

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

(CHFFA)

EXECUTIVE SUMMARY

Applicant: Asian Community Center of Sacramento Valley, Inc. (the "Center") 7375 Park City Drive Sacramento, California 95831 (Sacramento County)	Amount Requested: \$20,000,000 Date Requested: August 30, 2007 Requested Loan Term: 30 years Resolution Number: 323
Project sites: 1180 Corporate Way, Sacramento, California Facility Types: Multi-level health facility	
Background: The Center owns and operates a 99-bed skilled nursing facility known as the Asian Community Nursing Home and a community center located in Sacramento California. The Center was incorporated in 1972 to develop and provide charitable services designed to promote the general welfare of persons of Asian ancestry. Its services are geared toward the needs of the elderly, immigrants and non-English speaking populations. Notwithstanding its primary mission, the Center complies fully with the provisions of applicable federal, State of California, and local laws prohibiting discrimination.	
Uses of Bond Proceeds: Bond proceeds, along with equity funds, will be used for the acquisition of the existing 166-unit independent living housing facility.	
Type of Issue: Negotiated public offering with fixed interest rate. Credit Enhancement: Cal-Mortgage Insurance Expected Credit Rating: A+ (Fitch /S&P) based on Cal-Mortgage Insurance Senior Underwriter: Altura, Nelson & Co., Incorporated Bond Counsel: Quint and Thimmig LLP	
Financial Overview: The Center continues to operate with profitability due to growing revenue and cost containment initiatives. The balance sheet remains strong with good liquidity and demonstrates the ability to meet the increased loan obligation.	
<u>Estimated Sources of Funds:</u>	<u>Estimated Uses of Funds:</u>
Par amount of CHFFA bonds	Acquisition
Borrower's equity	Bond Insurance
Total Sources	Debt Service Reserve
\$20,000,000	Financing costs
<u>2,155,000</u>	Total Uses
<u>\$22,155,000</u>	\$18,350,000
	1,075,770
	1,428,760
	<u>1,300,470</u>
	<u>\$22,155,000</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 in an amount not to exceed \$20,000,000 for Asian Community Center of Sacramento Valley, Inc. subject to a bond rating of at least an "A+" category rating by a nationally recognized rating agency.	

STAFF SUMMARY AND RECOMMENDATION

Asian Community Center of Sacramento Valley, Inc. (the “Center”)

August 30, 2007

Resolution Number: 323

FINANCIAL PROVISION: A request has been made to approve this loan with the pro-forma debt service coverage ratio of 1.10x, which is below our guideline of 1.25x for all loans. The Center continues to operate with profitability and has a strong balance sheet. The Center hired a consultant for a feasibility study to forecast the Center’s financials for the period 2007-2012, inclusive of this loan. The Cal-Mortgage agreed to insure this loan based on this feasibility study, which has projected a profitable operation with the debt service coverage ratio exceeding 1.25x. Staff recommends the Authority accept the pro-forma debt service coverage ratio of 1.10x in lieu of 1.25x in consideration of Cal-Mortgage providing credit enhancement to this loan.

I. PURPOSE OF FINANCING:

As the Center seeks to expand the range of services available to seniors, it entered into a purchase contract for an existing 166-unit independent living housing facility, known as Fountain Glen at Greenhaven (“Fountain Glen”). Fountain Glen is currently operating at 90% occupancy levels and primarily houses seniors. The Center plans to operate the facility with plans to move in its constituents over time as apartments become available. Resident will also have their housing services enhanced by the Center’s educational, health, and transportation services.

Purchase Real Estate	\$18,350,000
The property is a three-story structure that consists of 166 apartments, occupying 4.79 acres and has approximately 103,789 square feet of rentable area. The structure houses 118 one-bedroom units and 48 two-bedroom units. The living area per unit ranges from 580 to 800 square feet.	
Debt Service Reserve	1,428,760
Bond Insurance	1,075,770
Financing Costs	1,300,470
<i>Cost of issuance</i>	<i>\$1,110,470</i>
<i>Underwriter’s discount</i>	<i>190,000</i>
Total Uses of Funds.....	<u>\$22,155,000</u>

Structure of Financing and Terms:

