

**CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY**

Applicant:	Sierra View Homes (“Sierra View”) 1155 E. Springfield Ave. Reedley, CA 93654 Fresno County	Amount Requested:	\$750,000
		Requested Loan Term:	20-year fixed
		Annual Interest Rate:	2%
Project Site:	1155 E. Springfield Ave.	Authority Meeting Date:	March 28, 2019
Facility Type:	Skilled Nursing Facility	Resolution Number:	HII-319
Eligibility:	Government Code section 15432(d)(3) & (7)		
Prior HELP II Borrower:	Yes (May 2009 – approximately \$304,271 outstanding as of February 2019)		
Background: Sierra View is a nonprofit senior service provider in Fresno County that provides services to the elderly such as short and long-term rehabilitation, as well as restorative nursing care. Sierra View’s mission is to provide seniors an outstanding full-service retirement community that celebrates and enhances the life of each resident.			
Use of Loan Proceeds: Loan proceeds will be used to extend an existing dining center to fit the changing needs of Sierra View’s expanding participant base. The proposed dining center will provide a more comfortable space for the current residents of the facility and add to the maximum occupancy of the room.			
Financing Structure:			
<ul style="list-style-type: none"> • 20-year, two percent (2%) fixed rate loan • 240 equal monthly payments of approximately \$3,794 (annual payments of approximately \$45,530) • Second lien on real property located at 1140 E. Evening Glow Ave., Reedley, CA 93654 • Cal-Mortgage consent for additional debt • Subordination Agreement with Cal-Mortgage • A current appraisal that exhibits a loan to value ratio not to exceed 95% (estimated combined loan-to-value ratio is approximately 35%) • Executed construction contract • Corporate gross revenue pledge • Verification of borrower funds to close escrow 			
Financial Overview: Sierra View’s income statement appears to display positive operating results from FY 2016 to FY 2018 with increasing net assets in each year. Sierra View’s balance sheet appears to be steady with a FY 2018 pro-forma debt service coverage ratio of 1.85x.			
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II Loan	\$ 750,000	Construction, renovation, remodel real property	\$1,100,000
Borrower funds	<u>360,376</u>	Financing costs	<u>10,376</u>
Total Estimated Sources	<u>\$1,110,376</u>	Total Estimated Uses	<u>\$ 1,110,376</u>
Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, and Community Service Requirement documentation. All documentation satisfies the Authority’s requirements.			
Parties of Interest: Cal-Mortgage, Chicago Title Company			
Staff Recommendation: Staff recommends approval of Resolution Number HII-319 for Sierra View Homes in an amount not to exceed \$750,000 for a term not to exceed 20 years, and contingent upon financing terms acceptable to the Authority. TAP International, the Authority’s financial analyst, concurs with the Authority’s staff recommendation.			

I. PURPOSE OF FINANCING:

Sierra View is requesting a HELP II loan to finance the construction of an extension to an existing facility dining hall. The existing dining hall was designed to cater to a smaller capacity than what currently resides at Sierra View. The proposed larger dining center will provide a more comfortable space for the current residents of the facility and add to the maximum occupancy of the room. Sierra View is an existing HELP II loan borrower and has made timely payments with an outstanding balance of \$304,271 as of February 2019.

Construction, renovation, remodel real property \$1,100,000

Sierra View plans to use loan proceeds to construct a new 1,600 square foot extension on the Kings Canyon dining room, which is currently 3,000 square feet. The additional space will be used to host evening meals for independent living apartment residents. The room will be located in the center of the campus, so it is expected to be convenient for all residents, regardless of level of care. Sierra View management anticipates beginning construction in May 2019 with an expected completion date in September 2019. In addition to the new 2019 HELP II Loan, Sierra View will also contribute approximately \$360,000 in its own funds to assist in completing the project. Prevailing wages will be paid and the language will be included in the construction contract.

The 2019 HELP II Loan will be secured by a second (2nd) lien position on the property located at 1140 E. Evening Glow Ave., Reedley, CA 93654. Currently, the Authority’s 2009 HELP II loan has the first lien position. Cal-Mortgage will subordinate its second lien position to assume the third position, allowing the 2019 HELP II loan to hold the second lien position. When the subordination is complete, the Authority will hold both the first and second lien positions on the property. In addition, an appraisal acceptable to the Authority will be completed prior to closing reflecting a combined loan-to-value ratio of less than 95%. Based on a prior appraisal from 2009, Sierra View’s management estimates the property value at \$3 million, reflecting a combined loan-to-value of 35%.

