

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
THE HELP II PROGRAM
EXECUTIVE SUMMARY**

Applicant:	Alzheimer's Services of the East Bay ("ASEB") 2320 Channing Way Berkeley, CA 94704 Alameda County	Amount Requested:	\$370,000
		Requested Loan Term:	10 years
		Date Requested:	February 28, 2008
		Resolution Number:	HII-215
Project Site:	Same as above.		
Facility Type:	Adult Day Health Center		
Prior HELP II Borrower:	Yes. (Current loan balance is \$206,000)		
Background: ASEB is a licensed, nonprofit Adult Day Health Center (ADHC) that was established in 1988. The mission of ASEB is to enhance the quality of life of those affected by Alzheimer's disease and dementia by providing adult day health care, supportive services, and training and education for day care participants, their families, caregivers, and communities.			
Uses of Loan Proceeds: The proceeds will be used to refinance three existing loans: (1) a CHFFA loan with a balloon payment due in September 2008, (2) a National Cooperative Bank (NCB) loan, and (3) a line of credit (LOC) also with NCB. With the proposed financing, ASEB will save approximately \$73,000 in total interest savings over the life of the loan.			
Financing Structure			
<ul style="list-style-type: none"> • 10-year loan. • 120 equal monthly payments of approximately \$3,572 (yearly payments of about \$42,873). • Corporate gross revenue pledge. • First lien position on property located 2320 Channing Way, Berkeley, CA, 94704. • Loan to value ratio not to exceed 95% (estimated loan to value is 18%). 			
Financial Overview: ASEB appears to exhibit continuing positive net income during the review period. ASEB's balance sheet appears sound with approximately \$1.2 million in total net assets. The proforma debt service coverage ratio for the proposed HELP II loan is a satisfactory 3.56x.			
Sources of Funds		Uses of Funds	
HELP II Loan	\$370,000	Refinance existing debt	\$360,000
		Financing Costs	<u>10,000</u>
Total Sources	<u>\$370,000</u>	Total Uses	<u>\$370,000</u>
Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.			
Staff Recommendation: Staff recommends approval of a HELP II loan for Alzheimer's Services of East Bay in an amount not to exceed \$370,000, for a term not to exceed 10 years, and contingent upon financing terms acceptable to the Authority.			

**STAFF SUMMARY AND RECOMMENDATION
THE HELP II PROGRAM**

I. PURPOSE OF FINANCING

***Refinancing existing debt* \$ 360,000**

Loan proceeds will be used to refinance two existing loans (one of which is a CHFFA HELP II loan with a balloon payment due in September 2008) and a LOC. As a result of the proposed HELP II loan, ASEB will improve cash flow and avoid the upcoming balloon payment.

- 1) ASEB intends to payoff an existing CHFFA Help II loan that was used to refinance prior higher interest rate loans. The proposed HELP II loan will avoid a balloon payment that will be due in September 2008. The loan has an outstanding balance of approximately \$206,000. ASEB has an excellent payment record on this loan.

- 2) ASEB intends to payoff an NCB loan that was used to refinance the facility located at 2320 Channing Way, Berkeley, CA. The original loan was financed in November 2003 for \$150,000 and is in the second lien position. The current interest rate on this loan is 6.36% (variable rate) with an outstanding balance of approximately \$28,500. The proposed HELP II loan will result in total interest savings of \$9,600 for the remaining life of the loan.

- 3) ASEB intends to payoff an NCB LOC (secured by accounts receivable) that was used to renovate the facility located at 400 29th Street, Oakland, CA. The interest rate on this LOC is approximately 7% (variable interest rate equal to the prime rate plus 1%) and has an outstanding balance of approximately \$125,500. ASEB will keep the LOC open with a credit limit up to \$400,000. The proposed HELP II loan will result in an estimated total interest savings of \$62,750 over the life of the loan.

The proposed loan HELP II loan will be secured by a first lien on real property located at 2320 Channing Way, Berkeley, CA. ASEB estimates that the current market value of the property is approximately \$2 million, leading to a loan to value ratio of 18%. CHFFA will require a full appraisal of the property prior to closing.

