

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

Applicant: Coalition for Elders Independence (CEI) AKA: Center for Elders Independence 1955 San Pablo Avenue Oakland, CA 94612 Alameda County		Amount Requested: \$400,000 Requested Loan Term: 15 years Date Requested: July 31, 2003 Resolution Number: HII-153	
Project Site: 510 17 th Street, Oakland, CA 94612 Facility Type: Community Clinic			
Policy Issue: Under the HELP II Loan Program guidelines, a first position lien is generally required on property and gross revenues. Staff recommends approval of an exception to this guideline. Please refer to page 1 of the Staff Summary and Recommendation for more detailed information.			
Use of Loan Proceeds: Loan proceeds will be used to purchase an office building to house CEI's administrative offices to support program activity.			
Type of Issue: HELP II Loan Prior HELP II Borrower: No			
Financial Overview: CEI's patient base has grown during our review period. CEI has achieved positive operating results through good management of revenues and expenses. CEI's balance sheet is solid with significant financial resources and relatively minimal long-term debt.			
Sources of Revenue: (FYE 6-30-02)		<u>Amount</u>	<u>Percent</u>
Medi-Cal Reimbursement	\$12,619,012	64.6%	
Medicare CAP	5,549,590	28.4%	
Contributions	540,251	2.8%	
Foundation Grants	292,849	1.5%	
Net Assets Released from Restrictions	203,305	1.0%	
Interest Income	74,728	0.4%	
Other	<u>240,477</u>	<u>1.3%</u>	
Total revenue	<u>\$19,520,212</u>	<u>100.0%</u>	
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II loan	\$400,000	Purchase of building	\$3,986,500
NCBDC direct loan*	3,186,500	Renovation of purchased building	350,000
Proceeds from the Sale of 20 th St.**	<u>900,000</u>	Financing costs	<u>150,000</u>
Total Sources	<u>\$4,486,500</u>	Total Uses	<u>\$4,486,500</u>
* Subject to final approval by the underwriting department of the National Cooperative Bank Development Corporation. ** This property is currently in escrow and is scheduled to close on or before July 31, 2003.			
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 the Coalition for Elders Independence, subject to final approval of the NCBDC direct loan and the standard HELP II loan provisions.			

STAFF SUMMARY AND RECOMMENDATION

Coalition for Elders Independence (CEI)

July 31, 2003

Resolution Number: HII-153

POLICY ISSUE: Under the HELP II Loan Program guidelines, the Authority requires a first position lien on the secured property and a gross revenue pledge. CEI is financing the project using a NCBDC direct loan, HELP II loan and borrower internal funds. Since the loan to value ratio meets the Authority's guidelines of 95% and given CEI's solid financial condition and successful operating history, staff recommends the Authority accept a 2nd position lien on the property and third lien position on gross revenues.

PURPOSE OF FINANCING: It is necessary for CEI to locate new office space to house its administrative offices, which are being displaced by the sale of their current administrative site (605-609 20th Street) to the City of Oakland. The sale of the existing site is required by eminent domain. CEI's management has determined that the purchase of the proposed office building would be the most efficient and effective manner to replace the existing administrative offices.

Purchase of building at 510 – 17th Street\$3,986,500

CEI entered into a written contract to purchase this existing four-story office building. CEI will occupy the fourth floor (6,600 square feet) and also have full use of the basement (7,990 square feet). The other three floors will be occupied by the existing long-term occupants for-profit businesses. The First floor (7,100 square feet) is leased by The Shadow Group, LLC. This lease is effective May 2003 through May 2010 at \$10,650 per month and has a personal guaranty by a third party of all sums payable by Lessee. The third floor (6,505 square feet) is leased by Townsend Technologies, Inc. This lease is effective September 2002 through August 2005 at \$8,100 per month. The current owner has agreed to lease the second floor (6,505 square feet) at a rate of \$10,733 per month for 3 years with a 4% annual increase. The total leasable space of 20,110 square feet will generate annual lease revenues of \$353,799. The estimated annual payments for the 1st mortgage with NCBDC is \$240,000 and the 2nd mortgage with the Authority is estimated to be \$33,000, thus the proposed annual debt service is \$273,000. The estimated utility costs associated with leased facilities (floors 1 through 3) are \$75,000. In conclusion, the estimated positive net cash flow related to this purchase is \$5,000 annually.

CEI will occupy 6,600 square feet of the 26,710 total building space, thus approximately 25% of the building space will be used for eligible purposes in accordance with the Authority's regulations. The Authority will only fund approximately 10% (\$400,000/\$3.986M) of the total purchase price, thus Authority funds shall be allocated to the eligible purpose only, which is to house the administrative staff of CEI on the fourth floor.

