

**CHFFA REVENUE BOND FINANCING PROGRAM
EXECUTIVE SUMMARY**

Applicant:	Gateways Hospital and Mental Health Center ("Gateways") 1891 Effie Street Los Angeles, CA 90026 Los Angeles County	Amount Requested:	\$8,225,000
		Date Requested:	September 29, 2011
		Requested Loan Term:	25 years
		Resolution Number:	369
Project Sites:	Percy Village – 3455 Percy Street, Los Angeles CA, 90023 Hill Street – 1355 South Hill Street, Los Angeles CA, 90015		
Facility Types:	Community Care Facility (Adult Residential Facility)		
Prior Borrower:	Yes (2004 HELP II loan with outstanding balance of \$43,153).		
Background:	Gateways was established in 1953 for the primary purpose of operating mental health facilities, providing housing, and operating an acute psychiatric hospital to serve the needs of mentally ill, emotionally disturbed and maladjusted adults and adolescents. Gateways provides mental health services at six (6) facilities grouped into “campus” locations and serves primarily judicially committed individuals as well as uninsured, low-income and underinsured residents of the Los Angeles community. Gateways served approximately 1,894 clients and had approximately 101,546 total patient visits in FY 2010.		
Use of Proceeds:	Series 2011 A and B bond proceeds will be used to (1) purchase the currently leased Percy Village facility, an adult residential facility, and (2) finance and/or refinance, reimburse, renovate and remodel the recently purchased Hill Street facility to be used as an adult residential facility. United Health Group (UHG) has agreed to pay for costs of issuance (COI) on the Series A bonds and plans to purchase, via public offering, all of Gateways’ Series 2011 A Bonds (\$4.6 million). Series 2011 B Bonds will also be publicly offered, but not purchased by UHG. This financing will reduce Gateways’ annual debt service by approximately \$338,000.		
Type of Issue:	Negotiated public offering with fixed rate bonds (Minimum \$5,000 denominations)		
Credit Enhancement:	Cal-Mortgage Insurance (approved September 15, 2011)		
Expected Credit Rating:	A-(S&P) based on Cal-Mortgage		
Financing Team:	<i>Please see Exhibit 1 to identify possible conflicts of interest</i>		
Financial Overview:	The income statement appears to exhibit solid operating results over the review period with positive operating margins and revenue growth. Gateways appears to have a solid financial position with a proforma debt service coverage ratio of 2.74x.		
Estimated Sources of Funds:		Estimated Uses of Funds:	
Par amount of bonds	\$ 8,225,000	Project fund/ Reimbursement	\$ 6,507,340
UGH COI Contribution*	591,053	Refinance	692,660
		Debt service reserve fund	647,955
		Bond insurance	483,065
		Financing costs	485,033
Total Estimated Sources	\$ 8,816,053	Total Estimated Uses	\$ 8,816,053
<small>*UHG is planning to purchase all of Gateways’ 2011 Series A Bonds and to pay the COI on Series A under its Small Borrower Program through a negotiated public offering of approximately \$4.6 million.</small>			
Legal Review:	Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through, Seismic, and CEQA documentation. All documentation satisfies the Authority’s requirements.		
Staff Recommendation:	Staff recommends the Authority approve Resolution Number 369 for Gateways Hospital and Mental Health Center in an amount not to exceed \$8,225,000 subject to receipt of an investment grade rating by a nationally recognized rating agency and contingent upon approval of Cal-Mortgage insurance. Macias Gini & O’Connell, LLP, the Authority’s financial analyst, and Public Financial Management (“PFM”), the Authority’s financial advisor, concur with the Authority’s staff recommendation.		

I. PURPOSE OF FINANCING:

Gateways seeks to reduce its annual lease payments and will do so (annual lease payment will be reduced from approximately \$984,000 to \$644,000) with the issuance of the Series 2011 A and B Bonds which will be used to purchase the currently leased Percy Village facility (an adult residential facility) and to refinance, renovate and remodel the recently purchased Hill Street facility (an adult residential facility which will ultimately replace the existing leased Normandie Village facility).

Project Fund..... \$6,507,340

Gateways plans to (1) purchase the currently leased 43,900 square foot Percy Village facility at a cost of approximately \$4.70 million to be used as a 136-bed adult residential facility serving individuals with mental illness and (2) use approximately \$1.80 million to reimburse, finance the renovation, improvement, and remodel of the recently purchased 15,024 square foot Hill Street facility to be used as a 60-bed adult residential facility. Upon completion of the Hill Street facility (estimated for April 2012), the Normandie Village lease will be terminated.

