

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY  
EXECUTIVE SUMMARY**

<b>Applicant:</b>	Alliance for Community Care ("Alliance")	<b>Amount Requested:</b>	\$10,500,000
<b>Location:</b>	San Jose, California (Santa Clara County)	<b>Loan Term:</b>	20 years
		<b>Date Requested:</b>	July 31, 2003
		<b>Resolution Number:</b>	F-299
<b>Project Sites:</b>	San Jose		
<b>Facility Types:</b>	Mental health residential treatment facility.		

**Uses of Bond Proceeds:** Bond proceeds will be used to current refund two separate tax-exempt Series 1992 Cal-Mortgage insured certificates of participation (COPs) and an existing taxable mortgage, resulting in a net present value savings of \$1.7 million or approximately 16% of the refunded issues.

<b>Type of Issue:</b>	Fixed rate, public offering
<b>Credit Enhancement:</b>	Cal-Mortgage Insurance
<b>Expected Credit Rating:</b>	A (S&P), based on Cal-Mortgage Insurance. <i>(Alliance does not have an underlying credit rating.)</i>
<b>Senior Underwriter:</b>	Wells Fargo Institutional Securities, LLC.
<b>Bond Counsel:</b>	Orrick, Herrington & Sutcliffe LLP

**Financial Overview:** Alliance is generally a profitable organization with steady revenues and strong demand for its services. The balance sheet remains strong with good liquidity and a stable net asset balance.

<b>Sources of Revenue:</b>	<u>Amount</u>	<u>Percent</u>
Unrestricted (6/30/02)		
Government grants and fees	\$21,226,896	81%
Fee for services	3,050,239	11%
Interest and dividend income	115,136	0%
Contribution and support	450,975	2%
Miscellaneous income (a)	1,114,875	5%
Net assets released from restriction	<u>291,404</u>	<u>1%</u>
Total	<u>\$26,249,525</u>	<u>100%</u>

(a) Includes gain on sale of assets of \$1,102,920.

<u>Sources of Funds:</u>		<u>Uses of Funds:</u>	
Bond proceeds	\$10,500,000	Refund existing debt	\$9,992,840
Transfer from prior reserve funds	1,106,000	Debt service reserve	805,810
Accrued interest	3,050	Financing costs	820,930
Equity contribution	10,530		
Total Sources	<u>\$11,619,580</u>	Total Uses	<u>\$11,619,580</u>

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

**Staff Recommendation:** Staff recommends the Authority approve a resolution for Alliance for Community Care, in an amount not to exceed \$10,500,000 subject to a final Cal-Mortgage Insurance commitment.

**ALLIANCE FOR COMMUNITY CARE (“Alliance”)**

**STAFF SUMMARY AND RECOMMENDATION**

July 31, 2003  
Resolution Number: F-299

- I. PURPOSE OF FINANCING:** Alliance proposes to current refund two separate Series 1992 ABAG Finance Authority, Cal-Mortgage insured Certificates of Participation (COPs) and an existing taxable mortgage with a balloon payment of \$1.2 million, to take advantage of lower interest rates. The proposed refinancing is expected to generate overall net present value savings of approximately \$1.7 million.

***Refinancing* ..... \$9,992,840**

The proposed Authority’s Series 2003 bonds will not include any new project financing and is solely being issued to current refund two separate Series 1992 Cal-Mortgage insured COPs and an existing taxable mortgage.

First COP Issue: Alliance’s first Series 1992 insured COPs were issued for its Rehabilitation Mental Health Services project in the amount of \$7,500,000. The interest rates range from 6.50% to 6.55% with a final maturity of June 1, 2022. As of May 31, 2003, \$6,470,000 remains outstanding. Loan proceeds for this issue refinanced a previous loan that was used to acquire land, construct new buildings and renovate existing buildings.

Second COP Issue: The second Series 1992 insured COPs were issued for Miramonte Mental Health Services project in the amount of \$2,600,000. The interest rates range from 6.10% to 6.60% with a final maturity of July 1, 2022. As of May 31, 2003, \$2,230,000 remains outstanding. Loan proceeds for this issue financed the purchase and renovation of a building at 206 California Avenue, Palo Alto. Both projects have been completed.

Taxable Mortgage: Alliance currently has an existing mortgage with the Bank of Santa Clara on its facility located at 2001 The Alameda, San Jose. This mortgage was issued for \$1,361,250, and has an interest rate of 7.00%. As of May 31, 2003, \$1,206,194 remains outstanding with a balloon payment, due on September 30, 2007.