Financing Costs 10,376

Authority fees	\$9,375
Other closing costs	<u>1,001</u>

Total Estimated Uses of Funds..... \$1,110,376

II. FINANCIAL STATEMENTS AND ANALYSIS:

**Sierra View Homes
Statement of Activities
(Unrestricted)**

	As of December 31		
	2018	2017	2016
Revenue			
Skilled nursing services after provision for doubtful collections	\$ 5,625,088	\$ 5,032,833	\$ 4,403,226
Residential care services and independent living revenue	3,380,760	3,343,740	3,260,562
Other operating revenue	135,391	123,454	131,934
Investment income	(30,365)	123,286	79,198
Charitable contributions	54,114	29,940	74,246
Total revenue	9,164,988	8,653,253	7,949,166
Expenses			
Nursing services	4,342,631	3,758,662	3,540,397
Dietary services	1,015,827	917,702	847,969
Administration	678,342	698,092	717,541
Operation and maintenance	712,790	626,734	601,490
Housekeeping, laundry, and linen	433,101	397,898	369,667
Activities and social services	167,151	182,503	186,073
Education	63,254	65,014	59,549
Depreciation	684,769	671,806	673,826
Interest, including debt premium and debt costs amortization	380,307	386,003	481,105
Bad debts	34,317	-	-
Insurance and property taxes	161,874	150,880	163,393
Total expenses	8,674,363	7,855,294	7,641,010
Change in unrestricted net assets from operations	490,625	797,959	308,156
Loss from extinguishment of 2010 certificate debt	-	-	(1,860,684)
Increase/(decrease) in net assets	490,625	797,959	(1,552,528)
Beginning net assets	5,680,191	4,882,232	6,434,760
Ending net assets	\$ 6,170,816	\$ 5,680,191	\$ 4,882,232

Net patient service revenues for FYE December 31

<u>Payor Source</u>	2018	2017
Medi-Cal	23%	27%
Medicare	20%	16%
Private Pay & Other	57%	57%
Total	100%	100%

Sierra View Homes
Statement of Financial Position
(Unrestricted)

	As of December 31		
	2018	2017	2016
ASSETS			
Current Assets			
Cash	\$ 2,163,196	\$ 2,129,319	\$ 1,628,015
Accounts receivable- Net of allowance for doubtful accounts	1,151,335	646,268	941,962
Prepaid expenses	63,963	30,682	65,859
Marketable short-term investments	1,521,237	1,590,254	984,772
Restricted assets, certificate debt trust agreement (for use in paying current principal and interest on certificate debt)	314,749	258,552	257,138
Total Current Assets	5,214,480	4,655,075	3,877,746
Property and Equipment			
Land, buildings, and improvements	20,067,855	19,678,771	19,628,025
Equipment, furniture, and fixtures	2,374,465	2,225,607	2,269,225
Transportation equipment	131,665	131,665	131,665
Less accumulated depreciation	(9,086,353)	(8,401,584)	(7,927,701)
Total property and equipment	13,487,632	13,634,459	14,101,214
Other Assets			
Restricted assets, certificate debt trust agreement (reserve account)	382,785	376,572	376,788
Investments in captive insurance companies	122,084	122,084	122,084
Total Other Assets	504,869	498,656	498,872
TOTAL ASSETS	\$ 19,206,981	\$ 18,788,190	\$ 18,477,832
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable	\$ 261,771	\$ 116,446	\$ 239,331
Wages and related benefits payable	390,453	328,785	285,427
Resident prepayments for services	111,076	-	-
Interest payable	122,786	124,457	125,781
Current portion of long-term debt	423,782	416,684	410,444
Total Current Liabilities	1,309,868	986,372	1,060,983

(Continued)

	As of December 31		
	2018	2017	2016
Long-Term Liabilities			
Other accrued liabilities	2,611	2,611	2,611
Deferred revenue from advance care fees	248,224	210,027	196,709
Long-term debt	11,475,462	11,908,989	12,335,297
Total Long-Term Liabilities	<u>11,726,297</u>	<u>12,121,627</u>	<u>12,534,617</u>
Total Liabilities	<u>13,036,165</u>	<u>13,107,999</u>	<u>13,595,600</u>
Total unrestricted net assets	<u>6,170,816</u>	<u>5,680,191</u>	<u>4,882,232</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 19,206,981</u>	<u>\$ 18,788,190</u>	<u>\$ 18,477,832</u>

	Proforma^(a)			
	FYE Dec 31, 2018	2018	2017	2016
Debt Service Coverage - Net (x)	1.85	1.95	2.33	(0.49)
Debt to Unrestricted Net Assets (x)	2.05	1.93	2.17	2.61
Margin (%)		5.35	9.22	3.88
Current Ratio (x)		3.98	4.72	3.65

^(a) Recalculates FY 2018 audited results to include the proposed HELP II loan of \$750,000.

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Financial Discussion – Statement of Activities (Income Statement)

Sierra View's income statement appears to display positive operating results from FY 2016 to FY 2018 with increasing net assets in each year.

