

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
EXECUTIVE SUMMARY**

<p>Applicant: Aldersly 326 Mission Avenue San Rafael, California (Marin County)</p> <p>Project Sites: Same as above. Facility Type: Continuing care retirement facility.</p>	<p>Amount Requested: \$400,000 Loan Term: 15 years Date Requested: May 27, 2004 Resolution Number: HII-168</p>																								
<p>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.</p>																									
<p>Uses of Bond Proceeds: Loan proceeds will be used to refinance part of the STARTS 1992 Series A bond loan. This refinancing will correct an existing fund shortage and save approximately \$140,000 in interest expense over the life of the loan due to the low interest rate on the HELP II loan.</p>																									
<p>Type of Issue: HELP II Loan Prior HELP II Borrower: No, however, Aldersly is a borrower under the Authority's STARTS 1992 Series A Bonds and 2002 Series A Bonds. Payments Status: Current</p>																									
<p>Financial Overview: Aldersly incurred losses in 2001 and 2002, but shows increasing revenues leading to positive operations in 2003. Aldersly's balance sheet remains strong with good liquidity and a growing net asset balance.</p>																									
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Sources of Revenue: (9/30/03) Unrestricted</th> <th style="text-align: center;"><u>Amount</u></th> <th style="text-align: center;"><u>Percent</u></th> </tr> </thead> <tbody> <tr> <td>Residential care fees</td> <td style="text-align: right;">\$1,698,575</td> <td style="text-align: right;">34%</td> </tr> <tr> <td>Health care center fees</td> <td style="text-align: right;">1,292,587</td> <td style="text-align: right;">26%</td> </tr> <tr> <td>Personal care fees</td> <td style="text-align: right;">122,135</td> <td style="text-align: right;">2%</td> </tr> <tr> <td>Other fees</td> <td style="text-align: right;">628,266</td> <td style="text-align: right;">12%</td> </tr> <tr> <td>Net investment income</td> <td style="text-align: right;">270,550</td> <td style="text-align: right;">5%</td> </tr> <tr> <td>Other income</td> <td style="text-align: right;"><u>1,073,995</u></td> <td style="text-align: right;"><u>21%</u></td> </tr> <tr> <td>Totals</td> <td style="text-align: right;"><u>\$5,086,108</u></td> <td style="text-align: right;"><u>100%</u></td> </tr> </tbody> </table>		Sources of Revenue: (9/30/03) Unrestricted	<u>Amount</u>	<u>Percent</u>	Residential care fees	\$1,698,575	34%	Health care center fees	1,292,587	26%	Personal care fees	122,135	2%	Other fees	628,266	12%	Net investment income	270,550	5%	Other income	<u>1,073,995</u>	<u>21%</u>	Totals	<u>\$5,086,108</u>	<u>100%</u>
Sources of Revenue: (9/30/03) Unrestricted	<u>Amount</u>	<u>Percent</u>																							
Residential care fees	\$1,698,575	34%																							
Health care center fees	1,292,587	26%																							
Personal care fees	122,135	2%																							
Other fees	628,266	12%																							
Net investment income	270,550	5%																							
Other income	<u>1,073,995</u>	<u>21%</u>																							
Totals	<u>\$5,086,108</u>	<u>100%</u>																							
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><u>Sources of Funds:</u></th> <th style="text-align: right;"></th> <th style="text-align: left;"><u>Uses of Funds :</u></th> <th style="text-align: right;"></th> </tr> </thead> <tbody> <tr> <td>HELP II loan</td> <td style="text-align: right;">\$400,000</td> <td>Refinance original bonds</td> <td style="text-align: right;">\$1,665,000</td> </tr> <tr> <td>NCB direct loan *</td> <td style="text-align: right;">1,300,000</td> <td>Refinancing costs</td> <td style="text-align: right;">35,000</td> </tr> <tr> <td>Total Sources</td> <td style="text-align: right;"><u>\$1,700,000</u></td> <td>Total Uses</td> <td style="text-align: right;"><u>\$1,700,000</u></td> </tr> </tbody> </table>		<u>Sources of Funds:</u>		<u>Uses of Funds :</u>		HELP II loan	\$400,000	Refinance original bonds	\$1,665,000	NCB direct loan *	1,300,000	Refinancing costs	35,000	Total Sources	<u>\$1,700,000</u>	Total Uses	<u>\$1,700,000</u>								
<u>Sources of Funds:</u>		<u>Uses of Funds :</u>																							
HELP II loan	\$400,000	Refinance original bonds	\$1,665,000																						
NCB direct loan *	1,300,000	Refinancing costs	35,000																						
Total Sources	<u>\$1,700,000</u>	Total Uses	<u>\$1,700,000</u>																						
<p>* Subject to approval by the underwriting department of the National Cooperative Bank.</p>																									
<p>Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																									
<p>Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan to Aldersly, in an amount not to exceed \$400,000 for a term of 15 years, subject to final approval of Cal-Mortgage, NCB or other acceptable lender to the Authority and the standard HELP II loan provisions.</p>																									