***Financing Costs* 10,000**

Authority Fees	4,625
Title/Escrow	<u>5,375</u>

***Total Uses of Funds* \$ 370,000**

II. FINANCIAL STATEMENTS AND ANALYSIS

Alzheimer's Services of the East Bay, Inc.
Statement of Activities
(Unrestricted)

	For the Year Ended June 30		
	2007	2006	2005
Support & Revenue			
Public support	\$ 414,200	\$ 458,549	\$ 437,712
Grants	481,685	539,818	529,017
Program revenue	1,649,307	1,299,680	1,299,757
Interest Income	1,162	2,015	1,807
Rental income	9,000	9,000	9,000
Net assets released from restriction	66,178	96,004	262,397
Total support & revenue	2,621,532	2,405,066	2,539,690
Expenses:			
Salaries, wages & benefits	1,447,269	1,372,046	1,437,510
Program transportation	128,672	93,352	89,381
Payroll taxes	124,271	91,646	116,740
Network grant	107,821	75,034	84,543
Meals	99,918	83,178	85,870
Amortization & depreciation	74,561	52,746	108,320
Contract personnel	62,737	53,468	52,623
Utilities	56,560	34,723	44,861
Program/office supplies	54,044	49,704	41,835
Insurance-Worker's Comp	50,728	48,072	42,072
Rent	46,699	42,509	44,314
Facility & equipment maintenance	44,250	55,777	-
Outside services	37,282	41,972	51,404
Contributed services	36,307	27,394	53,229
Postage, printing & copying	26,489	15,355	18,792
Interest	14,654	112,242	116,382
Fiscal agent fees	-	19,309	24,691
Other	145,962	119,461	131,399
Total expenses	2,558,224	2,387,988	2,543,966
Change in unrestricted net assets	63,308	17,078	(4,276)
Unrestricted net assets, beginning of the period	941,391	924,313	928,589
Unrestricted net assets, end of period	\$ 1,004,699	\$ 941,391	\$ 924,313

Alzheimer's Services of the East Bay, Inc.
Statement of Financial Position

	As of June 30		
	2007	2006	2005
Assets:			
Current assets:			
Cash and cash equivalents	\$ 166,906	\$ 134,451	\$ 217,006
Account receivables, net	390,918	308,270	301,083
Prepaid Expenses	13,072	4,967	2,136
Total current assets	<u>570,896</u>	<u>447,688</u>	<u>520,225</u>
Property and equipment, net	1,039,301	1,072,337	1,106,246
Deposits	41,556	5,823	11,199
Total Assets	<u>\$ 1,651,753</u>	<u>\$ 1,525,848</u>	<u>\$ 1,637,670</u>
Liabilities and Net Assets:			
Current liabilities:			
Accounts payable	\$ 52,794	\$ 34,127	\$ 61,277
Accrued expenses	94,874	69,385	80,041
Line of credit	50,000	-	-
Current portion of long tem notes	65,880	70,494	69,715
Total current liabilities	<u>263,548</u>	<u>174,006</u>	<u>211,033</u>
Long term debt, less current portion	206,235	272,002	342,371
Total liabilities	<u>469,783</u>	<u>446,008</u>	<u>553,404</u>
Net assets:			
Unrestricted	1,004,699	941,391	924,313
Temporarily restricted	177,271	138,449	159,953
Total net assets	<u>1,181,970</u>	<u>1,079,840</u>	<u>1,084,266</u>
Total liabilities and net assets	<u>\$ 1,651,753</u>	<u>\$ 1,525,848</u>	<u>\$ 1,637,670</u>

Financial Ratios:

	Proforma (a)			
	FYE June, 2007			
Debt service coverage (x)	3.56	1.79	1.36	1.18
Debt/Unrestricted Net Assets (x)	0.61	0.27	0.36	0.45
Current Ratio (x)		3.07	4.41	3.76
Margin (%)		2.41%	0.71%	-0.17%

(a) Recalculates 2007 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

ASEB's income statement appears to demonstrate recent improvement in operations supported by a solid growth in revenues and steady increases in unrestricted net assets.