Refinancing 692,660

In FY 2010, Gateways purchased the Hill Street facility for approximately \$1.46 million. Gateways plans to utilize these monies to refinance its existing mortgage loan resulting in an anticipated savings of approximately \$258,000.

Debt Service Reserve Fund..... 647,955

Bond Insurance Premium..... 483,065

Financing Costs..... 485,033

- Estimated Cost of Issuance..... \$370,063
- Underwriter’s Discount 82,070
- Cal Mortgage Certification & Inspection 32,900

Estimated Total Uses of Funds..... \$8,816,053

II. PROPOSED COVENANTS, SECURITY PROVISIONS AND DISCLOSURES:

Cal-Mortgage Insurance. The Authority's approval of the issuance of the Bonds will be subject to the requirement that the Bonds are insured by the Office of Statewide Health Planning and Development ("Cal-Mortgage"). As the insurer for the Bonds, Cal-Mortgage will take responsibility for negotiating the covenants with the Borrower that it decides are necessary for this transaction. These covenants will be incorporated into a Regulatory Agreement which the Authority will be a party to, however, Cal-Mortgage is granted the power to amend, modify or terminate the terms of the Regulatory Agreement (including the covenants) without the Authority's consent.

Because of the role of Cal-Mortgage as insurer, the covenants described below (other than the Unconditional Promise to Pay) may be subject to change and further negotiation after the Authority's Board takes action on the Resolution relating to the Bonds.

Unconditional Promise to Pay. *The Borrower agrees to pay the Trustee all amounts required for principal, interest or reserve deposits and other payments and expenses designated in such Borrower's Loan Agreement. The primary source of payment for each Borrower's obligations under its Loan Agreement will be the monthly base rent payable by certain service providers for such Borrower's facilities as a portion of the total monthly rent payable by such service providers under long-term residency lease agreements with such Borrower.*

Mortgage or Deed of Trust. *The Borrower's obligations under its Loan Agreement will be secured by a Deed of Trust on its facilities that are being financed and/or refinanced with the proceeds of the Bonds. The Authority should note that the lien of the Deed of Trust can be released with the consent of Cal-Mortgage but without the consent of the Authority.*

Pledge of Gross Revenues. *The Borrower pledges to deposit all revenues, income, receipts and money received into a Gross Revenues Fund over which the Trustee has a control deposit account agreement.*

Negative Pledge against Prior Liens. *The Borrower agrees not to create or assume any Lien upon Borrower's Property other than the Permitted Encumbrances.*

Limited Permitted Encumbrances. *The Borrower is subject to a restrictive set of allowable encumbrances it may incur pursuant to the Loan Agreement.*

Debt Service Reserve. *The Bonds shall be secured by a Bond Reserve Fund that will be funded at the time of issuance of the Bonds in an amount equal to maximum annual debt service on the Bonds or such lesser amount as shall be required to comply with applicable federal tax rules. The Bond Reserve Fund is available to make principal and interest payments if the Borrower fails to deposit timely loan payments.*

Debt Service Coverage Requirement. *The Loan Agreement and the Regulatory Agreement will contain a debt service coverage requirement based on not less than 1.25 times annual debt service for the Borrower. A debt service coverage requirement is a ratio measuring ability to make interest and principal payments as they become due by assessing the amount of revenue available to meet debt service payments. This ratio can be based either on annual debt service for the next 12-months or maximum annual debt over the life of the bonds.*

Additional Debt Limitation. *The Borrower agrees not to incur additional Indebtedness unless authorized by such Borrower's Loan Agreement.*

Disposition of Cash and Property Limitations. *The Borrower agrees not to sell, lease or dispose of any property, plant or equipment or liquid assets unless authorized by such Borrower's Loan Agreement.*

Comply with SEC Rule 15c2-12. *The Borrower will take such action as is necessary to comply with SEC Rule 15c2-12. The rule prohibits underwriters from underwriting municipal bond deals unless the issuer or borrower contractually agrees to disclose designated financial and operating information to the marketplace during the life of the bonds and to report designated "material events" such as missed debt service payments, any change in bond ratings, defeasance, redemptions, etc.*

Cash Requirements. *The Borrower promises to annually measure the balance of their cash and cash equivalent assets and maintain them at a 30 days cash on hand level.*

Current Ratio Requirement. *The Borrower promises to annually measure the current ratio and maintain such at 1.50x.*

Staff has reviewed the entirety of this financing package and finds it to be acceptable.