- Negotiated public offering with serial and term bond maturities.
- Fixed interest rates.
- 30-year loan with final maturity date of 2037.
- Credit enhancement – Cal-Mortgage Insurance.
- Expected Credit Rating: A + (Fitch / S&P), based on Cal-Mortgage Insurance.
- Debt Service Reserve Fund.
- Contractual obligation to repay, including gross revenue pledge.
- Financial covenants acceptable to the Authority.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Asian Community Center of Sacramento Valley, Inc.
Statement of Activities
(Unrestricted)

	For the year ended December 31		
	2006	2005	2004
<u>Revenue</u>			
Patient care	\$ 6,747,252	\$5,806,016	\$ 5,342,314
Contributions and other support	194,578	372,547	393,062
Investment income	342,017	144,649	169,261
Bingo	284,226	263,015	242,381
Program revenue	87,194	69,943	50,906
Grants	85,558	71,065	254,895
Other	67,050	10,036	10,144
Net assets released from restrictions	132,154	1,055	2,568
Total support and revenue	<u>7,940,029</u>	<u>6,738,326</u>	<u>6,465,531</u>
<u>Expenses</u>			
Salaries and benefits	4,470,824	4,090,934	3,990,940
Supplies	503,817	550,330	465,704
Other direct expenses	424,993	397,755	137,498
Purchase services	390,310	224,396	208,862
Depreciation and amortization	283,584	319,263	241,529
Insurance and taxes	175,608	206,541	199,216
Utilities	159,443	149,759	121,809
Professional fees	141,676	133,933	121,355
Interest	69,640	101,683	131,333
Lease and rental	58,812	64,847	59,305
Repairs and maintenance	31,650	81,016	80,700
Other	27,790	123,695	91,892
Total expenses	<u>6,738,147</u>	<u>6,444,152</u>	<u>5,850,143</u>
Change in net assets	1,201,882	294,174	615,388
Net assets at beginning of year	6,069,191	5,775,017	5,159,629
Net assets end of year	<u>\$ 7,271,073</u>	<u>\$6,069,191</u>	<u>\$ 5,775,017</u>

**Asian Community Center of Sacramento Valley, Inc.
Statement of Financial Position**

	As of December 31,		
	2006	2005	2004
<u>Assets</u>			
Cash and cash equivalent	\$ 1,507,091	\$ 1,528,142	\$ 1,149,777
Accounts receivable	786,604	698,585	625,753
Grants and other accounts receivable	35,889	32,667	40,285
Supply inventory	48,933	34,876	35,472
Prepaid expenses	235,567	335,728	342,545
Investments	3,420,733	2,178,106	2,161,724
Total Current Assets	6,034,817	4,808,104	4,355,556
Land, building and equipment - net	3,721,482	3,637,706	3,727,202
Patient trust fund and deposits	11,376	10,310	9,224
Cash held by trustee	485,896	391,037	489,161
Bond and organization costs	126,274	162,259	16,777
Total Assets	10,379,845	9,009,416	8,597,920
<u>Liabilities & Net Assets</u>			
Accounts payable and accrued expenses	\$ 661,930	\$ 466,699	\$ 464,914
Interest payable	17,175	18,113	42,083
Revenue received in advance	174,905	172,920	186,865
Bonds and sinking fund - current portion	190,000	125,000	135,000
Total Current Liabilities	1,044,010	782,732	828,862
Patient trust fund payable	8,376	7,310	6,224
Bonds and sinking fund - net of current portion	1,739,475	1,948,075	1,841,388
Total Liabilities	2,791,861	2,738,117	2,676,474
Unrestricted Net Assets	7,271,073	6,069,191	5,775,017
Temporarily Restricted Net Assets	316,911	202,108	146,429
Total Net Assets	7,587,984	6,271,299	5,921,446
Total Liabilities & Net Assets	\$10,379,845	\$ 9,009,416	\$ 8,597,920

Financial Ratios:

	Proforma (a)			
Debt Service Coverage (x)	1.10	7.29	1.60	3.86
Debt/Unrestricted Net Assets (x)	3.00	0.25	0.31	0.34
Margin (%)		15.14	4.37	9.52
Current Ratio (x)		5.78	6.14	5.25

(a) Recalculates 2006 audited results to include the impact of this proposed financing.

Financial Discussion:

The Center continues to operate with profitability due to growing revenue and cost containment initiatives.

