

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
EXECUTIVE SUMMARY**

Applicant:	Northern California Retired Officers Community dba Paradise Valley Estates (PVE)	Amount Requested:	\$16,125,000
		Loan Term:	30 years
		Date Requested:	December 1, 2005
Location:	Fairfield, California Solano County	Resolution Number:	F-314
Project Site:	2600 Estates Drive, Fairfield, CA		
Facility Types:	Continuing Care Retirement Community		
Uses of Bond Proceeds: Bond proceeds will be used to construct 40 assisted living units and enhance common areas of PVE's existing campus.			
Type of Issue:	Public, variable/35-day auction rate		
Credit Enhancement:	Cal-Mortgage Insurance (Approved on Nov. 3, 2005)		
Expected Credit Rating:	Aaa/AAA (Moody's/S&P), based on Cal Mortgage Insurance and AMBAC		
Senior Underwriter:	UBS Financial Services Inc.		
Bond Counsel:	Orrick, Herrington & Sutcliffe		
Financial Overview: PVE's operating results continued to improve over the past three fiscal years, as PVE has posted positive earnings during this period. Although PVE still exhibits a negative asset balance, the balance sheet has improved dramatically over the last three fiscal years and liquidity is solid.			
Sources of Revenue (12/31/04):			
	<u>Amount</u>	<u>Percent</u>	
Resident services	\$11,802,971	50.50%	
Amortization of entrance fees	6,333,508	27.10%	
Health center services	3,688,349	15.78%	
Investment income	1,509,703	6.46%	
Other income	<u>38,683</u>	<u>0.16%</u>	
Total	<u>\$23,373,214</u>	<u>100.0%</u>	
Sources of Funds:			
Bond proceeds	\$16,125,000	Uses of Funds:	
Equity funds	2,000,000	Construction	\$15,228,063
Interest on Trustee Held Funds	231,205	Debt Service Reserve	937,145
		Financing/Other costs	<u>2,190,997</u>
Total Sources	<u>\$18,356,205</u>	Total Uses	<u>\$18,356,205</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 Paradise Valley Estates, in an amount not to exceed \$16,125,000, subject to a final Cal Mortgage commitment letter and AMBAC Insurance.			

**NORTHERN CALIFORNIA RETIRED OFFICERS COMMUNITY,
dba PARADISE VALLEY ESTATES (“PVE”)**

STAFF SUMMARY AND RECOMMENDATION

December 1, 2005
Resolution Number: F-314

I. PURPOSE OF FINANCING: Bond proceeds will be used to construct a 48,000 square foot facility to meet increased demand by adding 40 new assisted living units and updating common areas at PVE’s existing facility. Construction is anticipated to begin in December 2005 and be completed and ready for occupancy by March 2007.

Construction **\$15,228,063**

Bond proceeds will be used to plan and construct 40 new assisted living units and to enhance common areas at PVE’s existing facility.

Debt Service Reserve Fund **937,145**

Financing Costs **2,190,997**

Underwriter’s Discount..... \$109,312

Bond Insurance 809,765

Interest during construction 831,920

Financial Advisor..... 75,000

Counsel Fees 185,000

Other Costs..... 180,000

Total Uses of Funds **\$18,356,205**

Financing Structure:

- Negotiated Public Offering, variable/35 –day auction rate
- 30 year maturity date
- Credit Enhancement – Cal Mortgage Insurance and AMBAC
- Expected Credit Rating: Aaa/AAA (Moody’s/S&P), based on Cal Mortgage Insurance and AMBAC
- Debt service reserve fund
- General obligation & gross revenue pledge
- Financial covenants acceptable to Authority in accordance with guidelines for “A” rated financings.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Northern California Retired Officers Community (dba Paradise Valley Estates) Statement of Operations

