

**CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Dientes Capitola Road, LLC 1830 Commercial Way Santa Cruz, CA 95065 Santa Cruz County</p>	<p>Loan Amount: \$1,500,000 Loan Term: 20-year fixed Annual Interest Rate: 2% Authority Meeting Date: January 28, 2021 Resolution Number: HII-327</p>
<p>Project Site: 1500 Capitola Road, Santa Cruz, CA 95062 Facility Type: Community Clinic Eligibility: Government Code Section 15432(d)(6) Prior HELP II Borrower: Yes (August 2004 – paid in full as of July 2019)</p>	

Background: Dientes Capitola Road, LLC (the LLC) was formed by Dientes Community Dental Care (Dientes) to hold the asset for the project to be funded by this HELP II loan and to limit any potential liability to the parent organization on a project of this size. The LLC qualifies under the same eligibility requirements as Dientes since Dientes is the sole member of the LLC. This report will refer to the borrower as Dientes, the parent organization, going forward. Dientes is a 501(c)(3) non-profit organization, established in 1992 for the purpose of providing dental services for persons in need. Dientes focuses on children, providing oral healthcare with a pediatric dentist, and offers high quality, comprehensive care for patients of all ages and home situations, including general cleanings, exams, and treatment.

Use of Loan Proceeds: Loan proceeds will be used to construct a 5,600 square-foot, single story solar-powered state-of-the-art dental clinic with 11 chairs to serve children, adults and seniors. This clinic will provide dental care for an additional 6,000 patients in Santa Cruz County. The project is part of a collaboration between Dientes, MidPen Housing (MidPen), and Santa Cruz Community Health Centers (SCCHC) to bring affordable housing and healthcare services to the Live Oak area of Santa Cruz County.

Financing Structure:

- 20-year, two percent (2%) fixed rate loan
- 240 equal monthly payments of approximately \$7,588 (annual payments of approximately \$91,059)
- First lien on the real property located at 1500 Capitola Road, Santa Cruz, CA 95062
- A current appraisal that exhibits a loan-to-value ratio not to exceed 95%
- Executed construction contract
- Corporate gross revenue pledge
- Verification of borrower funds to close escrow
- Verification of receipt of other funding sources acceptable to Authority staff

Financial Overview: Dientes’ income statement appears to exhibit a positive trend in revenue over the review period. Dientes’ balance sheet appears strong, with a pro-forma net debt service coverage ratio of 3.95x.

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
Fundraising - Grants and Gifts	\$ 6,600,320	Construction Project Fund	\$ 8,579,570
HELP II Loan Proceeds	1,500,000	Financing costs	20,750
Borrower Funds	500,000		
Total Estimated Sources	\$ 8,600,320	Total Estimated Uses	\$ 8,600,320

Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, and Religious Affiliation documentation. All documentation satisfies the Authority’s requirements.

Staff Recommendation: Staff recommends approval of Resolution Number HII-327 for Dientes Capitola Road, LLC in an amount not to exceed \$1,500,000 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:

Dientes is seeking a HELP II loan to help finance the construction of a new dental clinic. The project is a collaboration among Dientes, SCCHC, and MidPen to address the common goal of increasing access to healthcare, growing affordable housing, and creating economic opportunity. The dental clinic will share the same 3.65-acre campus as a new 57-unit affordable housing complex managed by MidPen and a 20,000 square-foot, two-story medical facility operated by SCCHC. Dientes intends to develop this dental clinic to serve children, adults and seniors. This expansion will provide access to oral health care to 6,000 low-income patients, increasing the total number of patients Dientes serves by 50%. Dientes and SCCHC have referred clients between the two organizations, and Dientes will serve SCCHC’s clients under a service contract. Along with the new proposed HELP II loan, funding sources will include fundraising grants and gifts as well as borrower funds.

***Project fund*..... \$8,579,570**

1500 Capitola Road Project

Loan proceeds will be used for the construction of a 5,600 square-foot, single story solar-powered dental clinic. The clinic will include 11 operatories; a large reception area; a staff room; four offices; four storage, electrical, and equipment rooms; a lab; three unisex bathrooms; and one conference room. Proceeds may be used for soft costs, such as planning, permit fees, design fees, and other reports. The construction is expected to begin in April 2021 and conclude in 2022.