<b>Financing Costs</b> .....		<b>820,930</b>
Bond Insurance .....	\$578,500	
Cost of Issuance .....	141,300	
Underwriters Discount .....	95,400	
Contingency .....	5,730	
<b>Debt Service Reserve</b> .....		<b><u>805,810</u></b>
<b>Total Uses of Funds</b> .....		<b><u>\$11,619,580</u></b>

**Financing Structure:**

- Negotiated public offering with serial and term bond maturities.
- Fixed interest rates.
- 20-year loan with final maturity date of July 1, 2022.
- Credit enhancement – Cal-Mortgage Insurance.
- Expected Credit Rating: A (S&P), based on Cal-Mortgage Insurance.
- Debt Service Reserve Fund.
- General obligation and gross revenue pledge.
- Financial covenants acceptable to the Authority in accordance with guidelines for A rated financing.

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## II. FINANCIAL STATEMENTS AND ANALYSIS:

### ALLIANCE FOR COMMUNITY CARE Statements of Activities (Unrestricted)

	For eleven months ended			
	May 31	For the year ended June 30		
	2003	2002	2001	2000
	( Unaudited )			
<b>Unrestricted Revenue:</b>				
Contributions and support	\$ 634,536	\$ 450,975	\$ 275,389	\$ 422,960
Government grants and fees	19,747,233	21,226,896	19,838,627	21,029,574
Fee for services	2,606,172	3,050,239	2,919,376	2,772,383
Interest and dividend income	260,092	115,136	255,931	207,666
Miscellaneous income	206,354	1,114,875 (a)	99,030	78,620
Net assets released from restriction	-	291,404	329,300	329,300
Total support and revenue	<u>23,454,387</u>	<u>26,249,525</u>	<u>23,717,653</u>	<u>24,840,503</u>
<b>Expenses:</b>				
Salaries and related expenses	17,335,486	19,140,861	18,509,948	16,979,555
Professional fees	1,005,205	892,445	943,851	1,144,171
Supplies	427,480	593,668	728,129	724,389
Telephone, postage and shipping	291,999	353,814	373,702	364,963
Occupancy	1,213,697	1,362,297	1,374,951	1,188,119
Equipment rent and maintenance	147,518	134,137	191,263	232,112
Travel, transportation and conference	197,625	280,045	363,518	468,523
Interest expense	702,211	742,463	777,710	761,307
Insurance	362,803	309,743	267,948	251,813
Bad debts	287,169	1,089,785 (b)	144,481	185,613
Depreciation	640,729	725,740	767,748	724,366
Miscellaneous	370,405	260,119	183,595	284,364
Total expenses	<u>22,982,327</u>	<u>25,885,117</u>	<u>24,626,844</u>	<u>23,309,295</u>
<b>Increase (decrease) in unrestricted net assets</b>	<b>472,060</b>	<b>364,408</b>	<b>(909,191)</b>	<b>1,531,208</b>
Unrestricted net assets, beginning of year	9,423,775	10,114,750	11,023,941	9,492,733
Transfer to temporarily restricted net assets	-	(1,055,383) (c)	-	-
Unrestricted net assets, end of year	<u>\$ 9,895,835</u>	<u>\$ 9,423,775</u>	<u>\$ 10,114,750</u>	<u>\$11,023,941</u>

(a) Includes gain on sale of assets of \$1,102,920.

(b) Additional bad debts charge of \$900,000 for prior year's debts.

(c) Reclassification of certain community block grants from unrestricted net assets to temporarily restricted net assets.

