

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

Applicant: Gateways Hospital and Mental Health Center (the "Center") 1891 Effie Street Los Angeles, CA 90026 Los Angeles County		Amount Requested: \$150,000	
Project Sites: 415 – 423 Hoover Street		Requested Loan Term: 10 years	
Facility Type: Acute Psychiatric Hospital		Date Requested: October 30, 2003	
		Resolution Number: HII-154	
Policy Issue: Under the HELP II Loan Program guidelines, a first position lien is generally required on property. 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 renovate four existing facilities to house mentally ill homeless adults and provide space for support services.			
Type of Issue: HELP II Loan			
Prior HELP II Borrower: No			
Financial Overview: During our review period, the Center has experienced a steady number of clients resulting in a positive trend of patient service revenues. The Center's balance sheet continues to improve and 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>	
Patient services revenues, net	\$13,330,666	89.7%	
Net assets release from restriction	1,037,269	7.0%	
Other revenues	324,764	2.2%	
Allocations and grants	<u>166,800</u>	<u>1.1%</u>	
Total revenue	<u>\$14,859,499</u>	<u>100.0%</u>	
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
State Emergency Housing Assistance Program (EHAP)	\$500,000	Renovation of buildings	\$653,500
HELP II loan	150,000	Financing costs	<u>4,000</u>
Borrower's funds	<u>7,500</u>		
Total Sources	<u>\$657,500</u>	Total Uses	<u>\$657,500</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 a HELP II loan in an amount not to exceed \$150,000 for a term not to exceed 10 years for Gateways Hospital and Mental Health Center subject to the standard HELP II loan provisions and submission of 2003 audited financial statements to be materially consistent with the unaudited fiscal year 2003 financial statements presented in this summary.			

STAFF SUMMARY AND RECOMMENDATION

**Gateways Hospital and Mental Health Center
(the "Center")**

October 30, 2003

Resolution Number: HII-154

POLICY ISSUE: Under the HELP II Loan Program guidelines, the Authority requires a first position lien on the secured property. The former owner of the properties has the first position lien on the properties. Since the loan to value ratio meets the Authority's guidelines at 95% and given the Center's solid financial condition and successful operating history, staff recommends the Authority accept a second position lien on the properties.

I. PURPOSE OF FINANCING: Gateways Hospital and Mental Health Center is renovating four existing facilities to be used for shelter and support services.

Renovation of four existing buildings\$653,500

The Center is proposing to renovate four of its existing buildings located on two parcels of land that are immediately adjacent to the Center's existing housing campus. The Center will create two emergency shelter facilities each with six beds while the remaining two facilities will be used for office space, counseling space, general living room space, a kitchenette, laundry facilities and outdoor space. Support services will include food, clothing, shelter, physical and mental health assessment, counseling, medications, and linkages with transitional housing providers.

The Center secured a \$500,000 grant from the Emergency Housing Assistance Program of the Department of Housing and Community Development, which was approved on June 28, 2001. Renovations are expected to begin in November 2003 and it is anticipated that the renovations will be completed by January 2004.

A property appraisal dated August 1, 2003, identified the value of the properties "as improved" at \$1,115,000 leading to a combined loan to value ratio of 25%.

Financing Costs 4,000

Authority Fee1,875
Title/escrow fees2,125

Total.....\$657,500

Financing structure:

- 10-year fully amortized loan in the amount of \$150,000.
- 120 equal monthly payments of approximately \$1,449 (total annual payments of \$17,388).
- Total interest payments of approximately \$23,809.
- Estimated value of properties is \$1,115,000, leading to a combined loan to value ratio of 25%.
- Second lien on the properties located at 415 – 423 Hoover Street, Los Angeles, California. (Notes payable, former owner of property has the first lien on the properties. The balance outstanding on the loan is \$125,422).

