds Occupied	18.2	18.1	18.0
% Occupancy	91.1%	90.4%	90.0%

V. SECTION 15438.5 OF THE ACT (Savings Pass Through).

Residents cannot be asked to leave for financial reasons. Aldersly provides benevolence funds to those residents who are unable to meet their monthly fees. The savings resulting from this proposed financing will contribute to Aldersly's long-term viability and enable Aldersly's to maintain current rates. Furthermore, Aldersly can maintain its current level of commitment to provide for the retirement needs of the community, especially those who have special needs.

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

Aldersly has submitted a completed Certification and Agreement Regarding Community Service Obligation with its application as required by the Act.

VII. OUTSTANDING DEBT:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 9/30/01 (a)</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
CHFFA, Bond Series 1992 A	\$2,000,000	\$1,709,799	\$1,709,799
Proposed:			
CHFFA, Bond Series 2002	7,500,000		7,500,000
TOTAL DEBT		<u>\$1,709,799</u>	<u>\$9,209,799</u>

(a) Includes current portion.

VIII. 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 integrity of this Applicant.

IX. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution to provide a loan to Aldersly, in an amount not to exceed \$7,500,000, subject to a final Cal-Mortgage Insurance commitment.