**ALLIANCE FOR COMMUNITY CARE**  
**Statements of Financial Position**

	As of May 31	As of June 30		
	2003 ( Unaudited )	2002	2001	2000
<b>Assets</b>				
Current Assets:				
Cash and cash equivalents	\$ 437,136	\$ 1,010,695	\$ 1,975,056	\$ 2,253,564
Accounts receivable - net	1,442,855	654,686	1,304,074	917,340
Grants receivable - net	2,038,725	4,462,487	2,790,595	3,977,416
Investments	5,879,071	2,002,102	1,718,460	1,300,030
Other current assets	448,711	618,670	540,982	409,394
<b>Total Current Assets</b>	<b>10,246,498</b>	<b>8,748,640</b>	<b>8,329,167</b>	<b>8,857,744</b>
Land, buildings and equipment - net	14,911,464	14,721,565	14,881,722	15,413,417
Other assets	500,220	1,728,154	1,803,061	1,699,364
<b>Total Assets</b>	<b>\$ 25,658,182</b>	<b>\$ 25,198,359</b>	<b>\$ 25,013,950</b>	<b>\$ 25,970,525</b>
<b>Liabilities &amp; Net Assets</b>				
Liabilities:				
Accounts payable	\$ 168,057	\$ 238,689	\$ 161,085	\$ 60,463
Accrued expenses	2,100,267	1,902,551	1,844,013	1,790,831
Other current liabilities	84,702	140,101	197,247	133,066
Bonds payable - current	220,000	220,000	210,000	200,000
Notes payable - current	27,571	27,571	1,247,828	25,380
<b>Total current liabilities</b>	<b>2,600,597</b>	<b>2,528,912</b>	<b>3,660,173</b>	<b>2,209,740</b>
Bonds payable	8,480,000	8,527,615	8,742,615	8,952,616
Loan payable	3,055,449	3,077,463	2,190,008	3,194,928
Other liabilities	-	-	-	250,000
<b>Total Liabilities</b>	<b>14,136,046</b>	<b>14,133,990</b>	<b>14,592,796</b>	<b>14,607,284</b>
Net Assets				
Unrestricted net assets	9,895,835	9,423,775	10,114,750	11,023,941
Temporarily restricted net assets	1,626,301	1,640,594	306,404	339,300
<b>Total Net Assets</b>	<b>11,064,369</b>	<b>11,064,369</b>	<b>10,421,154</b>	<b>11,363,241</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$ 25,658,182</b>	<b>\$ 25,198,359</b>	<b>\$ 25,013,950</b>	<b>\$ 25,970,525</b>

	<b>Proforma (a)</b> <b>5/31/03</b>			
Debt Service Coverage (x)	<b>1.37</b>	<b>0.83</b>	<b>0.63</b>	<b>3.11</b>
Debt/Unrestricted Net Assets (x)	<b>1.31</b>	<b>1.26</b>	<b>1.22</b>	<b>1.12</b>
Margin (%)		<b>1.00%</b>	<b>-4.00%</b>	<b>6.00%</b>
Current Ratio (x)		<b>3.46</b>	<b>2.28</b>	<b>4.01</b>

(a) Recalculates May 2003 unaudited results to include the impact of this proposed financing.

## **Financial Discussion:**

**Alliance is generally a profitable organization with steady revenues, and a strong demand for its services.**

Alliance provides comprehensive residential and outpatient mental health treatment services to its clients in Santa Clara County. Alliance receives over 75% of its revenues from its contract with the County of Santa Clara for services provided as part of the County Mental Health delivery system. Additional revenue sources for Alliance are fees for services, investment income and other miscellaneous income.

The revenues have remained steady with the slight increase of 5% over our review period from fiscal 2000 to fiscal 2002. However, the grant revenue had dropped by 6% in fiscal 2001, mostly due to the closure of its Partial Hospital Program (PHP) at the end of November 2000 and poor performance of its outpatient services. PHP was established in 1996 as an intensive day treatment program for Medicare eligible clients contracting through Santa Clara County. PHP was closed because the new regulations by the federal Health Care Financing Administration (now called Center for Medicare and Medicaid Services) would not allow Alliance to become a Community Mental Health Center (CMHC), thus depriving it of its funding source.

The operating expenses also increased 11% over our review period. The increases were significant in fiscal 2001 as salaries and related expenses increased by 9%. Despite closure of the PHP, staffing costs rose due to the enhancement of the Crisis Residential Program, the addition of the Jail Diversion Program and a 4% general salary increase.

Alliance has generally been a profitable organization with profit margins averaging just over 1%. To improve its profitability, Alliance's management implemented a hiring freeze and other cost saving measures. As a result, it posted a profit of \$457,767 through the current interim period indicating a positive trend. Management anticipates maintaining a profit margin of approximately 2% for fiscal 2003 and a \$400,000 increase in unrestricted net assets for fiscal 2003. In addition, this refinancing will improve Alliance's financial position by reducing total debt service cost by approximately \$2.9 million.

**The balance sheet remains strong with good liquidity and a stable net asset balance.**

Alliance has maintained positive cash flows with adequate liquidity as demonstrated by a current ratio of approximately 2.00x. It intends to improve its cash position further by reducing its accounts receivable, which increased during the interim period. Alliance is slightly leveraged, with a proforma debt-to-unrestricted net assets ratio of 1.31. With this proposed loan, management anticipates meeting all of its debt obligations, as evidenced by a proforma debt service coverage ratio of 1.37x.

### **III. BACKGROUND**

Alliance was incorporated on January 1, 1997 with the consolidation of three mental health agencies in the County of Santa Clara. Alliance is headquartered in the City of San Jose, and has grown to be one of the largest providers of mental health services in the Bay Area, serving approximately 4,000 clients per year in different programs at 33 separate facilities.