Sierra View appears to post consistently positive operating results over the review period. Total revenue appears grew from approximately \$7.9 million in FY 2016 to just over \$9.2 million in FY 2018, an increase of 15.3%. Considering total net income, Sierra View's ability to meet current and future debt obligations appears to be reliable. The highest share of revenue growth appears to be attributed to skilled nursing services, which increased by 27.7% from just over \$4.4 million in FY 2016 to approximately \$5.6 million in FY 2018. Sierra View management explains the increase in skilled nursing services revenue can be linked to a higher number of patients using Medicare, which has a much higher reimbursement rate. As a whole, unrestricted net assets increased by approximately 26.4% from just under \$4.9 million in FY 2016 to nearly \$6.2 million in FY 2018.

Total expenses increased from approximately \$7.6 million in FY 2016 to approximately \$8.7 million in FY 2018, an overall increase of 13.5%. A majority of this increase appears to be reflected by the change in Sierra View's nursing services expense, which increased from approximately \$3.5 million in FY 2016 to approximately \$4.3 million in FY 2018. Sierra View management states that this increase is due to Medicare costs rising for therapy, nursing supplies, and medication. Altogether, it appears that Sierra View has shown the ability to generate more revenue than expenses, as demonstrated by the healthy net income levels over the review period.

In FY 2016, Sierra View experienced a one-time loss from the extinguishment of its 2010 certificate debt of approximately \$1.9 million. Sierra View refinanced its 2010 Certificates of Participation to take advantage of significantly lower interest rates, and as a result, there was an immediate loss from charging off debt issuance costs, discount, and early payment charges. Sierra View management does not expect to see this kind of loss in the future, as the organization currently has favorable interest rates on its existing debt.

Financial Discussion – Statement of Financial Position (Balance Sheet)

Sierra View's balance sheet appears to be steady with a FY 2018 pro-forma net debt service coverage ratio of 1.85x.

Due to a one-time payment allocated in FY 2016, Sierra View's net debt service coverage ratio fluctuated over the review period. Starting out at a negative 0.49x in FY 2016, this ratio appears to be heavily weighted by the one-time payment Sierra View experienced in refinancing its 2010 Certificates of Participation to secure better interest rates. The ratio then recovered to 2.33x in FY 2017 and stabilized to a solid ratio of 1.95x in FY 2018. Considering the proposed 2019 HELP II loan financing, the pro forma debt service coverage ratio will be 1.85x, indicating a reliable ability to repay the additional debt.

Although Sierra View's debt to unrestricted net assets ratio can be considered high, it is notable that it has improved over the three-year review period. Starting at 2.61x in FY 2016, it steadily improved to 2.17x in FY 2017 and is currently at 1.93x in FY 2018. With the addition of the proposed 2019 HELP II Loan, the pro-forma ratio slightly increases to 2.05x. Sierra View management expects its debt to unrestricted net assets ratio to improve, since Sierra View has updated and refurbished a number of apartments, giving them a better market rate and more cash in the long-run. Considering the trend of increasing revenues and consistently rising unrestricted net assets, it appears that Sierra View is capable of supporting the proposed additional debt.

Total net assets increased from approximately \$4.9 million in FY 2016 to approximately \$6.2 million in FY 2018. Sierra View's cash increased by 32.9% from approximately \$1.6 million in FY 2016 to nearly \$2.2 million in FY 2018, which along with a solid current ratio of 3.98x, appears to be an indicator of good liquidity and strong ability to meet short-term financial commitments. Sierra View explains that there is less bad debt due to increased billing advances, increasing the amount of cash on hand. Marketable short-term investments also increased over the review period, starting at just under \$1 million in FY 2016 and climbing to approximately \$1.5 million in FY 2018. Sierra View management states that the approximate 54.5% increase in marketable short-term investments comes from a strategic plan of building up the account to subsidize room costs for residents who have lived on campus for a long time, but have outlived their funds.

III. UTILIZATION STATISTICS

**Clients Served
for Fiscal Year End December 31**

	2018	2017	2016
Totals	252	269	253

IV. OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding As of December 31, 2018^(a)</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
<i>-EXISTING LONG-TERM DEBT:</i>			
2016 Certificate Debt, Series A	\$ 9,750,000	\$ 9,750,000	\$ 9,750,000
2016 Certificate Debt, Series B	2,560,000	1,815,000	1,815,000
CHFFA HELP II Loan (2009)	725,000	308,506	308,506
<i>- PROPOSED NEW DEBT:</i>			
CHFFA HELP II Loan (2019)			750,000
<i>- TOTAL DEBT</i>		<u>\$ 11,873,506</u>	<u>\$ 12,623,506</u>

^(a) Includes current portion of long-term debt

V. BACKGROUND AND LICENSURE

Background

Sierra View is a non-profit senior retirement community in Fresno County that acts as a home and skilled nursing service provider to approximately 250 individuals over the age of 65 annually. Sierra View was established in 1960 as a small retirement care community, and has now grown to operate as a skilled nursing facility with 59 beds, an independent retirement facility with 115 apartments, and a 51 room residential care facility situated on a 13-acre campus. Sierra View's mission is to provide seniors an outstanding full-service retirement community that celebrates and enhances the life of each resident.