**STAFF SUMMARY AND RECOMMENDATION
ALDERSLY**

May 27, 2004

Resolution Number: HII-168

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. Currently, Cal-Mortgage has the first lien on Aldersly's gross revenues and its sole property, which secures Cal-Mortgage insured \$7.125 million 2002 Series A bonds issued through the Authority. In this proposed refinancing, NCB would have a second position lien on the property and the Authority would have a third position lien. The Authority will also have second position lien on gross revenues. Staff recommends this policy exception because the combined loan to value ratio meets the Authority's guidelines along with Aldersly's solid financial position and viable operating history.

I. PURPOSE OF FINANCING: Aldersly proposes to refinance \$1,665,000 of existing debt under the Authority's STARTS 1992 Series A bonds and refinancing costs of \$35,000 through a combination of a \$400,000 HELP II loan and \$1,300,000 direct loan from NCB. The proposed refinancing will correct an existing shortage in the 1992 bonds debt service reserve fund. This refinancing will also take advantage of lower interest rates that will improve cash flow. The HELP II loan on its own will save approximately \$9,300 per year in loan payments and \$140,000 in interest over the life of the loan due to the lower interest rate of 3%. As a result, additional funds will be available to provide the level of care that the community needs.

***Refinance Original Bonds* \$1,665,000**

Aldersly's bond loan originated as a variable rate bond in the amount of \$2,000,000 under the Authority's STARTS program with a final maturity date of March 1, 2020. Funds were used to finance the construction of a 20-bed skilled nursing facility and social center in San Rafael. On April 22, 1992, the bonds were insured by Cal-Mortgage and converted from variable rate to fixed rate bonds with an average coupon rate of 6.5%.

***Refinancing Costs* 35,000**

1. NCB Fee.....	\$25,000
2. Authority Closing Fee.....	5,000
3. Title/Escrow/Other.....	5,000

***Total Uses of Funds*..... \$1,700,000**

Financing Structure:

The HELP II loan for Aldersly will be structured as follows:

- 15-year loan term with fixed interest rate of 3% per year.
- 180 equal monthly payments of approximately \$2,760 (yearly payments of \$33,150).
- Total interest payments of approximately \$97,200.
- Third position lien on the property located at 326 Mission Avenue, San Rafael, California (subordinate to Cal-Mortgage insured bond loan and NCB direct loan).
- Second position lien on gross revenues behind Cal-Mortgage.
- Estimated value of collateral securing this loan is \$11,000,000 leading to a combined loan to value ratio of 80%.
- Estimated interest rate for the NCB direct loan of 6.00%, over a term of 15 years, with a monthly payment of approximately \$10,970.

II. FINANCIAL STATEMENTS AND ANALYSIS:

ALDERSLY Statements of Activities (Unrestricted)

	For the six	For the year ended September 30		
	months ended	2003	2002	2001
	3/31/2004			
	(Unaudited)			
Unrestricted Revenue:				
Residential care fees	\$ 829,956	\$ 1,698,575	\$ 1,549,807	\$ 1,440,136
Health care center fees	699,983	1,292,587	1,150,169	1,101,936
Personal care fees	113,858	122,135	191,276	202,710
Other fees	267,581	628,266	556,509	494,230
Net investment income	196,410	270,550	62,603	226,139
Other income	666,846	1,073,995	260,403	33,293
Total revenue	<u>2,774,634</u>	<u>5,086,108</u>	<u>3,770,767</u>	<u>3,498,444</u>
Expenses:				
Housekeeping	56,698	115,906	117,296	154,995
Plant operation	218,793	433,297	453,863	437,277
Social services	21,561	33,236	44,356	54,855
Dietary service	395,666	797,746	735,201	766,294
Nursing service	644,245	1,169,041	1,099,415	1,098,258
Personal care	88,247	159,123	186,322	230,187
Residential care	123,252	214,490	215,259	90,884
Marketing	86,091	149,026	99,316	122,778
Administration	255,448	479,685	459,133	481,262
Depreciation and amortization	154,762	278,765	400,984	377,797
Interest, taxes and insurance	149,647	263,823	156,484	190,855
Total expenses	<u>2,194,410</u>	<u>4,094,138</u>	<u>3,967,629</u>	<u>4,005,442</u>
Increase (decrease) in unrestricted net assets	580,224	991,970	(196,862)	(506,998)
Unrestricted net assets, beginning of year	<u>6,957,253</u>	<u>5,965,283</u>	<u>6,162,145</u>	<u>6,669,143</u>
Unrestricted net assets, end of period	<u>\$ 7,537,477</u>	<u>\$ 6,957,253</u>	<u>\$ 5,965,283</u>	<u>\$ 6,162,145</u>

