CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

Applicant: Dientes! Community Dental Clinic ("Dientes") **Amount Requested:** \$400,000

1830 Commercial Way
Santa Cruz, California

Requested Loan Term: 15 years

Date Requested: May 27, 2004

Resolution Number: HII-167

Santa Cruz County Resolution Number: HII-16

Project Site: 1830 Commercial Way, Santa Cruz, California

Facility Type: Community Clinic

Use of Loan Proceeds: Loan proceeds will be used to refinance an existing loan, which has a balloon payment due in January 2005. This refinancing will result in an approximate savings of \$110,000 over the life of the new loan by reducing the interest rate from the current rate of 6% to 3% offered by the HELP II loan program.

Type of Issue: HELP II Loan

Prior HELP II Borrower: No

Financial Overview: Dientes' financial position is stable with consistent profitability over our review period. Further aiding stability is Dientes' solid market presence in Northern Santa Cruz County. Dientes' balance sheet remains strong with good liquidity and a strong projected debt service coverage ratio.

Sources of Revenue:	<u>Amount</u>	<u>Percent</u>	
(FYE 6-30-03)			
Contributions and grants	\$1,123,459*	49.9%	
Government fees	399,715	17.7%	
Denti-Cal fees	397,392	17.6%	
Patient fees	166,893	7.4%	
Campaign events	162,875	7.2%	
Other	4,596	0.2%	
Total revenue and support	<u>\$2,254,930</u>	<u>100.0%</u>	

^{*}For fiscal year 2003, \$700,000 was committed for the new Santa Cruz clinic.

Estimated Sources of Funds:		Estimated Uses of Funds:	
HELP II Loan	\$400,000	Refinance existing loan	\$716,000
Capital Campaign**	323,000	Financing Costs	<u>7,000</u>
Total Sources	<u>\$723,000</u>	Total Uses	<u>\$723,000</u>

^{**}As of May 2004, Dientes has received \$323,000 in capital campaign funds.

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 a HELP II Loan in an amount not to exceed \$400,000 for a term not to exceed 15 years for Dientes! Community Dental Clinic, subject to the standard HELP II loan provisions.

STAFF SUMMARY AND RECOMMENDATION

Dientes! Community Dental Clinic ("Dientes")

May 27, 2004

Resolution Number: HII-167

I. PURPOSE OF FINANCING: Dientes seeks to refinance an existing loan in order to avoid a balloon payment due January 2005 and for interest savings for its Santa Cruz property.

Financing Costs		<u>7,000</u>
Authority Fee	\$5,000	
Title/escrow fees	2,000	
Total		<u>\$723,000</u>

Financing structure:

- 15-year fully amortized loan in the amount of \$400,000.
- 180 equal monthly payments of approximately \$2,762 (total annual payments of \$33,144).
- Total interest payments of approximately \$97,219.
- First position lien on property located at 1830 Commercial Way, Santa Cruz, California.
- Corporate gross revenue pledge.
- Maximum loan to value of 95%

II. FINANCIAL STATEMENTS AND ANALYSIS:

<u>Dientes! Community Dental Clinic</u> <u>Statement of Activities</u>

	9 mor				
	<u>Endi</u> March		For th	e Year End	ed June 30.
	2004		2003	2002	2001
	(unaud	ited)			
Revenue					
Patient fees	\$ 198	3,475	\$ 166,893	\$ 148,69	98 \$ 131,173
Denti-Cal fees	572	2,961	397,392	336,53	31 242,417
Contributions and grants*	564	4,651	1,123,459	722,28	34 458,547
Government fees	237	7,229	399,715	435,80	319,905
Campaign events		-	162,875	112,73	
Other	(5,075	4,596	25,18	36 48,471
Total revenues	1,579	9,391	2,254,930	1,781,24	1,200,513
Expenses					
Salaries	764	1,556	1,339,341	1,040,70	753,858
Payroll taxes and benefits	15′	7,874	186,665	164,44	17 103,966
Professional services	12	7,608	113,345	99,49	92 89,334
Occupancy	49	9,611	89,404	54,82	25 51,587
Insurance	8	3,957	14,490	2,99	-
Product supplies	9	1,869	161,313	138,63	31 131,120
Depreciation		-	39,411	29,98	36 18,797
Other	50),861	152,853	78,74	46,432
Total expenses	1,25	1,336	2,096,822	1,609,82	1,195,094
Increased in net assets	328	3,055	158,108	171,41	5,419
Net assets, beginning of year	938	3,704	780,596	609,18	603,763
Net assets, end of year	\$ 1,260	5,759	\$ 938,704	\$ 780,59	96 \$ 609,182

^{*}Includes capital campaign funds.