Sierra View offers a spectrum of care from independent living to residential care, with options for nursing care and rehabilitation to meet the individual needs of each resident. The medical services that Sierra View provides are certified by Medicare, Medi-Cal, and most long-term insurance plans. Sierra View prides itself on its highly-rated nursing center, which offers short and long-term rehabilitation and restorative nursing care. Basic services of its Skilled Nursing Program include twenty-four hour care by licensed nurses and certified nursing assistants, dietary services, housekeeping, activities programs, and rehabilitation services including physical, occupational, and speech therapies. Additionally, Sierra View's large campus includes a nursing center, dining services, and a wellness center which consists of an indoor swimming pool and exercise equipment.

Licensure, Certification, and Accreditation

Sierra View is licensed by the State of California Department of Public Health Services to operate and maintain a Skilled Nursing Facility. Additionally, Sierra View is licensed by the California Department of Social Services to operate and maintain a Residential Care Facility. Sierra View is a Continuing Care Retirement Community licensed by the Continuing Care Branch of the Department of Social Services.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-319

**RESOLUTION APPROVING EXECUTION AND DELIVERY OF
HELP II LOAN PROGRAM AGREEMENTS WITH CERTAIN
PARTICIPATING HEALTH INSTITUTIONS**

WHEREAS, the California Health Facilities Financing Authority (the “Authority”), a public instrumentality of the State of California, is authorized by the provisions of the California Health Facilities Financing Authority Act (the “Act”) to provide secured or unsecured loans to participating health institutions to refinance existing debt and finance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing, or equipping of a health facility;

WHEREAS, the Authority established the HELP II Loan Program (the “Program”) to provide loans to participating health institutions as authorized by the Act;

WHEREAS, **Sierra View Homes** (the “Borrower”), a California participating health institution, has applied to the Authority for a loan through the Program, and the application has been reviewed by the staff of the Authority; and

WHEREAS, approval of the loan by the Authority is now sought;

NOW THEREFORE BE IT RESOLVED by the California Health Facilities Financing Authority, as follows:

Section 1. Pursuant to the Act, the Authority approves a loan to the Borrower in an amount not to exceed **\$750,000** for a term not to exceed **20 years** for the purpose described in the application filed with the Authority (the “Project”), but solely to the extent there are available proceeds of the Program, as determined pursuant and subject to Section 2 hereof. This approval is further contingent upon the following conditions:

1. 20-year, two percent (2%) fixed rate loan;
2. Second lien position on real property located at 1140 E. Evening Glow Ave., Reedley, CA 93654;
3. Cal-Mortgage consent for additional debt;
4. Subordination Agreement with Cal-Mortgage;
5. A current appraisal that is acceptable to Authority staff exhibiting a combined loan to value ratio not to exceed 95%;
6. Executed construction contract
7. Corporate gross revenue pledge;
8. Verification of Borrower’s funds to close escrow.

Section 2. The Executive Director is hereby authorized, for and on behalf of the Authority, to determine the final amount, terms and conditions of the loan, and to approve any changes in the Project described in the application submitted to the Authority, as said officer shall deem appropriate and authorized under the Act (provided that the amount of the loans may not be increased above the amount approved by the Authority and provided further that the loans continue to meet the Authority's guidelines for HELP II loans). Nothing in this resolution shall be construed to require the Authority to obtain any additional funding, even if more loans are approved than there is available funding. Any notice to the Borrower shall indicate that the Authority shall not be liable to the Borrower in any manner whatsoever should such funding not be completed for any reason whatsoever.

Section 3. The Executive Director is hereby authorized and directed, for and on behalf of the Authority, to draw money from the Program fund not to exceed those amounts approved by the Authority for the Borrower. The Executive Director is further authorized and directed, for and on behalf of the Authority, to execute and deliver to the Borrower any and all documents necessary to complete the transfer of funds.

Section 4. The Executive Director of the Authority is hereby authorized and directed to do any and all things and to execute and deliver any and all documents which the Executive Director deems necessary or advisable in order to effectuate the purposes of this resolution and the transactions contemplated hereby, and which have heretofore been approved as to form by the Authority.

Section 5. This resolution expires six months from the date of approval.

Date of Approval: _____