

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
EXECUTIVE SUMMARY**

<p>Applicant: Solheim Lutheran Home ("Solheim") 2236 Merton Avenue Los Angeles, California Los Angeles County</p> <p>Project Site: Same as applicant</p> <p>Facility Type: Skilled nursing facility, residential-elderly facility</p>	<p>Amount Requested: \$6,750,000</p> <p>Loan Terms: 13 years</p> <p>Date Requested: October 28, 2004</p> <p>Resolution Number: F-307</p>																																	
<p>Uses of Bond Proceeds: Loan proceeds will be used to current refund the California Statewide Community Development Authority's (CSCDA) 1994 Certificates of Participation. This refunding will result in an overall net present value savings of approximately \$688,000 or 11% of principal outstanding balance.</p>																																		
<p>Type of Issue: Negotiated public offering</p> <p>Credit Enhancement: Cal-Mortgage (A), possibly wrapped with FGIC (AAA)</p> <p>Expected Rating: A rating by S & P, based on Cal-Mortgage ins. or AAA based on FGIC</p> <p>Senior Underwriter: Edward D. Jones</p> <p>Bond Counsel: Quint & Thimmig, LLP</p>																																		
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<p>Staff Recommendation: Staff recommends the Authority approve a Resolution in an amount not to exceed \$6,750,000 for Solheim Lutheran Home, subject to a final Cal-Mortgage commitment and standard bond issuance guidelines.</p>																																		

**STAFF SUMMARY AND RECOMMENDATION
SOLHEIM LUTHERAN HOME (“Solheim”)**

October 28, 2004
Resolution Number: F-307

PURPOSE OF FINANCING: Solheim seeks to current refund its California Statewide Community Development Authority’s (CSCDA) 1994 Certificates of Participation in order to obtain a lower interest rate.

Refunding Certificate’s of Participation \$6,025,000

The Certificates of Participation (COP’s) to be refunded were issued by the CSCDA in 1994, with a final maturity in 2017. The 1994 COP’s were issued in the original amount of \$8.23 million with interest rates ranging from 4.00% to 6.5%. The original debt was issued to expand the Solheim Lutheran Home facility. Currently \$6.195 million remains outstanding, however a principal repayment of \$290,000 is due in early November. In addition, there is a 2% bond premium (approximately \$120,000) to pay bondholders for early redemption, thus the balance to be paid off is \$6.025 million.

This refunding is expected to result in a net present value savings of approximately \$688,170. The projected average coupon rate on the new bonds will be approximately 3.25% with FGIC insurance or 3.75% without FGIC insurance.

The new bonds will have the same final maturity as the current COP’s, due in 2017.

<i>Financing costs</i>	596,000
<i>Underwriters Discount</i>	\$86,000
<i>Costs of Issuance</i>	150,000
<i>Insurance Premium FGIC (if chosen)</i>	115,000
<i>Cal-Mortgage fee</i>	245,000
<i>Debt Service Reserve Fund</i>	633,000
<i>Contingency</i>	<u>146,000</u>
<i>Total Uses of Funds</i>	<u>\$7,400,000</u>

Financing Structure:

- Credit Enhancement: Cal-Mortgage insurance with possibly FGIC (Federal Guarantee Investment Corporation) insurance.
- Expected Credit Rating: A based on Cal-Mortgage insurance or AAA based on FGIC (from Standard and Poors)
- Negotiated public offering.
- Serial bonds with maturities ranging from 2005 to 2017.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Solheim Lutheran Home Statement of Activities