ALDERSLY
Statements of Financial Position

	<u>As of March 31</u>	<u>As of September 30</u>		
	<u>2004</u> <u>(Unaudited)</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Assets				
Current Assets:				
Cash and cash equivalents	\$ 1,215,645	\$ 1,704,529	\$ 1,014,449	\$ 463,702
Investments	3,855,507	3,215,125	3,205,252	3,993,197
Receivables and prepayments	428,489	425,153	214,445	184,290
Total Current Assets	<u>5,499,641</u>	<u>5,344,807</u>	<u>4,434,146</u>	<u>4,641,189</u>
Land, buildings and equipment - net	10,786,025	8,348,676	5,475,482	4,963,005
Other assets	2,883,559	5,170,810	8,027,192	1,044,411
Total Assets	<u><u>\$ 19,169,225</u></u>	<u><u>\$ 18,864,293</u></u>	<u><u>\$ 17,936,820</u></u>	<u><u>\$ 10,648,605</u></u>
Liabilities & Net Assets				
Liabilities:				
Accounts payable	\$ 46,120	\$ 171,232	\$ 254,870	\$ 85,457
Accrued expenses	122,475	110,724	91,723	94,061
Other current liabilities	3,401	5,945	13,327	13,327
Bonds payable - current	185,000	180,000	45,000	40,000
Total current liabilities	<u>356,996</u>	<u>467,901</u>	<u>404,920</u>	<u>232,845</u>
Bonds payable	8,390,000	8,575,000	8,755,000	1,669,799
Unearned fees	2,329,379	2,341,628	2,286,673	2,067,022
Total Liabilities	<u>11,076,375</u>	<u>11,384,529</u>	<u>11,446,593</u>	<u>3,969,666</u>
Net Assets				
Unrestricted net assets	7,537,477	6,957,253	5,965,283	6,162,145
Temporarily restricted net assets	555,373	522,511	524,944	516,794
Total Net Assets	<u>8,092,850</u>	<u>7,479,764</u>	<u>6,490,227</u>	<u>6,678,939</u>
Total Liabilities & Net Assets	<u><u>\$ 19,169,225</u></u>	<u><u>\$ 18,864,293</u></u>	<u><u>\$ 17,936,820</u></u>	<u><u>\$ 10,648,605</u></u>

Proforma (a)
Sept. 30. 2003

Debt Service Coverage (x)	4.20	8.59	2.70	(0.07)
Debt/Unrestricted Net Assets (x)	1.15	1.15	1.35	0.27
Margin (%)		20.00%	-5.00%	-14.00%
Current Ratio (x)		11.42	10.95	19.93

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

Financial Discussion:

Aldersly incurred losses in 2001 and 2002, but shows increasing revenues leading to positive operations in 2003.

Aldersly serves the continuing care retirement community needs of the elderly in Marin County. Aldersly receives an average of 35% of its revenues from its residential facilities, followed by a strong 25% average from health care fees. Additional revenue sources for Aldersly are other fees, investment income and other miscellaneous income. Aldersly generates over 98% of all residential related fees from private pay.

Aldersly's total revenues increased steadily over the review period from 2001 to 2003, and show continued improvement (on an annualized basis) for the year to date. The only significant drop in total revenue occurred in 2002, when net investment income was down by 73%. In 2003, total revenue increased due to a 223% increase in donations, gifts and bequests. Management has indicated total revenue will increase in 2004 with the addition of 30 assisted living units that was financed with the Authority's 2002 bonds.

In 2001 and 2002, Aldersly suffered losses, either due to the decreases in revenue or the increases in expenses. Despite the losses, Aldersly has maintained a viable operation. There was no significant increases in overall expenses from 2002 to 2003, while total revenues increased 34%, resulting in improved operations. In addition, this refinancing will improve Aldersly's profitability and cash flow.

Aldersly's balance sheet remains strong with good liquidity and a growing net asset balance.