Dientes! Community Dental Clinic

Balance Sheet

	As of Mar 31,	As of June 30,			
	2004	2003	2002	2001	
	(unaudited)				
Assets					
Current assets:					
Cash and cash equivalent	\$ 464,661	\$ 348,984	\$ 396,912	\$ 605,282	
Accounts receivable	352,247	72,085	91,314	63,186	
Grants receivable		92,537	200,456	147,693	
Total current assets	816,908	513,606	688,682	816,161	
Property and equipment, net	1,462,567	1,451,046	989,566	111,301	
Total assets	\$ 2,279,475	\$ 1,964,652	\$ 1,678,248	\$ 927,462	
Liabilities and net assets					
Current liabilities:					
Accounts payable	\$ 48,830	\$ 174,374	\$ 31,732	\$ 17,830	
Accrued expenses	17,636	82,753	68,944	60,118	
Deferred revenue	230,250	52,821	80,976	240,332	
Total current liabilities	296,716	309,948	181,652	318,280	
Long term debt	716,000	716,000	716,000	_	
Total liabilities	1,012,716	1,025,948	897,652	318,280	
Net assets:					
Unrestricted	960,997	888,704	780,596	609,182	
Temporarily restricted	305,762	50,000	-		
Total net assets	1,266,759	938,704	780,596	609,182	
Total liabilities and net assets	\$ 2,279,475	\$ 1,964,652	\$ 1,678,248	\$ 927,462	
Financial Ratios:					
	Proforma ⁽¹⁾ <u>FYE 2003</u>				
Debt Service Coverage (x)	7.26	5.60	45.40	N/A	
Debt/Unrestricted Net Assets (x)	.45	.81	.92	N/A	
Margin (%)		4.09%	9.62%	.45%	
Current Ratio (x)		1.66	3.79	1.35	

⁽¹⁾ Recalculates June 2003 audited results to include the impact of the HELP II loan financing.

Financial Discussion:

Dientes' financial position is stable with consistent profitability over our review period. Further aiding stability is Dientes' solid market presence in Northern Santa Cruz County.

Since fiscal 2001, Dientes has experienced strong revenue growth of over 74% as a result of increased patient visits. Patient revenue consists of Medi-Cal, government contracts and private pay. Dientes receives sizeable revenues from contributions and grants. During the past nine months, contributions and grants revenue have been down due to Dientes closing its Watsonville site. The Watsonville site relied almost solely on contributions and grants revenue. In fiscal 2003, contributions and grants revenue reflected a capital campaign of approximately \$700,000 that was committed towards the clinic in Santa Cruz, which is the property being refinanced. In fiscal 2002, Dientes was awarded a grant in the amount of \$150,000, which was provided by the Authority through the Cedillo-Alarcón Investment Act of 2000. The grant was used to purchase equipment for its new Santa Cruz site.

Dientes' balance sheet remains strong with good liquidity and a strong projected debt service coverage ratio.

Dientes' balance sheet is solid with good liquidity, limited long-term debt, and significant net assets. Dientes' strong liquidity is seen by its \$348,000 cash position. Dientes' net assets continue to grow and its debt-to-net assets ratio is satisfactory at .81x. Dientes has successfully expanded its operations without the issuance of a large amount of long-term debt. With the proposed HELP II loan, Dientes' debt service coverage ratio will remain strong at 7.26x, indicating Dientes should comfortably be able to meet the proposed debt service payments.

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III. UTILIZATION STATISTICS:

Dientes! Community Dental Clinic Patient Visits					
Type of Service	9 Months Ended Mar. 31 2004	Fiscal year	ar ended June 3 2002	<u>0,</u> 2001	
Medi-Cal	3,694	3,920	3,876	3,185	
Child Health Dis. Prevention	91	152	159	148	
Healthy Families	780	772	724	590	
Other programs	619	712	470	451	
Self-pay	1,321	1,558	1,571	1,553	
Total	<u>6,505</u>	<u>7,116</u>	<u>6,800</u>	<u>5,927</u>	

IV. ORGANIZATION:

<u>Background</u>: Dientes! Community Dental Clinic was founded in 1992 by a group of local dentists who were concerned about the lack of dental care available to low-income residents of Santa Cruz County. The County Health Department did not operate a dental clinic so there was nowhere for patients to turn for affordable, yet critically needed care. Dientes' mission is to provide lasting oral health for the underserved children and adults of Santa Cruz County.

In October 1994, Dientes opened the doors of its Mission Street facility. It began as a part-time operation consisting of three dental chairs in a 2,700 square foot clinic rented from a local orthodontist. With a budget of about \$200,000 during the first year, Dientes scheduled approximately 1,400 appointments. Dientes grew steadily every year thereafter, particularly with help from foundations such as The California Endowment and the Packard Foundation. The City and County of Santa Cruz provided additional financial assistance, which enabled them to eventually open on a full-time basis. In 2000, Dientes expanded operation by installing two more dental chairs resulting in scheduling approximately 6,000 patient visits annually.

Over the past nine years, Dientes has provided services for 40,000 residents, one third of whom are children.

Licenses: Dientes is licensed as a community clinic with the Department of Health Services.

<u>Competition</u>: Dientes and Salud Para La Gente ("Salud") are the dental clinics in Santa Cruz County. The two dental clinics complement each other's services. Dientes offers full services dentistry whereas Salud provides basic dentistry. Dientes has a strong market share in the north Santa Cruz County while Salud has a strong market share in south Santa Cruz County.

V. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 6/30/03	Estimated Amount Outstanding After Proposed Financing
Existing: Notes payable, private loan May 2002 (used for purchase)	\$716,000	\$716,000	\$-0-
Proposed: CHFFA HELP II Loan, 2004		<u>N/A</u>	400,000
TOTAL DEBT		<u>\$716,000</u>	<u>\$400,000</u>

VI. 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.

Dientes has provided a description of its savings pass through in **Exhibit A**.

VII. 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, and (b) 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".

Dientes has executed this certification and whether Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **Exhibit B**.

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 a HELP II Loan in an amount not to exceed \$400,000 for a term not to exceed 15 years for Dientes! Community Dental Clinic, subject to the standard HELP II loan provisions.