Unrestricted

	For period			
	ended		For the Year Ended December 31,	
	August 31,	For the Year Ended December 31,		
	2004	2003	2002	2001
	(unaudited)			
Operating revenues				
Monthly fees from residents	\$ 5,254,809	\$ 7,572,404	\$ 6,918,226	\$ 6,121,986
Medical supplies and services	99,555	173,932	178,725	161,753
Therapy	79,741	129,812	93,980	75,676
Entrance fees earned	411,452	633,160	690,691	552,989
Processing fees	12,780	19,600	19,700	24,570
Interest and dividends	67,176	110,052	117,699	138,209
Rental income	4,853	6,535	6,554	6,963
Services to others	5,450	9,103	10,532	19,087
Ancillary services to residents	65,012	102,358	79,917	72,641
Respite	7,354	3,424	5,565	15,390
Gain on disposition of facilities and equipment	-	4,050	-	-
Contributions	70,799	220,145	255,065	412,132
Net assets released from restrictions	-	210,675	-	-
Total operating revenue	<u>6,078,981</u>	<u>9,195,250</u>	<u>8,376,654</u>	<u>7,601,396</u>
Operating expenses				
Direct costs	5,441,478	7,894,122	7,160,634	6,634,755
Depreciation	303,745	452,389	426,842	406,603
Amortizations - certificate costs	29,369	45,084	46,396	47,383
Interest expense	262,474	406,773	421,518	435,174
Equipment leases	12,581	16,290	13,629	14,725
Property taxes and insurance	14,096	19,198	13,693	18,392
Loss on disposition of facilities and equipment	-	-	-	9,988
Total operating expenses	<u>6,063,743</u>	<u>8,833,856</u>	<u>8,082,712</u>	<u>7,567,020</u>
<i>Increase (decrease) in unrestricted net assets from operations</i>	<i>15,238</i>	<i>361,394</i>	<i>293,942</i>	<i>34,376</i>
Revenues (losses) related to investing				
Unrealized gain (loss) in market value of investments				
Undesignated - general fund	(9,327)	168,367	(210,190)	25,778
Investments held by trustee	(683)	(17,476)	(469)	17,325
Board designated funds		54,228	(25,565)	(50,418)
Loss on sale of investments - unrestricted	(918)	(1,210)	(74,617)	(39,276)
Total related to investing	<u>(10,928)</u>	<u>203,909</u>	<u>(310,841)</u>	<u>(46,591)</u>
<i>Increase (decrease) in unrestricted net assets</i>	<i>4,310</i>	<i>565,303</i>	<i>(16,899)</i>	<i>(12,215)</i>
Unrestricted net assets, beginning of year	<u>1,470,146</u>	<u>904,843</u>	<u>921,742</u>	<u>933,957</u>
Unrestricted net assets, end of year	<u>\$ 1,474,456</u>	<u>\$ 1,470,146</u>	<u>\$ 904,843</u>	<u>\$ 921,742</u>

Solheim Lutheran Home
Balance Sheet

	As of		As of December 31,	
	August 31, 2004 (unaudited)	2003	2002	2001
Assets				
Current assets:				
Cash and cash equivalent, unrestricted	\$ 300,676	\$ 312,042	\$ 119,672	\$ 431,093
Marketable investments, general fund - at fair value	1,580,616	1,678,698	1,585,865	1,708,561
Marketable investments, held by trustee for current debt payments	421,238	355,619	343,231	330,658
Accounts receivable	1,263,053	1,178,741	1,166,080	999,693
Allowance for uncollectible accounts	(76,804)	(66,838)	(58,028)	(98,973)
Accrued interest and dividends	6,029	6,750	9,639	8,976
Prepaid expenses and deposits	156,520	79,910	225,507	85,600
Total current assets	3,651,328	3,544,922	3,391,966	3,465,608
Limited use assets	1,350,997	1,108,853	1,004,321	947,479
Facilities and equipment, net	6,239,927	6,421,519	6,531,335	6,641,678
Other assets	314,063	313,386	208,387	221,966
Total assets	\$ 11,556,315	\$ 11,388,680	\$ 11,136,009	\$ 11,276,731
Liabilities				
Current liabilities:				
Accounts payable	\$ 192,071	\$ 197,934	\$ 196,595	\$ 179,104
Accrued payroll and payroll taxes	174,671	199,656	169,425	119,384
Accrued vacations and personal time	172,927	152,636	143,967	103,599
Certificates of participation, current	290,000	290,000	275,000	260,000
Refundable entrance fees, current	188,024	240,957	240,493	217,387
Deferred revenue, monthly fees	607,949	585,608	518,705	504,729
Accrued interest payable on certificates of participation	131,238	65,619	68,231	70,658
Total current liabilities	1,756,880	1,732,410	1,612,416	1,454,861
Long-term liabilities				
Certificates of participation, less current portion	5,905,000	5,905,000	6,195,000	6,470,000
Refundable entrance fees, long-term	144,237	144,236	149,001	139,292
Deferred revenue, entrance fees	2,222,438	2,127,056	2,251,165	2,281,211
Total long-term liabilities	8,271,675	8,176,292	8,595,166	8,890,503
Total liabilities	10,028,555	9,908,702	10,207,582	10,345,364
Net assets:				
Unrestricted	1,474,458	1,470,146	904,843	921,742
Temporarily restricted	53,302	9,832	23,584	9,625
Total net assets	1,527,760	1,479,978	928,427	931,367
Total liabilities and net assets	\$ 11,556,315	\$ 11,388,680	\$ 11,136,009	\$ 11,276,731

Financial Ratios:

	Proforma ⁽¹⁾ FYE 2003			
Debt Service Coverage (x)	2.30	2.04	1.19	1.19
Debt/Unrestricted Net Assets (x)	4.49	5.56	9.50	9.65
Margin (%)		3.93%	3.51%	0.45%
Current Ratio (x)		2.05	2.20	2.38

(1) Recalculate December 2003 audited results to include the impact of the proposed financing.