Although HELP II loan funds will only be used for construction, Dientes’ overall project will also include furnishings (including chairs), equipment (including lights, delivery arms, and digital x-ray machines), and information technology (including computers for the clinic and software licenses for electronic health records and the x-ray machines).

The HELP II loan will be secured by a first (1st) lien position on the property located at 1500 Capitola Road in Santa Cruz, CA. Dientes estimates the property is valued at \$6,900,000, resulting in a loan-to-value ratio of 21%. In addition to the \$1.5 million HELP II loan, the remaining funds for the project are expected to be acquired through fundraising and borrower funds. Authority staff will verify receipt of these other sources of funds prior to loan closing.

***Financing Costs*..... 20,750**

Authority Fee \$ 18,750

Estimated Escrow/Title Fees 2,000

Total Uses of Funds \$8,600,320

II. FINANCIAL STATEMENTS AND ANALYSIS:

As Dientes is the sole member of Dientes Capitola Road, LLC, repayment of the HELP II loan will be made from Dientes as the parent company through the LLC. Therefore, the audited financial statements of Dientes were reviewed and are discussed in this section.

**Dientes Community Dental Care
Statement of Activities
(Income Statement)**

	For the Years Ended June 30,		
	2019	2018	2017
Support and Revenue:			
Patient fees - net	\$ 559,128	\$ 415,890	\$ 467,339
Medi-Cal and Healthy Kids	5,788,411	5,283,785	5,022,214
Business and individual contributions	178,291	122,161	119,211
In-kind contributions	49,704	37,227	26,900
Government contracts	1,793,441	1,456,111	1,443,296
Interest income	22,008	7,264	2,992
Other	236,603	289,643	152,726
Forgiveness of debt	138,750	138,750	138,750
Total support and revenues	8,766,336	7,750,831	7,373,428
 Net assets released from restriction	 532,316	 449,827	 501,276
 Total unrestricted support, revenue and other income	 9,298,652	 8,200,658	 7,874,704
Expenses:			
Salaries and related expense	6,228,355	5,210,192	4,694,380
Telephone	43,318	45,152	34,906
Occupancy	205,911	196,037	179,005
Dental supplies and direct costs	727,606	766,045	796,837
Office supplies and cleaning	110,334	139,851	120,108
Bank and credit card fees	8,823	5,540	6,287
Postage	19,929	14,937	14,274
Professional fees and outside services	402,290	581,412	588,396
Travel	78,876	70,713	47,671
Equipment repair and maintenance	147,075	111,813	103,375
Printing and publications	29,613	20,233	18,889
Dues and subscriptions	70,021	65,039	61,659
Staff development	61,036	56,490	26,812
Insurance	54,354	56,813	52,786
Outside services and suppliers - in kind	29,808	37,028	24,750
Other	1,204	3,707	6,057
Bad debt expense	3,180	-	(1,686)
Depreciation and amortization	206,805	190,109	207,722
Capitol campaign	39,327	967	-
Total expenses	8,467,865	7,572,078	6,982,228
 Change in net assets	 830,787	 628,580	 892,476
 Net assets, beginning of year	 6,632,131	 6,071,878	 5,179,402
Net assets, end of year	\$ 7,462,918	\$ 6,700,458	\$ 6,071,878

