

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY  
HEALTHCARE EXPANSION LOAN PROGRAM (HELP II)  
EXECUTIVE SUMMARY**

<b>Applicant:</b> Dientes Community Dental Care (Dientes) 1830 Commercial Way Santa Cruz, CA 95065 Santa Cruz County	<b>Loan Amount:</b> \$1,125,747 <b>Loan Term:</b> 20-year fixed <b>Annual Interest Rate:</b> 3% <b>Authority Meeting Date:</b> July 25, 2024 <b>Resolution No.</b> HII-358
<b>Project Site:</b> 1830 Commercial Way, Santa Cruz, CA 95065 <b>Facility Type:</b> Community Clinic <b>Eligibility:</b> Government Code Section 15432(d)(6) <b>Prior HELP II Borrower:</b> Yes (January 2021)	
<b>Background:</b> Dientes is a 501(c)(3) non-profit organization, established in 1992 for the purpose of providing dental services for persons in need. Dientes offers high quality, comprehensive care for patients of all ages and home situations, including general cleanings, exams, and treatment. Dientes’ services include specialty care with a pediatric dentist, oral surgeon, and endodontist.	
<b>Use of Proceeds:</b> Loan proceeds will be used to renovate Dientes’ 5,541 square-foot main clinic located at 1830 Commercial Way in Santa Cruz County.	
<b>Financing Structure:</b> <ul style="list-style-type: none"><li>• 20-year, three percent (3%) fixed rate loan</li><li>• 240 equal monthly payments of approximately \$6,243 (annual payments of approximately \$74,920)</li><li>• Second lien on the real property located at 1830 Commercial Way, Santa Cruz, CA 95065</li><li>• A current appraisal that exhibits a combined loan-to-value ratio not to exceed 95%</li><li>• Executed construction contract</li><li>• Corporate gross revenue pledge</li><li>• Verification of borrower funds and receipt of other funding source(s) to close escrow</li></ul>	
<b>Financial Overview:</b> Dientes’ income statement appears to exhibit positive net margins over the review period. Dientes’ balance sheet appears strong with a pro-forma net debt service coverage ratio of 23.1x.	
<b><u>Estimated Sources of Funds:</u></b>	<b><u>Estimated Uses of Funds:</u></b>
Help II Loan Proceeds \$ 1,125,747	Renovations \$ 1,522,831
Dientes Funds 225,253	Authority loan fee 16,563
Fundraising 188,394	
<b>Total Estimated Sources</b> \$ 1,539,394	<b>Total Estimated Uses</b> \$ 1,539,394
<b>Due Diligence:</b> Staff has confirmed the documentation provided by Dientes satisfies the California Health Facilities Financing Authority’s (Authority) eligibility and legal review requirements.	
<b>Staff Recommendation:</b> Staff recommends the Authority approve Resolution No. HII-358 in an amount not to exceed \$1,125,747 for Dientes Community Dental Care, subject to the terms and conditions in the resolution. TAP International, Inc., the Authority’s financial analyst, concurs with the Authority’s staff recommendation.	

## I. PURPOSE OF FINANCING

In 2021, Dientes financed a project with a HELP II loan 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 at 1500 Capitola Road in Santa Cruz. Now, Dientes is seeking a new HELP II loan to renovate its main dental clinic located at 1830 Commercial Way in Santa Cruz that has been in operation for over 20 years. Dientes has grown to become the largest dental health clinic for low-income people in Santa Cruz County. Dientes plans to address the overall wear and tear of the aging facility and to replace furnishings. Additionally, Dientes plans to raise funds through fundraising efforts to purchase equipment and/or furnishings.

***Renovations..... \$1,522,831***

Dientes will use loan proceeds to renovate its main clinic building, which is a 5,541 square-foot, single story dental clinic. The clinic includes 15 dental chairs, and Dientes plans on updating the building with new paint and baseboards throughout the entire clinic, outfit its endodontic suite with specialty-specific cabinets, exchange cabinets that are worn, and replace lab and operator countertops. Additionally, the project will also rectify inefficiencies in its pediatric sterilization lab. The remodel will also increase counterspace for larger equipment and address previous safety concerns with cluttered dental supplies.

The HELP II loan will be secured by a second (2nd) lien position on the property located at 1830 Commercial Way in Santa Cruz. The Authority currently holds the first lien position on this property to secure the 2021 HELP II loan for the 1500 Capitola Road project. Additionally, Dientes will provide an appraisal for the property, exhibiting a combined loan-to-value ratio not to exceed 95% before closing as well as an assurance of meeting the other security terms and conditions set forth in the resolution. Dientes estimates the property is valued at \$2,175,000, resulting in a combined loan-to-value ratio of 92%. In addition to the new HELP II loan, the remaining funds to complete the project have been acquired through fundraising and borrower funds. Authority staff will verify receipt of these other sources of funds prior to loan closing.