II. FINANCIAL STATEMENTS AND ANALYSIS:

Gateways Hospital and Mental Health Center Statement of Activities Unrestricted

	<u>For the Year Ended June 30,</u>			
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
	<u>(Unaudited)</u>			
REVENUES:				
Patient services revenues, net	\$13,408,163	\$13,330,666	\$11,993,243	\$11,979,098
Allocations and grants	237,899	166,800	316,557	162,970
Other revenues	185,971	324,764	1,561,213	412,327
Net assets released from restrictions used for operations	-	1,037,269	10,426	370,498
Total revenues	<u>13,832,033</u>	<u>14,859,499</u>	<u>13,881,439</u>	<u>12,924,893</u>
OPERATING EXPENSES:				
Salaries and benefits	9,304,760	9,341,350	8,957,477	9,159,138
Professional fees	1,547,943	1,548,137	1,174,598	1,182,811
Purchased services	605,588	621,590	715,168	634,353
Rents and leases	350,469	267,898	282,414	395,707
Supplies	924,506	948,136	1,113,960	999,824
Utilities	234,010	233,581	345,361	294,946
Insurance	247,882	208,202	178,091	186,350
Depreciation	139,571	162,918	267,835	240,833
Other	335,233	387,782	629,140	452,990
Total operating expenses	<u>13,689,962</u>	<u>13,719,594</u>	<u>13,664,044</u>	<u>13,546,952</u>
Gain (losses) from operations	142,071	1,139,905	217,395	(622,059)
Nonoperating gain (losses):				
Investment income	127,792	4,057	107,015	(40,453)
Gain on sale of assets	669,748	324,927	137,711	-
Transfer of assets	-	-	(4,023,783)	-
Net assets released from restrictions used for purchases of property, plant and equipment	-	-	728,583	1,111,725
Total nonoperating gains (losses)	<u>797,540</u>	<u>328,984</u>	<u>(3,050,474)</u>	<u>1,071,272</u>
Increased (decrease) in unrestricted net assets	939,611	1,468,889	(2,833,079)	449,213
Unrestricted net assets, beginning of year	<u>2,512,217</u>	<u>1,043,328</u>	<u>3,876,407</u>	<u>3,427,194</u>
Unrestricted net assets, end of year	<u>\$ 3,451,828</u>	<u>\$ 2,512,217</u>	<u>\$ 1,043,328</u>	<u>\$ 3,876,407</u>

Gateways Hospital and Mental Health Center
Balance Sheet

	As of June 30,			
	2003	2002	2001	2000
	(Unaudited)			
Assets				
Current assets:				
Cash and cash equivalent	\$ 1,566,759	\$ 1,525,779	\$ 1,328,267	\$ 447,695
Investments	1,138,842	709,276	1,023,825	922,723
Patient receivable, net	1,457,226	870,656	305,803	1,245,784
Pledges receivable	-	-	-	556,517
Other receivables	22,615	-	931,068	14,198
Other current assets	276,802	295,923	281,462	265,945
Total current assets	4,462,244	3,401,634	3,870,425	3,452,862
Property and equipment, net	1,685,006	1,607,480	1,622,996	4,977,565
Other assets	276,655	282,569	33,900	703,599
Total assets	\$ 6,423,905	\$ 5,291,683	\$ 5,527,321	\$ 9,134,026
Liabilities and net assets				
Current liabilities:				
Accounts payable and accrued liabilities	\$ 946,504	\$ 504,848	\$ 800,950	\$ 514,006
Accrued salaries and employee benefits	801,989	734,455	760,298	779,870
Due to government programs and third parties	555,194	832,170	1,145,733	687,506
Current maturities on long-term debt	34,958	34,322	31,749	74,809
Deferred income	528,700	525,000	525,000	-
Total current liabilities	2,867,345	2,630,795	3,263,730	2,056,191
Long term debt	93,272	134,250	168,573	1,316,363
Total liabilities	2,960,617	2,765,045	3,432,303	3,372,554
Net assets:				
Unrestricted	3,451,828	2,512,217	1,043,328	3,876,407
Temporarily restricted	11,460	14,421	1,051,690	1,885,065
Total net assets	3,463,288	2,526,638	2,095,018	5,761,472
Total liabilities and net assets	\$ 6,423,905	\$ 5,291,683	\$ 5,527,321	\$ 9,134,026

Financial Ratios:

	Proforma ⁽¹⁾				
	FYE 2003				
Debt Service Coverage (x)	16.83	22.64	31.52	8.82 ⁽²⁾	7.30
Debt/Unrestricted Net Assets (x)	.13	.07	.07	.19	.36
Margin (%)		1.03%	7.67%	1.57%	(4.81%)
Current Ratio (x)		1.56	1.29	1.19	1.68

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

(2) Debt service coverage is calculated from operations.

Financial Discussion:

During our review period, the Center has experienced a steady number of clients resulting in a positive trend of patient service revenues.

During our review period, the Center has experienced a steady number of clients. However, the number of patient days has decreased while patient service revenues have increased from \$11.9 million in fiscal year 2000 to \$13.4 million in fiscal year 2003, an increase of approximately 12%. This increase in revenue was due to an increase in the per diem rate that the Center is reimbursed for services. In addition, the Adolescent Outpatient program increased from \$500,000 in 2000 and 2001 to over \$1.2 million in 2002 and 2003.

The Center receives a fixed amount of \$3.2 million annually from the State Conditional Release Program patients. This contract is paid to the Center regardless of how many patients the state sends to the Center. Other patient revenues consist of Los Angeles County Department of Mental Health (\$8.5 million) and Bureau of Prisons (\$1.7 million).

In fiscal year 2001, a program of the Center named Beit T'Shuvah (BTS) separated from the Center and became its own company. This resulted in a decrease in assets. The Center gifted over \$4 million in various assets to BTS. The various assets included the property and equipment that BTS was currently using and occupying at the time of separation. In addition, approximately \$400,000 was given to BTS that was remaining in the capital campaign fund.