	9 months ending Sept. 30 2005 (Unaudited)	2004	Year Ended December 31,	
		2003	2002	
Revenues				
Resident services	\$ 9,211,496	\$ 11,802,971	\$ 11,727,352	\$ 11,331,317
Health center services	2,990,785	3,688,349	3,738,220	3,011,940
Amortization of entrance fees	4,587,727	6,333,508	5,531,419	5,532,248
Contributions	2,019	1,874	19,144	-
Investment income	890,700	1,509,703	1,601,523	402,977
Other income	14,601	19,442	38,997	264,138
	<u>17,697,328</u>	<u>23,355,847</u>	<u>22,656,655</u>	<u>20,542,620</u>
Net assets re-designated	-	-	(86,084)	-
Net assets released from restriction	2,666	17,367	-	-
	<u>17,699,994</u>	<u>23,373,214</u>	<u>22,570,571</u>	<u>20,542,620</u>
Expenses				
Resident services	1,374,396	1,690,051	1,587,354	1,553,850
Maintenance	812,536	893,597	821,466	2,068,391
Utilities	1,037,478	1,312,044	1,250,505	-
Dining services	2,362,117	3,124,907	3,029,510	2,991,193
Health center	3,755,152	4,675,307	4,350,648	3,844,629
General and administrative	1,814,552	2,469,673	2,317,187	1,875,410
Depreciation	1,879,187	2,507,312	2,557,697	2,568,570
Amortization	498,697	670,500	599,102	549,838
Interest	1,144,455	2,343,349	2,440,396	2,125,674
Other expenses	149,365	97,452	7,391	23,765
Total expenses	<u>14,827,935</u>	<u>19,784,192</u>	<u>18,961,256</u>	<u>17,601,320</u>
Increase (decrease) in unrestricted net assets	2,869,393	3,589,022	3,609,315	2,941,300
Loss on retirement of certificates of participation	-	-	-	(4,139,261)
Changes in temporarily restricted net assets				
Net assets redesignated	-	-	86,084	-
Temporarily restricted contributions	80,908	56,365	-	-
Net assets released from restriction	(2,666)	(17,367)	-	-
	<u>78,242</u>	<u>38,998</u>	<u>86,084</u>	<u>-</u>
Increase (decrease) in total net assets	2,947,635	3,628,020	3,695,399	(1,197,961)
Deficiency in unrestricted net assets, beginning of year	(7,637,142)	(11,265,162)	(14,960,561)	(13,762,600)
Deficiency in unrestricted net assets, end of year	<u>\$ (4,689,507)</u>	<u>\$ (7,637,142)</u>	<u>\$ (11,265,162)</u>	<u>\$ (14,960,561)</u>

Northern California Retired Officers Community (dba Paradise Valley Estates)
Statement of Financial Position