The existing administrative offices are located on 20th Street (property is in escrow with the estimated close of escrow date of July 31, 2003) and are 4,344

square feet. The fourth floor of the proposed building is 6,662, an increase of over 50% in square footage. Given the consistent growth in CEI's client base, it is critical that its infrastructure and administrative capacity be able to expand to support services to the low-income elderly population. This new office space will support future expansion and the acquisition of additional program sites.

The existing site on 20th street has a \$237,000 loan payable to Richard Roti, the prior owner of the building who carried back a note on the property. CEI will continue to make payments on this note in the amount of \$3,000 per month, as he will transfer his security interest from the 20th street property to the 4th lien position on the property on 17th Street.

***Minor Renovation of the Purchased Building*350,000**

***Financing Costs* 150,000**

NCBDC Fees\$32,000
 Title/Escrow/Miscellaneous63,000
 Legal/Financial Advisory Services.....50,000
 Authority Fee5,000

***Total*.....\$4,486,500**

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 \$92,219.
- Second position lien on the new property located at 510 17th Street, Oakland, California (subordinate to NCBDC's direct loan).
- Third position lien on the gross revenue pledge (subordinate to Cal-Mortgage and NCBDC's direct loan respectively).
- Estimated value of collateral securing this loan is \$4 million, leading to a combined loan to value ratio of 95%
- Estimated interest rate for the NCBDC direct loan is 6.0%, over a term of 25 years, with a \$20,000 monthly payment.
- Expected liens on the proposed project will be as follows:
 - 1st Lien – NCBDC direct loan - \$3.186M
 - 2nd Lien – CHFFA - \$400,000
 - 3rd Lien – Cal-Mortgage * - n/a – blanket lien
 - 4th Lien – Richard Roti - \$231,000

* Staff has received written approval from Cal-Mortgage for CEI to obtain additional indebtedness of \$3.6 million to acquire real property located at 510 17th Street. Cal-Mortgage will have a 1st lien position on gross revenues, as a result of a prior transaction.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Coalition for Elders Independence

Statement of Activities

Unrestricted

	<u>Ten-Months</u>	<u>For the Year Ended June 30,</u>		
	<u>Period Ended</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
	<u>April 2003</u>			
	<u>(Unaudited)</u>			
REVENUES				
Medi-Cal Reimbursement	\$ 9,505,868	\$12,619,012	\$ 9,497,801	\$ 6,846,042
Medicare CAP	4,517,147	5,549,590	4,319,435	3,329,331
Interest income	25,418	74,728	99,497	42,621
Net assets released from restrictions	-	203,305	433,391	207,329
Other	182,593	1,073,517	371,914	353,436
Total revenues	<u>14,231,026</u>	<u>19,520,152</u>	<u>14,722,038</u>	<u>10,778,759</u>
EXPENSES				
Salaries	5,832,934	7,179,328	5,757,311	5,255,789
Payroll taxes and fringe benefits	1,232,716	1,607,404	1,045,920	865,413
Contract services	890,769	1,465,641	941,020	609,677
Hospital	991,822	1,138,303	596,545	331,681
Nursing home fees	1,277,066	1,006,559	515,056	521,963
Pharmacy	657,865	725,150	490,961	319,954
Rent - facilities	430,945	585,426	326,025	116,832
Bad debts	75,426	487,286	313,088	46,424
Meals	385,305	476,061	350,124	224,845
Supplies	336,473	425,365	419,472	255,583
Medical specialists	324,629	330,899	231,277	151,007
Dialysis	218,242	271,078	165,390	155,556
Treatment room	155,512	208,082	74,205	41,259
Telephone and answering services	99,121	176,149	97,351	78,422
Rent - equipment	243,416	153,692	78,551	77,237
Equipment	59,682	128,520	36,647	30,618
Repairs and maintenance	92,454	93,491	53,332	5,671
Ambulance	91,116	93,433	55,243	13,515
Utilities	78,222	76,940	53,165	35,277
Travel	32,940	76,838	49,742	33,569
Auto maintenance	55,098	76,170	65,792	60,766
Miscellaneous	44,387	74,063	25,691	4,979
Insurance	98,244	71,433	135,185	61,210
Membership	22,892	69,442	23,430	9,737
Recruiting	23,075	63,693	43,087	36,369
Professional services	217,942	57,107	173,687	63,443
X-ray	50,005	55,074	52,026	36,272
Auto, gas and oil	46,508	54,368	51,260	48,101
Depreciation and amortization	180,002	225,198	195,975	180,829
Other	293,654	124,344	580,056	632,384
Total expenses	<u>14,538,462</u>	<u>17,576,537</u>	<u>12,996,614</u>	<u>10,304,382</u>
Increase in unrestricted net assets	<u>(307,436)</u>	<u>1,943,615</u>	<u>1,725,424</u>	<u>474,377</u>
Unrestricted net assets, beginning of year	<u>\$ 5,297,027</u>	<u>\$ 3,353,412</u>	<u>\$ 1,627,988</u>	<u>1,153,611</u>
Unrestricted net assets, end of year	<u>\$ 4,989,591</u>	<u>\$ 5,297,027</u>	<u>\$ 3,353,412</u>	<u>\$ 1,627,988</u>