The total support and revenue increased 22% for the review period 2004 to 2006. Patient care revenue accounts for over 80% of the total revenue. The patient care revenue growth of 26% has been associated with rate increases and a significant improvement in patient mix. The contribution and other support revenue dropped 51% in 2006. The improvement in investment revenue was 102% increase for the period due to the growth in stock market. The grant revenue dropped 67% due to the loss of aging program grant.

On the expense side, the total cost increase for the period was 15%. Apart from inflationary related increases, the most significant increase was related to the implementation of the "Quality Assurance Fee" in 2004, and is reflected in other direct expenses with a significant increase of 209%.

The Center was profitable each year with the 25% increase in net assets for the review period. Based on management's strategy for operational efficiency by controlling expenses while increasing revenue, including patient care, the Center anticipates an increase in unrestricted net assets of approximately \$300,000 -\$700,000 each year for period 2007 – 2012.

The balance sheet remains strong with good liquidity and demonstrates the ability to meet the increased loan obligation.

The Center's balance sheet reflects a growth rate of 120% for the review period. The cash had an increase in 2005 due to increasing profitability and better cash management. It has maintained positive cash flows with adequate liquidity, as demonstrated by a current ratio that has exceeded 5.25x. The Center's balance sheet in 2006 is much stronger than it was in 2004. With this new proposed loan, the Center will remain slightly leveraged, with a proforma debt-to-unrestricted net assets ratio of 3.00. The Center will build equity as debts are paid off, and management anticipates meeting all of its debt obligations, as evidenced by a proforma debt service coverage ratio of 1.10x. Based on feasibility study, the Center anticipates a debt service coverage ratio exceeding 1.25x each year for period 2007 – 2012.

III. BACKGROUND:

The Center, a California nonprofit public benefit corporation, owns and operates a 99-bed skilled nursing facility known as the Asian Community Nursing Home (the "ACNH") and a community center (the "CC") located in Sacramento California. The Center was incorporated in 1972 to develop and provide charitable services designed to promote the general welfare of persons of Asian ancestry. Its services are geared toward the needs of the elderly, immigrants and non-English speaking populations. Notwithstanding its primary mission, the Center complies fully with the provisions of applicable federal, State of California, and local laws prohibiting discrimination on the basis of race, color, creed, sex, religion, national origin, disability, marital status, age, physical handicap, medical condition or ancestry.

Service Area: ACNH's primary service area is Sacramento County, California, which includes the cities of Sacramento, Rio Linda, North Highlands, Citrus Heights, Orangevale, Folsom, Fair Oaks, Carmichael, Rancho Cordova, Elk Grove, Galt, Isleton, and the Delta from which the majority of residents are drawn.

Licenses and Contracts: The ACNH is licensed each year by the State of California Department of Health Services.

IV. UTILIZATION STATISTICS:

	<u>Asian Community Center of Sacramento Valley, Inc.</u>		
	<u>Year Ended December 31,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Licensed Beds	36,135	36,135	36,135
Bed Days Available	36,135	36,135	36,135
Bed Days Used	35,893	35,866	35,935
Occupancy Rate	99.3%	99.3%	99.5%

V. OUTSTANDING DEBT:

<u>Bond Issue Name</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding as of 12/31/06*</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
<u>Existing Authority Debt</u>			
Insured Health Facility Revenue 2005 Refunding Series A Bonds	\$ 2,070,000	\$ 1,929,475	\$ 1,929,475
<u>Proposed Authority Debt</u>			
Insured Health Facility Revenue			<u>20,000,000</u>
Total Debt		<u>\$1,929,475</u>	<u>\$21,929,475</u>

*Includes current portion.

VI. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- Section 15438.5 of the Act (Savings Pass Through): The Center has provided a description of its savings pass through in Exhibit A
- Section 15459 of the Act (Community Service Requirement): Center has executed this certification and indicated that Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as Exhibit B.
- Compliance with Assembly Bill 1341: The Center has provided the necessary documents to show compliance with CEQA requirements of AB 1341.
- Religious Due Diligence.
- Legal Review.

VII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a Resolution in an amount not to exceed \$20,000,000 for Asian Community Center of Sacramento Valley, Inc. subject to a bond rating of at least an “A+” category rating by a nationally recognized rating agency.