Financial Discussion:

Solheim operations have shown consecutive positive earnings during our review period, from fiscal year 2001 – 2003. During the interim period, fiscal year 2004, earnings are moderately positive, but much lower than the previous fiscal years.

Income from operations has ranged from \$34,000 in 2001 to a very solid \$361,000 in 2003. The proposed financing will provide an additional boost to operational income by lowering interest expense by approximately \$68,000 per year.

The lower earnings experienced during the interim period, fiscal year 2004 are mainly a result (per management) of lower contributions received from the previous year, which were higher than usual due to a one-time \$200,000 contribution (shown in fiscal years 2003's income statement on page 2 as "net assets released from restrictions". Management also indicated that Solheim typically experiences a spike in contributions during the last 3 months of the fiscal year and expects total contributions for fiscal year 2004 to be approximately \$200,000, in line with previous years contributions.

Solheim experienced a slight decline in unrestricted net assets during fiscal years 2001 and 2002, mostly due the unrealized/realized losses on investments, which were directly related to the poor equity market performances during this period. During fiscal year 2003, investment returns improved sharply.

Solheim enjoys strong demand for its services and operates near full capacity. Solheim's current average occupancy for all its programs is 94%, which has improved from 91% and 87% for fiscal years 2002 and 2001, respectively. Solheim has experienced consistent revenue growth from its primary revenue source, monthly resident fees, which account for 82% of all revenues. Monthly resident fees have increased from \$7.6 million in fiscal 2001 to \$9.1 million in fiscal 2003, a solid 10% per annum.

Operations began improving during fiscal year 2001 due to Solheim's completion of the conversion of its existing assisted living unit into Halvorson Special Care Unit, a 45-bed secure unit for the care of residents with Alzheimer's disease or other forms of cognitive impairment. The services formerly offered in the assisted living unit are now brought to the residents who need them in their residential unit. Another significant change in late 2000 was the hiring of a fund development person who could concentrate on obtaining gifts, contributions and grants.

Solheim's reserves were, and continue to be, invested in blue chip equities and high-grade bonds. The broad declines in the equity and bond markets during 2001 and 2002 adversely impacted the investment portfolio and were responsible for the small decreases in unrestricted net assets for those years. During 2003 the market improved and a sizeable portion of those losses were recovered.

Solheim's balance sheet continues to improve. Solheim has good liquidity, solid growth in its net asset base, and declining long-term bonds payable.

Solheim has approximately \$2 million in cash and marketable securities. In addition, its unrestricted net assets have increased from \$921,000 to over \$1.4 million during our review period. Long-term bonds payable have also declined from \$6.4 million to \$5.9 million.

Solheim is significantly leveraged, with a long-term debt to net assets ratio of 5.56x, however its debt service coverage ratio is a solid 2.04x. In addition, the proforma debt service coverage ratio improves to 2.30x, with the proposed refinancing. These debt service coverage ratios indicate that Solheim should comfortably manage the proposed bond repayments.

III. UTILIZATION STATISTICS:

Solheim Lutheran Home

	Fiscal Year Ended December 31			
	For the 9 months ending 9-30-04	<u>2003</u>	<u>2002</u>	<u>2001</u>
<u>Skilled Nursing</u>				
Licensed Beds	76	76	76	76
Available Beds	76	76	76	76
Patient Days	20,033	26,386	25,221	26,100
Average Daily Census	73	72	69	71
Occupancy	96%	95%	91%	94%
<u>Special Care Unit</u>				
Licensed Beds	47	47	47	47
Available Beds	45	45	45	45
Patient Days	11,264	14,449	14,431	12,364
Average Daily Census	41	40	40	34
Occupancy	91%	88%	88%	75%
<u>Residential & Assisted Living</u>				
Licensed Beds	79	79	79	79
Available Beds	75	75	75	75
Resident Days	19,017	26,265	25,098	23,770
Average Units Occupied	69	72	69	65
Occupancy	93%	96%	92%	87%
<u>Total Combined</u>				
Licensed Beds	202	202	202	202
Available Beds	196	196	196	196
Patient & Resident Days	50,319	67,100	64,750	62,234
Average Units Occupied	184	184	177	170
Occupancy	94%	94%	91%	87%