ASEB reports its revenue is derived from three major sources: program revenue (60%), grants (20%) and public support (20%). Between 2005 and 2007, ASEB's income statement appears to show consistent improvement in its bottom line, as increases in unrestricted net assets have increased during our review period. ASEB expects further improvement due to the lower interest costs associated with the proposed loan.

Particular Facts to Note:

- In FY 2007, ASEB enjoyed its most successful year of operations during our review period, with an increase in unrestricted net assets of \$63,000.
- In FY 2007, grants and public support decreased slightly as their expansion project came to a close in March 2007. However, ASEB reported an increase in program revenue (30%), which resulted a greater demand for services, as patient visits increased from 17,899 to 21,046 or an increase of 17%. ASEB attributes this increase in patient visits to the addition of a third ADHC center.
- In FY 2006, ASEB increased nearly all sources of revenues, with the exception of program revenue. ASEB relied heavily on public support and grants and was able to expand from two to three ADHC centers, which resulted in an increase in unrestricted net assets of \$17,000.
- In FY 2005, ASEB operated with a loss due to a decline in patient visits. ASEB reports that programs usually run at 95% capacity. In 2005 ASEB ran at 84% capacity, which resulted in a loss of revenue, ASEB contends their services were underutilized. Although, ASEB experienced a loss in FY 2005, it has since increased patient visits and revenue.

Financial Discussion – Statement of Financial Position (Balance Sheet)

ASEB's balance sheet appears to be solid with approximately \$1.2 million in total net assets.

In 2007, ASEB reports total unrestricted net assets of approximately \$1 million, a 7% increase from FY 2006. ASEB appears to exhibit good liquidity with a 3.07x current ratio and cash of \$166,000. Debt to unrestricted net assets appears moderate at .27x and with the proposed HELP II loan, only rises to .61x. In addition, the existing debt service coverage appears solid at 1.79x. The proforma debt service coverage ratio improves further to 3.56x, indicating that ASEB should be able to make loan repayments for the proposed HELP II loan.

Particular Facts to Note Continued:

- ASEB reports a decline in total liabilities, thus reducing leverage and interest expense.

III. UTILIZATION STATISTICS

**Clients Served/ (Patient Visits)
Fiscal Year Ended June 30**

	2005	2006	2007
Totals	169 / (18,156)	176 / (17,899)	244 / (21,046)

IV. ORGANIZATION

Background and Licensing

ASEB was incorporated in 1988 for the purpose of providing services to individuals with Alzheimer's and related dementia, as well as dementia specific education and training to caregivers. ASEB is licensed by the State Department of Public Health Services as an Adult Day Health Center and operates three centers in Alameda County including: Berkeley, Hayward and Oakland as follows:

- Adult Day Health Center, a comprehensive, high-quality day program for working families and caregivers who want additional support during the day. Activities include: therapy, dietary consultation, medical monitoring and individual assessment.
- Early Stage Program, provides support groups for clients and their families coping with the "early-stages" of diagnosis. Activities include: memory enhancement, discussion groups, information and referral.
- Education & Training Program, offers caregivers information, workshops and staff training.
- Other services: respite care, family counseling services, community resources and legal/financial services.

V. OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding* As of June 30, 2007</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
Existing Long-Term Debt:			
CHFFA HELP II, 1998	\$470,850	\$224,809	\$-0-
NCB, 2003	150,000	47,306	-0-
NCB (LOC), 2003**	400,000	50,000	-0-
Proposed			
CHFFA HELP II, 2008		<u>N/A</u>	<u>370,000</u>
TOTAL DEBT		<u>\$322,115</u>	<u>\$370,000</u>

*Includes current portion of long-term debt.

**Please note: ASEB has not maxed out the LOC during the life of the loan.

VI. DUE DILIGENCE:

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

- Savings Pass Through: (Borrower) has provided a description of its savings pass through in **Exhibit A.**
- Community Service Requirement: ASEB has certified that the services of the Facility will be made available to all persons residing or employed in the area served in **Exhibit B.**
- Religious Due Diligence
- Legal Review

VII. STAFF RECOMMENDATION:

Staff recommends approval of a HELP II loan for Alzheimer's Services of East Bay Inc. in an amount not to exceed \$370,000, for a term not to exceed 10 years, and contingent upon financing terms acceptable to the Authority.