Aldersly had a substantial increase in accounts receivable for the review period due to increases in revenue and ineffective credit collection by its consulting firm, which has been replaced. The increase in accounts receivable had a corresponding impact on accounts payable. 2002 investments dropped 20% due to deteriorating economic conditions in the stock market. However, Aldersly maintained positive cash flows with strong liquidity as demonstrated by a current ratio ranging from 10.95x to 19.93x. With continued positive operating results, net assets have grown 11% from 2001 to 2003. The proforma debt-to-unrestricted net assets ratio of 1.15x indicates Aldersly is slightly leveraged. With this proposed loan, management anticipates meeting all of its debt obligations, as evidenced by a strong proforma debt service coverage ratio of 4.20x.

III. BACKGROUND

Aldersly, commonly known as Aldersly Garden Retirement Community, is a non-profit 501(c)(3) organization founded in 1921 as a continuing-care retirement community. While Aldersly has a strong historical connection to the Danish-American community, the campus is nonsectarian and is open to all those who need senior living arrangements and health care services.

Aldersly provides a broad range of living options for its residents. The current facility provides for 61 independent living unit (ILU) apartments, 6 assisted living units (ALU) in a temporary location, and a 20-bed skilled nursing facility (SNF). Living arrangements are complemented by housekeeping services two times per month, three meals per day, property maintenance, a nursing-wellness clinic, a 24-hour emergency response system, linen laundry, a wide ranging activities program, on campus dining room, library, exercise area and an outside recreational space. The SNF was completed in 1993 and includes dementia care, intravenous therapy, and incontinence care in its array of services. The ILU residents have priority for placement into the existing ALU and SNF. In April 2004, Aldersly built an additional 30 ALUs with proceeds from the Authority's bond issue in 2002.

Aldersly operates on a nondiscriminatory basis and affords equal treatment and access to services to all persons. An applicant's eligibility is based on age, financial guidelines and other related criteria. Residents pay one-time entrance fees, which range from \$33,000 to \$125,000, and ongoing monthly fees for services described in the Residency Agreement. A pro-rated share of the entrance fee is returned to the resident or the estate in five years. The residents who are unable to meet their expenses are provided with benevolence funds and are not asked to leave for financial reasons.

Governance

Aldersly is governed by a 15-member Board of Directors. Board members are initially elected to three-year term and may serve up to two additional three-year terms for a total of nine consecutive years. The board has appointed an Executive Committee and has several standing committees, including committees related to finance and construction. The board is responsible for setting general policy and approving budgets as well as rate increases.

Licenses

Aldersly is licensed by the State Department of Social Services (DSS) to operate as a Residential Care Facility for the Elderly with the capacity of 100 for ILU's and ALU's. Aldersly's SNF is licensed by the State Department of Health Services (DHS) for 20 skilled nursing beds. The SNF is also certified to participate in the Medicare and Medi-Cal programs. Aldersly is also a member of the California Association of Services and Homes for the Aging (CASHA).

Service Area, Competition, and Market Share

Aldersly's primary market area has been defined as an 82-square mile area of Marin County, including the communities of San Rafael, Tiburon, Corte Madera, Larkspur, Mill Valley and San Anselmo. This population in Marin County is expected to grow 14% to 9,354 by 2006. Aldersly's primary competition consists of four other facilities in Marin County. These competitors are: Drake Terrace with 30 ALU's and Tamalpais Creek with 59 ALU's (both are 100% occupied); Hampton Court, which has been open for two years, has 56 ALU's and is 80% occupied; Aegis of Corte Madera has 83 ALU's and is 56% pre-leased. None of these other facilities offer full continuous care, including nursing care that is offered by Aldersly.

IV. 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.

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

V. 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".

Aldersly 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.

VI. OUTSTANDING DEBT:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 9/30/03 (a)</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
CHFFA, Bond Series A 1992	\$2,000,000	\$1,630,000	\$-0-
CHFFA, Bond Series A 2002	7,125,000	7,125,000	7,125,000
Proposed:			
NCB Direct Loan	1,300,000		1,300,000
CHFFA HELP II Loan	400,000		400,000
TOTAL DEBT		<u>\$8,755,000</u>	<u>\$8,825,000</u>

(a) Includes current portion.

VII. 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 integrity of this Applicant.

VIII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for HELP II Loan to Aldersly, in an amount not to exceed \$400,000 for a term of 15 years, subject to final approval of Cal-Mortgage, NCB or other acceptable lender to the Authority and the standard HELP II loan provisions.