**Dientes Community Dental Care
Statements of Financial Position
(Balance Sheet)**

	As of June 30,		
	2019	2018	2017
Assets			
Current assets			
Cash and cash equivalents	\$ 3,667,149	\$ 3,130,213	\$ 2,784,564
Trade accounts receivable, less allowance	534,710	685,474	555,172
Government contracts receivable	397,731	237,220	290,429
Employee receivable	35,268	48,221	42,489
Grants	-	-	14,647
Inventory	221,165	153,622	123,753
Prepaid expenses	311,894	200,558	179,502
Promise to give	377,372	71,348	5,719
Total current assets	5,545,289	4,526,656	3,996,275
Property and equipment			
Furniture and equipment	888,804	806,694	775,354
Vehicles	58,100	58,100	58,100
Software	30,613	21,613	21,613
Building and improvements	3,770,022	3,763,240	3,747,673
Leasehold improvements	34,580	34,580	20,495
Land	470,000	470,000	470,000
Construction in progress	398,999	215,629	13,929
Total property and equipment	5,651,118	5,369,856	5,107,164
Less accumulated depreciation	1,645,012	1,462,339	1,275,719
Total property and equipment, net	4,006,106	3,907,517	3,831,445
Other assets			
Cash and equivalents held for long-term purposes	338,699	-	-
Promises to give - net	334,918	69,811	-
Beneficial interest in assets held by Community Foundation	500,000	-	-
Deposit	31,722	39,298	42,370
Total other assets	1,205,339	109,109	42,370
Total assets	\$ 10,756,734	\$ 8,543,282	\$ 7,870,090
Liabilities			
Current liabilities			
Current portion of note payable	\$ -	\$ 32,453	\$ 31,495
Current portion of loan payable	138,750	138,750	138,750
Accounts payable - trade	98,075	138,698	137,453
Accounts payable - related parties	7,426	3,971	4,754
Accrued expenses	321,036	370,746	329,044
Deferred revenue	5,300	37,995	112,008
Total current liabilities	570,587	722,613	753,504
Long-term liabilities			
Note payable	-	5,504	37,957
Loan payable	597,893	736,643	875,393
Total noncurrent liabilities	597,893	742,147	913,350
Total liabilities	1,168,480	1,464,760	1,666,854

(Continued)

		As of June 30,		
		2019	2018	2017
Net assets				
Without donor restrictions		7,462,918	6,632,131	6,071,878
With donor restrictions		2,125,336	446,391	131,358
Total net assets		<u>9,588,254</u>	<u>7,078,522</u>	<u>6,203,236</u>
	Total liabilities and net assets	<u>\$ 10,756,734</u>	<u>\$ 8,543,282</u>	<u>\$ 7,870,090</u>
	Proforma			
	<u>FYE June 30, 2019</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Debt Service Coverage - Net (x)	3.95	6.04	4.77	6.42
Debt to Unrestricted Net Assets (x)	0.28	0.10	0.14	0.18
Margin (%)		0.09	0.08	0.11
Current Ratio (x)		9.72	6.26	5.30

Financial Discussion – Statement of Activities (Income Statement)

Dientes' income statement appears to exhibit a positive trend in revenue over the review period.

Dientes' total support and revenues exhibited a positive trend, increasing by approximately 18.9% from approximately \$7.4 million in FY 2017 to \$8.8 million in FY 2019. According to Dientes, mid-level providers, such as Registered Dental Hygienists and Registered Dental Assistants in Extended Functions, helped increase production, especially with denture patients along with renegotiated service contracts with Santa Cruz County contributed to the increase in total support and revenues. These adjustments helped increase billing rates by over 15%. In addition, its Beach Flats clinic was converted from a part-time, two-chair outreach location to a full-time, three-chair clinic, which allowed Dientes to serve more patients in Santa Cruz County.

During the same period, total expenses also showed an increasing trend from approximately \$7.0 million in FY 2017 to nearly \$8.5 million in FY 2019, an increase of approximately 21.3%. According to Dientes, expenses have increased to meet the needs of expanded capacity through additional clinic sites. Although expenses have increased, it is well below the growth of revenues, and Dientes continues to post positive operating results.

Since the beginning of the COVID-19 pandemic, Dientes' costs of providing care continue to increase due to the additional personal protective equipment needed and staff time dedicated to screening patients, disinfecting operatories, and following other COVID-19 protocols. Dientes implemented full or partial furloughs for all staff to minimize layoffs, and the senior team took pay cuts. Dientes is currently operating at 85 – 90% of pre-COVID capacity as client visits have steadily increased since dental care was classified as an essential service. Dientes anticipates it will continue to experience reduced capacity and higher costs as compared to pre-COVID times. As one of the few oral healthcare providers in its community for Medi-Cal patients, Dientes is committed to providing access to care for low-income patients.

Financial Discussion – Statement of Financial Position (Balance Sheet)

Dientes balance sheet appears strong with a pro-forma net debt service coverage ratio of 3.95x.