Management expects that upon completion of the renovations of the new facilities, there will not be any revenues generated with this project. This project is service oriented in nature and will provide emergency shelter to 12 adults. Although the Homeless Program does not generate revenues, the Center has experienced a strong demand for its homeless program services exhibited by the number of clients, which have increased from 75 in fiscal year 2001 to 2,766 in fiscal year 2003. According to management, this project is a preventive measure for mentally ill homeless people. The Center will work with PATH (People Assisting the Homeless) staff in an effort to become familiar with the clients and persuade them to utilize the Center's facilities and services.

The Center's balance sheet continues to improve and is solid with significant financial resources and relatively minimal long-term debt.

The Center's long-term debt is moderate with approximately \$134,250 compared to \$2.5 million in unrestricted net assets, leading to a favorable debt to unrestricted net assets ratio of .07x. The proforma debt service coverage ratio is a solid 16.83. This indicates that the Center should be able handle the debt service payments for the HELP II loan.

III. UTILIZATION STATISTICS:

**Gateways Hospital and Mental Health Center
All Programs**

	<u>Fiscal year ending June 30,</u>							
	<u>2003</u>		<u>2002</u>		<u>2001</u>		<u>2000</u>	
	<u>Days</u>	<u>No. of Clients</u>	<u>Days</u>	<u>No. of Clients</u>	<u>Days</u>	<u>No. of Clients</u>	<u>Days</u>	<u>No. of Clients</u>
Medicare	134	5	33	1	185	7	86	7
Indigent	9,303	592	10,089	614	9,725	601	10,743	649
O/P Visits	<u>55,507</u>	<u>4,884</u>	<u>63,701</u>	<u>4,628</u>	<u>64,154</u>	<u>4,576</u>	<u>59,221</u>	<u>4,567</u>
Totals	<u>64,944</u>	<u>5,481</u>	<u>73,823</u>	<u>5,243</u>	<u>74,065</u>	<u>5,184</u>	<u>70,050</u>	<u>5,223</u>

Homeless Program

	<u>Fiscal year ending June 30,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
	<u>Number of Clients</u>	<u>Number of Clients</u>	<u>Number of Clients</u>
Case Management	273	191	10
Mental Health Services	273	191	10
Outreach	2,163	1,335	55
Life Support	<u>57</u>	<u>0</u>	<u>0</u>
Totals	<u>2,766</u>	<u>1,717</u>	<u>75</u>

IV. ORGANIZATION:

Background: Gateways Hospital and Mental Health Center was established in 1953 as an independent non-profit, non-sectarian institution affiliated with Jewish Federation Council. The Center's mission is to provide facilities, programs, and treatment for the mentally ill, the emotionally disturbed and otherwise maladjusted individuals from pre-teen to older adults. The professional staff includes psychiatrists, psychologists, nurses, therapists, counselors, social workers and a complete range of support personnel.

The Center's primary facility is a 55-bed hospital located in the Echo Park area. In addition, the Center provides outpatient and residential services at other sites throughout the community. Its clients, both inpatient and outpatient, include troubled teenagers and young adults, mentally ill offenders, individuals conditionally released from state hospitals or prisons and homeless mentally ill. The Center also provides outreach services to incarcerated people.

Licenses: The Center is accredited by the Joint Commission on Accreditation of Healthcare Organizations and is licensed as an acute psychiatric hospital by the Department of Health Services.

Service Area and Competition: At the present time, PATH receives 100% of the market share with 104 beds. Once the project is completed the Center will have 12 shelter beds which represents a small portion of the market share.

Health Facility Location	Number of Beds	Market Share (%)	Estimated Distance Away
PATH	104	89%	1 mile
Gateways Hospital and Mental Health Center	12	11%	N/A

V. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 6/30/02 (audited)	Estimated Amount Outstanding After Proposed Financing
Existing:			
Notes payable, former owner of property, 1999 First lien on properties located at 415-423 Hoover Street Los Angeles, CA	\$235,000	\$125,422	\$125,422
Notes payable, San Antonio Community Hospital, 1980 Property located at 12120 Venice Blvd. Los Angeles, CA	42,000	8,062	-0- ⁽¹⁾
City National, 2003 Property located at 440 Hoover Street Los Angeles, CA	116,000		116,000
Proposed: CHFFA HELP II Loan, 2003		N/A	150,000
TOTAL DEBT		\$133,484	\$391,422

(1) Property sold in October 2002.

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.

The Center 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".

The Center 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 \$150,000 for a term not to exceed 10 years for Gateways Hospital and Mental Health Center subject to the standard HELP II loan provisions and submission of 2003 audited financial statements to be materially consistent with the unaudited fiscal year 2003 financial statements presented in this summary.