III. FINANCIAL STATEMENTS AND ANALYSIS:

Gateways Hospital and Mental Health Center Income Statement of Operations

	As of June 30,		
	2010	2009	2008
Revenue			
Patient services revenue, net*	\$ 24,404,218	\$ 23,707,163	\$ 21,853,437
Allocation and grants	131,723	156,150	326,703
Other revenue	246,801	188,261	957,731
Net assets released form restrictions	-	-	31,133
Total revenue	<u>24,782,742</u>	<u>24,051,574</u>	<u>23,169,004</u>
Expenses:			
Salaries and wages	15,950,250	15,536,398	14,687,575
Professional fees	2,338,032	2,279,195	1,979,667
Purchased services	994,197	1,062,420	1,013,176
Rents and leases	1,315,055	1,316,406	1,299,614
Supplies	1,954,427	1,785,784	1,696,595
Utilities	476,069	430,334	391,760
Insurance	291,627	305,540	361,868
Depreciation and amortization	351,388	413,059	323,305
Other	557,603	535,126	538,348
Total Expenses	<u>24,228,648</u>	<u>23,664,262</u>	<u>22,291,908</u>
Increase in net assets from operating activities	554,094	387,312	877,096
Investment income (loss)	341,505	(368,807)	(37,160)
Gain on sale of property	5,853	100	-
Total nonoperating revenue (expense)	<u>347,358</u>	<u>(368,707)</u>	<u>(37,160)</u>
Change in net assets	901,452	18,605	839,936
Unrestricted net assets at beginning of year	<u>7,575,558</u>	<u>7,556,953</u>	<u>6,717,017</u>
Unrestricted net assets at end of year	<u>\$ 8,477,010</u>	<u>\$ 7,575,558</u>	<u>\$ 7,556,953</u>

Net Patient Services (FYI June 30, 2011)*

<u>Payers Source</u>	<u>Percent</u>
L.A County Department of Mental Health	64.0%
California State Department of Mental Health	16.0%
Federal Bureau of Prisons	7.8%
Private Patients, Insurance and Other	5.7%
Grants and Contributions	4.5%
L.A County Department of Children & Family Services	2.0%
	<u>100%</u>

**Gateways Hospital and Mental Health Center
Balance Sheet**

	As of June 30,		
	2010	2009	2008
Assets			
Current assets:			
Cash and cash equivalents	\$ 3,286,857	\$ 3,462,625	\$ 1,694,382
Investments	3,006,189	3,196,722	4,584,773
Patient receivables, net	817,111	797,254	675,249
Other current assets	386,806	434,950	347,970
Total current assets	<u>7,496,963</u>	<u>7,891,551</u>	<u>7,302,374</u>
Property and equipment, net	4,997,032	4,571,612	4,324,422
Investment in partnership	925,000	925,000	925,000
Note receivable ^(a)	1,470,844	-	-
Other assets	33,901	33,901	33,901
Total assets	<u>\$ 14,923,740</u>	<u>\$ 13,422,064</u>	<u>\$ 12,585,697</u>
Liabilities and net assets			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 644,758	\$ 586,265	\$ 637,361
Accrued salaries and employee benefits	1,171,266	1,146,170	969,915
Due to government programs and third parties	1,963,552	2,191,282	1,540,457
Current maturities on long-term debt	49,134	36,943	38,036
Deferred income	203,631	151,219	71,405
Total current liabilities	<u>4,032,341</u>	<u>4,111,879</u>	<u>3,257,174</u>
Long-term debt	1,433,180	753,418	790,361
Other liabilities	53,719	53,719	53,719
Total liabilities	<u>5,519,240</u>	<u>4,919,016</u>	<u>4,101,254</u>
Net assets:			
Unrestricted	8,477,010	7,575,558	7,556,953
Temporarily restricted	927,490	927,490	927,490
Total net assets	<u>9,404,500</u>	<u>8,503,048</u>	<u>8,484,443</u>
Total liabilities and net assets	<u>\$ 14,923,740</u>	<u>\$ 13,422,064</u>	<u>\$ 12,585,697</u>

Financial Ratios:

**Proforma ^(b)
FYE June 30, 2010**

Debt Service Coverage of Operating Income (x)	2.74	18.71	15.89	21.77
Debt Service Coverage of Unrestricted Net Assets (x)	3.24	25.79	8.69	21.10
Debt to Unrestricted Net Assets (x)	0.95	0.15	0.09	0.09
Margin (%)		2.24	1.61	3.79
Current Ratio (x)		1.86	1.92	2.24

^(a) In June 2010, Gateways has purchased a commercial property real estate mortgage loan for approximately \$1.47 million, which was originally made with another mortgagee. The note is collateralized by a commercial building and improvements for Hill Street property.