Coalition for Elders Independence

Balance Sheet

	As of March 31, 2003 (Unaudited)	2002	As of June 30,	
			2001	2000
Assets				
Current assets:				
Cash and cash equivalent	\$ 4,496,894	\$ 4,851,494	\$ 3,184,034	\$ 434,063
Accounts receivable	631,051	577,321	1,286,017	1,766,949
Grants receivable	18,293	34,162	211,162	444,547
Prepayments	58,135	58,136	44,231	68,735
Total current assets	5,204,373	5,521,113	4,725,444	2,714,294
Property, plant and equipment	2,931,360	2,854,733	1,737,272	1,696,741
Less: Accumulated depreciation and amortization	(1,361,618)	(1,181,616)	(956,418)	(814,218)
Total assets	\$ 6,774,115	\$ 7,194,230	\$ 5,506,298	\$ 3,596,817
Liabilities and net assets				
Current liabilities:				
Accounts payable	\$ 746,560	\$ 817,698	\$ 937,110	\$ 256,849
Medical and other accrued expenses	-	-	-	23,107
Accrued salaries and related benefits	-	76,821	222,142	214,549
Accrued vacation	315,957	315,956	226,308	215,368
Lease payable	8,610	40,288	47,754	67,293
Loan payable	-	-	-	42,722
Note payable	9,000	36,000	-	-
Deferred revenue	-	-	32,398	28,746
Incurred but unreported expense	111,528	17,511	139,713	315,187
Total current liabilities	1,191,655	1,304,274	1,605,425	1,163,821
Long term liabilities:				
Line of credit	-	-	83,133	-
Note payable	237,000	237,000	-	-
Lease payable	4,390	4,390	51,679	118,968
Total long term liabilities	241,390	241,390	134,812	-
Total liabilities	1,433,045	1,545,664	1,740,237	1,282,789
Net assets:				
Unrestricted	4,989,591	5,297,027	3,353,412	1,627,988
Temporarily restricted	351,479	351,479	412,649	686,040
Total net assets	5,341,070	5,648,506	3,766,061	2,314,028
Total liabilities and net assets	\$ 6,774,115	\$ 7,194,170	\$ 5,506,298	\$ 3,596,817

Financial Ratios:

	Proforma (1) FYE 2002			
Debt Service Coverage (x)	7.05	72.25	90.02	10.66
Debt/Unrestricted Net Assets (x)	0.76	0.05	N/A	N/A
Margin (%)		9.96%	11.72%	4.40%
Current Ratio (x)		4.23	2.94	2.33

Financial Discussion:

CEI's patient base has grown during our review period. CEI has achieved positive operating results through good management of revenue and expenses.

CEI has maintained solid growth in revenue during our review period. Medi-Cal reimbursements have increased by 84%, while Medicare CAP has increased by 66%. This increase is due to the increase in the number of patients. CEI's patients has grown from 172 as of July 1999 to 334 as of June 2002. Correspondently, operating revenue and expenses have increased 79% and 75.4% over this period.

During our review period (fiscal year 00-02), CEI has experienced three very solid years of operations with an increase in unrestricted net assets ranging from \$475,000 to \$1.94M. The current year interim financials exhibit a small decline in the unrestricted net assets due to the following three reasons:

- 1) Actual Med-Cal reimbursement has declined due to more stringent Med-Cal reimbursement formulas.
- 2) Fiscal year 2002's increase in unrestricted net assets are unusually high due to a one-time \$750,000 medicare reimbursement of revenues for previous fiscal years 1998-2001.
- 3) Salary costs were approximately \$700,000 higher in fiscal year 2003. In order for CEI to retain and/or recruit qualified staff, CEI implemented an across the board salary increase. CEI had not provided a salary increase in almost three years prior to this one. This increase is not readily apparent in the income statement for FY 2003 when compared to FY 2002, as fiscal year 2002 salary costs are unusually high due to one-time Grant Programs, which were implemented, thus increasing salary costs by \$527,000.
- 4) Nursing home fees were higher by approximately \$270,000 due to higher utilization of patient stays in skilled nursing facilities.
- 5) Professional fees were \$160,000 higher due to the higher use of outside consultants associated with the preparation of the application for the Federal PACE certification and outside consultants used to fill vacant administrative staff positions.