	9 months as of Sept. 30 2005 (Unaudited)	2004	As of December 31,	
			2003	2002
ASSETS:				
Cash and cash equivalents	\$ 2,792,242	\$ 2,294,215	\$ 3,541,847	\$ 14,869,840
Accounts and notes receivable	661,581	1,657,948	932,022	1,912,806
Assets whose use is limited	8,378,674	9,525,389	7,133,450	4,752,144
Investments	22,850,622	20,140,100	18,029,800	-
Prepaid expenses	997,525	220,182	540,374	312,065
Inventory	55,063	60,205	56,735	60,954
Total current assets	<u>35,735,707</u>	<u>33,898,039</u>	<u>30,234,228</u>	<u>21,907,809</u>
Investments in captive insurance	177,837	177,342	-	-
Property and equipment, net	58,673,180	59,973,885	61,831,265	64,170,225
Intangible assets, net	1,894,844	2,243,428	2,708,206	3,172,985
Deferred financing costs, net	2,400,138	2,550,251	2,755,972	3,013,034
Total assets	<u>\$ 98,881,706</u>	<u>\$ 98,842,945</u>	<u>\$ 97,529,671</u>	<u>\$ 92,264,053</u>
LIABILITIES AND NET ASSETS				
Accounts payable and accrued expenses	\$ 483,803	\$ 329,452	\$ 673,319	\$ 1,264,646
Accrued personnel expenses	258,601	207,190	431,047	-
Accrued compensated annual leave	123,297	118,485	108,185	-
Accrued interest	-	1,200,778	1,220,197	203,366
Other accrued liabilities	500,230	897,028	472,951	280,658
Total current liabilities	<u>1,365,931</u>	<u>2,752,933</u>	<u>2,905,699</u>	<u>1,748,670</u>
Revenue Bonds	47,079,529	48,426,196	49,679,403	49,755,863
Deferred revenues:				
Refundable entrance fees	5,058,080	4,753,937	4,099,402	3,306,348
Unearned entrance fees	50,067,673	50,547,021	52,110,329	52,413,733
Total liabilities	<u>103,571,213</u>	<u>106,480,087</u>	<u>108,794,833</u>	<u>107,224,614</u>
Deficiency in unrestricted net assets	<u>(4,689,507)</u>	<u>(7,637,142)</u>	<u>(11,265,162)</u>	<u>(14,960,561)</u>
Total liabilities and deficiency in net assets	<u>\$ 98,881,706</u>	<u>\$ 98,842,945</u>	<u>97,529,671</u>	<u>92,264,053</u>
	Proforma (a)			
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Debt Service Coverage Ratios (x)	1.56	1.97	3.55	1.64
Debt/Unrestricted Net Assets (x)	(8.49)	(6.41)	(4.50)	(3.33)
Margin (%)		15.36%	16.11%	14.32%
Current Ratio (x)		12.31	10.41	12.53

(a) Based on adding projected new debt to the 2004 financial results.

Financial Discussion:

PVE's operating results continued to improve over the past three fiscal years, as PVE has posted positive earnings during this period.

Revenues have increased by approximately 14% over the last three years from \$20.5 million in fiscal year 2002 to \$23.3 million in fiscal year 2004 primarily from strong demand as evidenced by resident services revenues and amortization of entrance fees and investment revenues. Occupancy rates in the independent living units, assisted living units and the nursing care facility at 98%, 88% and 86% respectively in fiscal year 2004. PVE currently maintains a waiting list of approximately 73 prospective residents, showing a steady demand for services. PVE has posted positive earnings over our review period with very solid margins ranging from 14% to 16%.

With the continued improving operations, the increase in unrestricted net assets has improved 22% over the last three fiscal years from \$2.9 million in fiscal year 2002 to nearly \$3.6 million in fiscal year 2004.

In fiscal year 2002, PVE posted a loss of approximately \$4.1 million in connection with the retirement of the Certificates of Participation. The loss resulted from the write-off of the unamortized discount of \$180,754 and the unamortized portion of the debt issuance costs of \$3,958,507.

PVE is a relatively new facility being in operation only since 1997 and it was anticipated that it would take several years to eliminate negative net assets. The negative net assets have been a result of substantial start-up costs.

Although PVE still exhibits a negative asset balance, the balance sheet has improved dramatically over the last three fiscal years and liquidity is solid.

Despite the continued negative net assets, PVE has improved its net asset balance by nearly 50% from a negative \$14.9 million in fiscal year 2002 to a negative \$7.6 million in fiscal year 2004. Current debt service coverage for fiscal year 2004 is a strong 1.97x. With this financing, the proforma debt service coverage is an acceptable 1.56x, indicating that PVE should be able to repay the proposed debt. PVE will remain extremely leveraged following this financing, with a proforma debt to unrestricted net assets ratio of a negative 8.49x, however given its recent improved earnings, PVE should be able to manage the proposed loan. PVE's liquidity is solid, with nearly \$2.3 million in cash and cash equivalents.