^(b) Recalculates FYE June 2011 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

Gateways' income statement appears to exhibit solid operating results over the review period with positive operating margins and revenue growth.

In FY 2010, the total change in net assets was approximately \$901,452, a 7.32% increase from \$839,936 in FY 2008. Gateways reports that the increase in net assets can be attributed to increases in realized gains in investments and patient services revenue for (1) inpatient services that provide intensive therapy to adults and adolescents in need of acute psychiatric evaluation, stabilization and treatment, (2) ambulatory services that provide homeless occupancy, shelter, outpatient and residential and vocational programs, and (3) forensic services that comprise all of the residential and outpatient programs for criminal system clients diagnosed as mentally ill.

Particular Facts to Note:

- Gateways' total patient visits appear to have grown 11.13% over the review period from 91,375 in FY 2008 to 101,546 in FY 2010, which Gateways attributes to an increase in demand for inpatient, ambulatory and forensics services. Gateways has indicated there is a need for additional forensic services with Los Angeles County and that Gateways has a verbal commitment from the County to increase utilization by an additional 60 beds once the Hill Street facility is completed. In addition, Gateways reports that ambulatory residential programs are expected to grow as a result of in-place contracts for Percy Village effective in FY 2010.
- During FY 2009, Gateways appears to have experienced an unrealized loss of approximately \$369,000 in investments which Gateways attributes to market and economic volatilities. As a result of these volatilities, Gateways indicates that it decreased its investment assets at the end of FY 2009. In FY 2010, the unrealized gains in investments grew approximately \$342,000, a 192.60% increase from FY 2009.
- In FY 2008, Gateways received a one-time grant of approximately \$550,000 in other revenue for the development of a new Patient Accounting System.
- Gateways is not aware of any anticipated funding cuts at the State or County level. In addition, Gateways has prepared a five-year strategic plan addressing its funding sources as well as new programs to enhance Gateways as an organization. Gateways also enjoys specialized programs funded by the State, specific to forensics services, for which there are currently few competing providers.
- Gateways' FY 2011 unaudited income statement appears to exhibit a decrease in operating results during the interim period ending June 30, 2011 (which Gateways attributes to the costs associated with financing the Percy Village and Hill Street facilities), yet the operating margin is an adequate 0.13x.

Financial Discussion – Statement of Financial Position (Balance Sheet)

Gateways' balance sheet exhibits solid financial strength with a proforma debt service coverage ratio of 2.74x.

Gateways' balance sheet shows continued growth with good liquidity and significant financial resources over the review period with total net assets increasing approximately \$8.4 million from FY 2008 to \$9.4 million in FY 2010, an increase of nearly 10.84%. Gateways attributes this increase to growth in patient services revenue, property and equipment, and unrealized gains in investments. The operating debt service coverage ratio for FY 2010 appears strong at 18.71x, and with the proposed financing, the proforma operating debt service coverage ratio will decrease to an acceptable 2.74x.

Particular Facts to Note:

- Gateways' total assets appear to have increased by approximately 18.58% from \$12.6 million in FY 2008 to \$14.9 million in FY 2010, which Gateways attributes to a new patient accounting system and a mortgage loan granted for the Hill Street facility (noted for note receivable).
- In FY 2009, Gateways experienced an unrealized loss in investments of approximately \$368,807 which Gateways attributes to general financial market fluctuations even though Gateways had taken steps to reduce its exposure to market volatilities in FY 2009 by decreasing its investment assets by approximately 30.28% from \$4.6 million in FY 2008 to \$3.2 million in FY 2009. Gateways increased its cash and cash equivalents by approximately 104.36% from \$1.69 million in FY 2008 to \$3.46 million in FY 2009.
- With the proposed financing, the debt to unrestricted net assets ratio appears to be highly leveraged with 0.95x; however, it remains an acceptable level not exceeding 1.0x.
- Gateways' unaudited financial statements from FY 2010 to the interim period ending June 30, 2011 displayed a solid growth in net assets, an increase of 6.97% from \$9.4 million to \$10.1 million, which appears to be consistent with prior year trends.