Alliance is currently the largest mental health contract provider with Santa Clara County and receives approximately 75% of its annual revenues for its services with the County. The mission of Alliance is to help individuals achieve mental and emotional health, discover and reach their potential, and fully participate in life. Alliance offers a wide variety of community based mental health services including crises residence, transitional residence, board and care, and adolescent residence, day rehabilitation and day treatments, outpatient psychiatric and vocational services. Alliance also provides over one hundred supported housing units that it rents on a monthly basis to its clients.

On April 25, 2002, the Authority approved a Resolution for Alliance identical to this proposed financing request. The financing was delayed as a result of an administrative complaint brought by the Department of Social Services against Alliance resulting in a loss of license for a facility, which was closed. On October 31, 2002, the Authority approved a six-month extension for the Resolution, which expired April 30, 2003. As a result of these delays, Cal-Mortgage requested a new application for credit enhancement from Alliance so that it could decide whether to extend its commitment, which expired on May 8, 2003. However, Alliance needed more time and recently submitted a new application for credit enhancement and a revised bond financing application. All issues surrounding the administrative complaint have been resolved and Cal-Mortgage anticipates issuing its commitment by July 31, 2003.

#### **Governance**

Alliance is governed by a 17-member Board of Directors. There are currently 6 vacancies on the Board. Board members are initially elected to three-year terms and may serve one additional three-year term.

#### **Licenses**

Alliance's crisis residential facilities and group homes are licensed by the State Department of Social Services. Alliance's transitional residential facilities are licensed by the State Department of Mental Health. Alliance is certified to provide Medi-Cal services by the Department of Health Services. Alliance is also certified to provide vocational services by the State Department of Rehabilitation.

## **Service Area, Competition, and Market Share**

Alliance's service area population is approximately 2 million, an increase of 15% since 1990. Several mental health care providers in the service area offer one or more of the services offered by Alliance. While Alliance does not compete with other mental health service providers for referrals, it does compete for the limited sources of funding. Alliance is one of twenty-four nonprofit organizations currently contracting with the County of Santa Clara to provide a wide variety of mental health services that the County does not provide. No other provider has the size and diversity of Alliance to provide similar programs.

### **IV. UTILIZATION STATISTICS:**

	Eleven Months Ended May 31	Year Ended June 30		
	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
<i><b>Adult Residential Beds</b></i>				
Beds in Service	165	181	181	181
Admissions	604	643	626	612
% Occupancy	82.0%	75.0%	90.6%	90.0%
<i><b>Adolescent Residential Beds</b></i>				
Beds in Service	23	23	30	23
Admissions	11	31	21	37
% Occupancy	48.1%	61.8%	70.0%	78.6%

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

It is the intent of the Legislature in enacting this part to provide financing only to health facilities that can demonstrate the financial feasibility of their projects. It is further the intent of the Legislature that all or part of any savings experienced by a participating health institution, as a result of that tax-exempt revenue bond funding, be passed on to the consuming public through lower charges or containment of the rate of increase in hospital rates.

Alliance has provided a description of its savings pass through in Attachment A.

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

As a condition of the issuance of revenue bonds, whether by the Authority or any local agency, each borrower shall give reasonable assurance to the Authority that the services of the health facility will be made available to all persons residing or employed in the area served by the facility. As part of this assurance, borrowers shall agree to a number of actions, including (a) To advise each person seeking services at the borrower's facility as to the person's potential eligibility for Medi-Cal and Medicare benefits or benefits from other governmental third-party payers, (b) To make available to the authority and to any interested person a list of physicians with staff privileges at the borrower's facility, and (c) To post notices in appropriate areas within

the facility regarding services being available to all in the service area. This agreement is a standard “Certification and Agreement Regarding Community Service Obligation”.

Alliance has executed this certification and submitted its current list of physicians, specialties, languages spoken, telephone numbers and whether Medi-Cal and Medicare patients are accepted.

A copy of this certification is provided in Attachment B.

**VII. OUTSTANDING DEBT:**

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 5/31/03 (a) (Unaudited)</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
<b>Existing:</b>			
ABAG – COP Series 1992	\$7,500,000	\$6,470,000	\$-0-
ABAG – COP Series 1992	2,600,000	2,230,000	-0-
Bank of Santa Clara	1,361,250	1,206,194	-0-
Various Government Notes	N/A	1,876,826	1,876,826
<b>Proposed:</b>			
CHFFA, Bond Series 2003	10,500,000		10,500,000
<b>TOTAL DEBT</b>		<b><u>\$11,783,020</u></b>	<b><u>\$12,376,826</u></b>

(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 viability or legal integrity of this applicant.

**IX. STAFF RECOMMENDATION:**

Staff recommends the Authority approve a resolution for Alliance for Community Care, in an amount not to exceed \$10,500,000 subject to a final Cal-Mortgage Insurance commitment.