III. ORGANIZATION

Background

Northern California Retired Officers Community dba Paradise Valley Estates was incorporated as a California nonprofit public benefit corporation in 1992 to provide retired uniformed services officers, their spouses, widows and widowers with housing facilities and care services specifically designed to meet their physical, social, recreational and psychological needs. PVE is a continuing care retirement community located in Fairfield, California. The mission of PVE is to provide the highest quality of retirement living to elderly persons by promoting services, amenities, and health care that nurtures independence, promotes wellness and preserves dignity.

Governance

PVE is currently governed by a 11-member Board of Directors (the “Board”), which live throughout northern California and serve without compensation. Pursuant to PVE’s bylaws, the Board must consist of an odd number of not less than 5 and not more than 15 members. Each member holds office for a three-year term and/or until a successor is elected, and none may be a resident of PVE.

Contract and Licenses

PVE is licensed by the State of California Department of Social Services (“Social Services”) as a residential care facility for the elderly (an “RCFE”). The skilled nursing facility (“SNF”) is licensed by the California Department of Health Services. PVE is a member of the American Association of Homes and Services for the Aging and a member of the California Association of Homes and Services for the Aging. Skilled and custodial nursing services are provided under the Medicare agreements.

Competition

Management of PVE has prepared the following description of the primary current competition for the facility, and future competition expected to result from the construction of new facilities or expansion of existing facilities. The information listed on the next page refers to “IL” to represent independent living units, “AL” to represent assisted living units and “SNF” to represent skilled nursing beds. PVE has estimated the current occupancy of its competitors based on telephone calls to its competitors made in October 2005.

Name of Facility	Location	Miles from the Facility	Number of Units	Fee Type	Independent Living Occupancy
University Retirement Community	Davis	28	IL 200 AL 47 SNF 37	Entry Fee and Monthly Fee	100%
Spring Lake Village	Santa Rosa	49	IL 300 AL 10 SNF 50	Entry Fee and Monthly Fee	96%
Eskaton Village	Carmichael	56	IL 283 AL 38 SNF 30	Entry Fee and Monthly Fee	100%
Airforce Village West	Riverside	452	IL 405 AL 46 SNF 79	Entry Fee and Monthly Fee	95%

IV. UTILIZATION STATISTICS:

The following table sets forth the average percentage of occupancy during the period (except as otherwise noted) for the independent living units, the assisted living units and the skilled nursing beds for the Corporation's Facility.

Fiscal Year Ended December 31	Independent Living⁽¹⁾	Assisted Living⁽²⁾	Skilled Nursing
2001	97%	86%	93%
2002	98%	83%	90%
2003	98%	88%	87%
2004	98%	88%	86%
2005 ⁽³⁾	98%	93%	88%

⁽¹⁾ Opened November 1997.

⁽²⁾ Opened May 1998.

⁽³⁾ As of September 30, 2005.

In addition, as of September 30, 2005, the Facility maintained a waiting list of approximately 73 individuals or couples secured with a \$5,000 deposit with the Corporation for independent living units. These potential residents are regularly contacted when specified units become available. The majority of new residents are obtained through this list.

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.

PVE has provided a description of its savings pass through in **Exhibit 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, and (b) 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”.

PVE has executed this certification and whether Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **Exhibit B**.

VII. OUTSTANDING DEBT:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 12/31/04</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
CHFFA, Bond Series 2002	\$49,755,000	\$48,426,196	\$48,426,196
Proposed:			
CHFFA, Bond Series 2005	16,125,000		16,125,000
TOTAL DEBT		<u>\$48,426,196</u>	<u>\$64,551,196</u>

VIII. RELIGIOUS AFFILIATION DUE DILIGENCE:

Staff has reviewed the Applicant’s responses to the questions contained in the Religious Affiliation portion of the application. No information was disclosed in the questionnaire or discovered by staff to question the Applicant’s compliance with the provisions of the Authority’s Act relating to religious affiliation.

IX. 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.

X. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for Paradise Valley Estates in an amount not to exceed \$16,125,000, subject to a final Cal Mortgage commitment letter and AMBAC Insurance.