Dientes has demonstrated a strong ability to service its debt with an operating debt service coverage ratio of 6.42x, 4.77x, and 6.04x in FY 2017, 2018, and 2019, respectively. With the increased debt of this HELP II loan, Dientes pro-forma net debt service coverage ratio will decrease to 3.95x, showing that Dientes continues to demonstrate a strong ability to repay its debt obligations.

In 2017, Dientes was approved for a capital advance from the California Department of Housing and Community Development in the amount of \$1,387,500 for the construction of its Pediatric Wing Expansion Project. This loan bears no interest and will be forgiven if the project remains a low-income dental clinic for at least 10 years. The loan is forgiven at a rate of \$138,750 a year for 10 years and currently has approximately \$540,000 outstanding.

Furthermore, Dientes appears to display financial stability in the balance sheet as total liabilities decreased nearly 29.9%, from approximately \$1.7 million in FY 2017 to just about \$1.2 million in FY 2019. Moreover, total assets increased by approximately 36.7%, from approximately \$7.9 million in FY 2017 to \$10.8 million in FY 2019. Dientes' financials demonstrate that they have been preparing for this expansion for several years and appear financially well-equipped to support the additional clinic at 1500 Capitola Road.

III. UTILIZATION STATISTICS:

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

	2019	2018	2017
Totals	11,477 / (40,776)	11,036 / (37,444)	10,624 / (35,200)

IV. OUTSTANDING DEBT:

	<u>Original Amount</u>	<u>Amount Outstanding As of June 30, 2019</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
<i>-EXISTING LONG-TERM DEBT</i>			
California Department of Housing and Community Development*	\$ 1,387,500	\$ 597,893	\$ 597,893
<i>-PROPOSED NEW DEBT</i>			
<i>HELP II Loan</i>		-	1,500,000
<i>-TOTAL DEBT</i>		<u>\$ 597,893</u>	<u>\$ 2,097,893</u>

*The loan bears no interest and is forgivable if the project remains a low income dental clinic for at least than 10 years. The loan is forgiven at a rate of \$138,750 a year for 10 years.

V. BACKGROUND AND LICENSURE:

Background

Dientes Capitola Road, LLC (the LLC) was formed by Dientes Community Dental Care (Dientes) to hold assets and to limit any potential liability to the parent organization. The LLC qualifies under the same eligibility requirements as Dientes since Dientes is the sole member of the LLC. Dientes is a 501(c)(3) non-profit agency, established in 1992 for the purpose of providing dental services for persons in need. Dientes works hard to ensure that cost, insurance, income, language, and transportation do not prevent individuals from visiting the dentist. Dientes operates three separate clinics. One clinic has a dedicated children's wing and general and specialty services for children and adults. The second clinic is co-located with a Santa Cruz County medical clinic, serving children and adults with general and preventive services. The third clinic is located in the Beach Flats neighborhood of Santa Cruz, serving children and adults with general and preventive services.

Dientes' mission is to create lasting oral health for the underserved children and adults of Santa Cruz County and neighboring communities. Its vision is to make prevention more common than treatment, so kids can focus on school instead of toothaches, adults can make good first impressions and get a job because they have a healthy smile, and seniors can comfortably eat nutritious foods.

Licensure, Certification and Accreditation

Dientes is licensed by the California Department of Public Health to operate and maintain a Community Clinic.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-327

**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, **Dientes Capitola Road, LLC** (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 the loan to the Borrower, in an amount not to exceed **\$1,500,000** for a term not to exceed **20 years** for the purposes described in the application filed with the Authority (the “Projects”), 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. First lien on the real property located at 1500 Capitola Road, Santa Cruz, CA 95061;
3. A current appraisal that is acceptable to Authority staff exhibiting a loan-to-value ratio not to exceed 95%;
4. Executed construction contract;
5. Corporate gross revenue pledge;
6. Verification of Borrower’s funds to close escrow; and
7. Verification of receipt of other funding sources acceptable to Authority staff.

Section 2. The Executive Director and the Deputy Executive Director are hereby authorized, for and on behalf of the Authority, to determine the final amount, terms and conditions of the loans, 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 and the Deputy Executive Director are 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 and the Deputy Executive Director of the Authority are 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: _____