IV. DUE DILIGENCE:

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

- **Section 15438.5(a) of the Act (Savings Pass Through):** Gateways properly completed and submitted the “Pass-Through Savings Certification,” in addition to a narrative explaining how it intends to pass through savings.
- **Section 15491.1 of the Act (Community Service Requirement):** Gateways properly completed and submitted this certification and indicated that Medi-Cal and Medicare patients are accepted.
- **Compliance with Seismic Regulations:** Gateways properly submitted a description of its organization’s progress toward complying with OSHPD seismic evaluation regulations.
- **Compliance with Section 15455(b) of the Act (California Environmental Quality Act):** Gateways properly submitted documentation to the Authority, where applicable, demonstrating that each proposed project has either complied with Division 13 (commencing with Section 21000) of the Public Resources Code, or is otherwise not a “project” under that division.
- **Religious Due Diligence**
- **Legal Review**

EXHIBIT 1
FINANCING TEAM

Trustee: U.S Bank Corporate Trust Services

Trustee Counsel: Dorsey & Whitney LLP

Bond Trustee: U.S Bank Corporate Trust Services

Rating Agency: Standard & Poor's Ratings Services

Underwriter: Piper Jaffray & Co.

Co-Underwriter: Edward D. Jones L.P

Issuer's Financial Advisor: Public Financial Management, Inc.

Issuer's Financial Analyst: Macias Gini & O'Connell, LLP

Issuer's Counsel: Attorney General Office

Bond Counsel: Quint & Thimmig LLP

Corporate Counsel: Law Offices of Harvey Richelson

Disclosure Counsel: Wilson Law Group

Borrower Financial Advisor: H.G. Wilson Consulting

Auditor: Vavrinek, Trine, Day & CO., LLP

EXHIBIT 2

UTILIZATION STATISTICS

	As of June 30,		
	2008	2009	2010
Total Patient (Admits)	1,989	1,811	1,894
Visits:			
Inpatient	930 admits/11,740 days	930 admits/12,733 days	920 admits/12,214 days
Ambulatory			
Homeless Shelter	4,270	4,274	3,612
Percy Village	21,436	27,212	30,144
Homeless Outpatient	3,395	2,981	3,030
Adolescent Outpatient	2,264	1,816	1,718
Wraparound	3,366	7,388	4,705
Total	<u>34,731</u>	<u>43,671</u>	<u>43,209</u>
Forensics			
Resident Reentry Program	21,297	21,748	24,334
Normandie Village	11,610	13,678	12,866
Community Treatment	7,218	8,582	8,235
Satellite Programs	16,519	15,145	12,902
Total	<u>56,644</u>	<u>59,153</u>	<u>58,337</u>
Total Visits	91,375	102,824	101,546
Number of Facilities	8	8	8
Total Employees	286	308	310

EXHIBIT 3
OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding As of June 30, 2010 ^(a)</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
-EXISTING LONG-TERM DEBT:			
California Emergency Housing and Assistance Program (EAP) - Note Payable, 2008	\$ 500,000	\$ 500,000	\$ 500,000
Center Bank - Note Payable, 2010	732,500	728,896	-
CHFFA HELP II - Note Payable, 2003	150,000	62,865	43,153
California Energy Commission Note Payable - 2006	257,491	190,553	167,991
- PROPOSED NEW DEBT:			
<i>CHFFA Series 2011 A&B</i>			8,225,000
- TOTAL DEBT		\$ 1,482,314	\$ 8,936,144

(a) Includes current portion of long-term debt.

EXHIBIT 4

BACKGROUND, GOVERNANCE AND LICENSURE

Background

Gateways Hospital and Mental Health Center (“Gateways”) is a 501(c)(3) nonprofit public corporation established in 1953 for the primary purpose of operating mental health facilities, housing and an acute psychiatric hospital to serve the needs of mentally ill, emotionally disturbed and maladjusted adults and adolescents who may benefit from in-patient, outpatient, rehabilitation services, treatment and care, and housing.

Gateways provides mental health care services through six facilities grouped into “campus” locations: the main hospital or main campus has an acute psychiatric hospital, adolescent outpatient program and adult residential facility; two campuses providing adult residential facility services to adult mentally ill; one satellite campus with programs for the forensic mentally-ill; one outpatient forensic program; and one campus providing mental health services to the homeless. The campuses primarily serve judicially committed individuals as well as uninsured, low-income and underinsured residents of the Los Angeles County community. Gateways owns operational facilities and leases four other operational facilities. All such facilities are located in the County of Los Angeles, California.

Corporate Governance

Gateways is governed by a Board of Directors (the “Board”), that consists of not less than nine and no more than 30 members. Prospective Board Members are appointed by a majority of the Board for a continuous term until their resignation or ineligibility. The Board is the policy-making body of Gateways with the power to approve Gateways annual budget, approve grant applications, incur indebtedness on behalf of Gateways and hire, evaluate and/or discharge the Chief Executive Officer of Gateways, among other powers.

Licensure and Memberships

Gateways is an eligible provider under Medi-Cal and Medicare and its adult residential facilities are licensed by the State of California, Department of Social Services.