CEI operations could potentially continue to grow with the additional office space obtained with the purchase of this office building. CEI has an opportunity to obtain an additional 2,300 square feet of office space at no additional costs in monthly debt service payments, as lease income will more than offset the higher debt service payments associated with the larger facility. In addition, CEI should have consistent lease revenue income for at least the next couple years when two of the three leases expire.

CEI's balance sheet is solid with significant financial resources and relatively minimal long-term debt.

CEI's long-term debt is moderate with approximately \$241,000 compared to \$4.9 million in unrestricted net assets, leading to a favorable debt to unrestricted net assets ratio of only .04. CEI's unrestricted net assets have increased over our review period from \$1.6M to \$4.9M, an increase of 206%.

The proforma debt service ratio is a solid 7.05x. This indicates that CEI should be able handle the debt service payments for the HELP II loan and NCBDC direct loan.

III. UTILIZATION STATISTICS:

Coalition for Elders Independence

<u>Type of Service</u>	<u>11 Months</u>	<u>Fiscal year ending June 30,</u>		
	<u>Ended May 31,</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
	<u>2003</u>			
Total Number of Patients	395	392	346	267

IV. ORGANIZATION:

Background: CEI was created in the late 1980s through the joint efforts of three entities established in the East Bay: Community Adult Day Health Services, Inc. (CA DHS), Oakland, started in 1982 as Alameda County's first adult day health program and grew over the next few years to be its largest; secondly, the Over 60 Health Center, Inc. based in Berkeley, the nation's first community health center dedicated to serving the needs of the elderly, finally, the Spanish Speaking Unity Council, a community development agency in Oakland. These three organizations identified a promising model (subsequently called PACE) of comprehensive, community-based case underway on On Lok Senior Services in San Francisco. There was both a clearly documented need for such a program in the East Bay, as well as strong and diverse community support. Thus motivated, CEI successfully applied to become a PACE replication site.

Using primarily grants from local foundations, CEI spent the first three years developing a business plan forming a board of directors, and stabilizing core PACE programs. Starting with an initial census of 20 participants are eligible for both Medicare and Medi-Cal. During the same period, CEI has grown from one to three sites, beginning with a service area that was primarily the City of Oakland to covering all of northern and central Alameda County and parts of west Contra Costa County. With the opening of the last site in 2001, Eastmont Town Center, CEI has the capacity to serve upwards of 450 participants in Alameda and Contra Costa counties.

The three sites are as follows:

Eastmont Town Center – 7200 Bancroft Avenue, Oakland

San Pablo Site – 1955 San Pablo Avenue, Oakland

Berkeley site – 1497 Alcatraz Avenue, Berkeley

Participants receive a customized care plan that includes comprehensive acute and long-term care services designed to help frail elders postpone or avoid nursing home placement and live independently in the community. CEI delivers services at its three facilities and at participants' homes. CEI's interdisciplinary team of physicians, nurses, physical and occupational therapists, social workers, dietitians, home care workers and activities coordinators provides the following:

- Primary medical and nursing care
- Physical and occupational therapy
- Recreational therapy programs including art, music, drama, support groups and field trips
- Individual and family counseling and health education
- In-home attendant and home care services including health care, personal care, homemaker/chore services and meals
- Pharmacy services
- Transportation

Licenses: CEI's facilities are licensed with the State Department of Health Service as Community Clinics, Adult Day Health Centers and Home Health Agency.

Contracts: Medi-Cal and Medicare.

Service Area and Competition: CEI service Northern Alameda County and part of West Contra Costa County. The area includes Oakland, Emeryville Piedmont, Alameda, Berkeley, Albany, Kensington, Richmond, El Cerrito, El Sobrante, San Leandro, San Lorenzo, Castro Valley and Hayward. CEI is the sole provider of PACE facilities in the service area.

V. OUTSTANDING DEBT:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 6/30/02 (audited)</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
Richard Roti, 2001 (20 th St. bldg.)*	\$300,000	\$237,000	\$237,000
Citibank (purchase phone system)	24,500	4,390	4,390
Proposed:			
CHFFA HELP II Loan, 2003		N/A	400,000
NCBDC DIRECT LOAN, 2003		N/A	3,186,500
TOTAL DEBT		<u>\$241,390</u>	<u>\$3,827,890</u>

* The 20th Street building is in escrow and should close on July 31, 2003. CEI will continue to make payments on this note in the amount of \$3,000 per month by transferring a security interest from the 20th Street property to the 4th lien position on the property on 17th Street.

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.

CEI 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) and 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".

CEI 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 OPARC, subject to final approval of the HealthCAP loan, NCBDC's direct loan or other acceptable lender to the Authority and the standard HELP II loan provisions.