IV. BACKGROUND:

Solheim was founded in 1923 as the Norwegian Lutheran Society for the Aged. It is a California nonprofit public benefit corporation and is an exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1986. It is affiliated with the Evangelical Lutheran Church in America. Solheim is a continuing care retirement community with facilities located in the City of Los Angeles. Levels of care provided include residential living, assisted living, secure care for residents with Alzheimer's disease or other forms of cognitive impairment and skilled nursing, as well as a caregiver respite program for short-term stay residents.

The facilities consist of buildings completed in 1957, 1965, 1981, 1989 and 1990. Major renovations were completed in 1995 and 2000, with the upkeep of all properties being continuous. Available resident units total 196 (six less than licensed), including the 76-bed Elizabeth C. Batchelder Skilled Nursing Facility, the 45-room Morgan and Anna Halvorson Special Care Unit, and 75 units in the Merton and Manor buildings for residents receiving residential or assisted living care as their needs dictate. Campus occupancy has been increasing over the past several years and currently exceeds 94%.

Solheim offers various social services including aid in securing Medi-Cal approval, psychological, in-room stimulus and regular exercise programs as well as regularly scheduled activities and outings. Medical services include treatments, whirlpools, and a program to make conscious efforts to eliminate psychotropic drugs and to make pharmacological assessment of all side effects of medications. Expanded medical services on site through consultants and technicians include pharmacy delivery, pickup and review, phlebotomy and laboratory services. Physicians and dentists may use an on-site clinic for their appointments with residents. Physical, occupational and speech therapy are also offered to residents on site through contracted consultants.

New residents may enter at any level of care. Those residents who enter Solheim's residential, assisted living or special care programs may select between a continuing care contract or a month-to-month contract. If a continuing care contract is chosen, the resident pays an entrance fee, which fee is amortized over a three-year period. If the resident leaves the Facilities prior to the end of the three-year period, the unused portion of the entrance fee is refunded to the resident or his/her estate. Solheim's policy is to provide to those residents who have paid the entrance fee a priority status for placement to other levels of care at the Facilities, a discounted rate in skilled nursing, and a room hold at no charge while a resident is temporarily placed at a higher level of care. The entrance fee varies from resident to resident based upon the size and location of the unit occupied with the current entrance fee ranging from a low of \$37,500 to a high of \$76,000. Residents are also required to pay a monthly care and maintenance fee to cover the cost of meals, housekeeping, laundering, 24-hour security and nursing supervision, use of common facilities, maintenance, transportation and social services, among others. Residents selecting a month-to-month contract pay a higher monthly fee. Solheim's policy is not to require any resident to leave their Facilities due to a lack of funds available to pay for services provided.

Licenses and Contracts: Solheim is licensed as a skilled nursing facility by the Department of Health Services and as a residential-elderly facility by the Department of Social Services.

Service Area and Competition:

<u>Facility</u>	<u>Location</u>	<u>Nursing Beds</u>	<u>RCFE Units</u>	<u>Distance</u>
Scripps Home	Altadena	70	113	10 miles
Villa Gardens	Pasadena	54	187	10 miles
Royal Oaks Manor	Bradbury	48	198	12 miles
The Alhambra	Alhambra	50	132	5 miles
Atherton Baptist Homes	Alhambra	113	230	5 miles
California PEO Home	Alhambra	44	113	5 miles
Windsor Manor	Glendale	28	134	3 miles
Hollenbeck Home	Los Angeles	106	125	5 miles
Solheim Lutheran Homes	Los Angeles	76	126	N/A

V. 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.

Solheim has provided a description of its savings pass through in “**Attachment A**”.

VI. 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”.

A copy of Solheim’s certification is included as “**Attachment B**”.

VII. OUTSTANDING DEBT:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 12/31/03 (a)</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
Certificates of Participation CSCDA, 1994	\$8,230,000	\$6,195,000	\$-0-
Proposed:			
CHFFA, Series 2004		N/A	6,750,000
TOTAL DEBT		<u><u>\$6,195,000</u></u>	<u><u>\$6,750,000</u></u>

(a) Includes current portion of long term debt

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 in an amount not to exceed \$6,750,000 for Solheim Lutheran Home, subject to a final Cal-Mortgage commitment and standard bond issuance guidelines.