***Financing Costs ..... 16,563***

Authority Fee .....	\$ 14,563
Estimated Escrow/Title Fees .....	<u>2,000</u>

***Total Uses of Funds ..... \$1,539,394***

## II. FINANCIAL STATEMENTS AND ANALYSIS

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

	For the Years Ended June 30,		
	2023	2022	2021
<b>Support and Revenue:</b>			
Patient fees - net	\$ 376,307	\$ 557,884	\$ 540,953
Medi-Cal and Healthy Kids	7,444,938	6,085,664	5,754,428
Business and individual contributions	156,844	708,537	185,037
Paycheck Protection Program	-	2,232,145	-
Employee Retention Credit	388,861	-	-
In-kind contributions	154,509	93,645	436,899
Government contracts	2,179,772	2,142,097	1,767,711
Interest income	70,770	(97,781)	74,606
Special events	-	2,800	-
Other	54,209	86,636	126,513
Forgiveness of debt	138,750	138,750	138,750
Total support and revenue	10,964,960	11,950,377	9,024,897
Net assets released from restriction	7,681,353	602,725	1,187,134
Total unrestricted support, revenue and other income	18,646,313	12,553,102	10,212,031
<b>Expenses:</b>			
Salaries and related expense	9,077,418	8,047,942	7,119,751
Telephone	128,276	95,128	75,488
Occupancy	280,808	188,023	182,917
Dental supplies and direct cost	1,030,858	983,637	778,685
Office supplies and cleaning	294,240	134,103	149,005
Bank and credit card fees	16,484	16,130	12,939
Postage	18,853	20,658	20,044
Professional fees and outside services	501,940	339,360	418,702
Travel	87,059	83,034	9,712
Equipment repair and maintenance	392,868	223,139	152,707
Printing and publications	29,154	27,068	21,148
Dues and subscription	139,378	109,047	78,200
Staff development	38,348	31,232	21,224
Insurance	97,097	67,756	65,124
Outside services and suppliers - in kind	150,521	64,711	99,138
Other	33,882	1,183	752
Bad debt expense	(797)	8,233	(10,659)
Depreciation and amortization	355,028	163,759	181,206
Capital campaign	30,940	47,199	75,104
Total expenses	12,702,355	10,651,342	9,451,187
Change in net assets	5,943,958	1,901,760	760,844
Net assets, beginning of year	9,959,397	8,057,637	7,296,793
Net assets, end of year	\$ 15,903,355	\$ 9,959,397	\$ 8,057,637

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

	<b>As of June 30,</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
<b>Assets</b>			
Current Assets:			
Cash and cash equivalents	\$ 4,358,937	\$ 6,277,489	\$ 8,157,107
Trade accounts receivable, less allowance	658,157	509,167	489,038
Government contracts receivable	362,677	525,957	608,911
Employee Retention Credit	309,296	-	-
Employee	51,318	37,196	28,761
Inventory	205,508	177,961	242,001
Prepaid expenses	243,929	67,532	89,481
Promise to give	105,731	203,027	247,529
Total current assets	<u>6,295,553</u>	<u>7,798,329</u>	<u>9,862,828</u>
Property and Equipment:			
Furniture and equipment	2,003,392	1,066,143	942,349
Vehicles	58,100	58,100	58,100
Software	15,999	15,999	15,999
Building and improvements	11,031,687	3,797,418	3,784,431
Leasehold improvements	386,897	57,016	34,580
Land	807,500	807,500	807,500
Construction in progress	-	6,346,898	1,898,423
Total property and equipment	<u>14,303,575</u>	<u>12,149,074</u>	<u>7,541,382</u>
Less accumulated depreciation	<u>2,410,660</u>	<u>2,107,862</u>	<u>1,990,876</u>
Total property and equipment, net	11,892,915	10,041,212	5,550,506
Other Assets			
Cash and equivalents held for long term purposes	-	-	272,360
Promise to give - net	-	15,442	153,494
Beneficial interest in assets held by Community Foundation	500,000	500,000	500,000
Deposit	58,354	49,378	12,947
Total other assets	<u>558,354</u>	<u>564,820</u>	<u>938,801</u>
Total assets	<u>\$ 18,746,822</u>	<u>\$ 18,404,361</u>	<u>\$ 16,352,135</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable - trade	480,513	368,097	693,505
Accounts payable - related parties	-	6,031	1,105
Accrued expenses	647,750	1,003,020	554,100
Deferred revenue	192,692	557,254	194,321
Refundable advance	-	-	2,232,147
Current portion of loans payable	181,506	180,660	179,831
Total current liabilities	<u>1,502,461</u>	<u>2,115,062</u>	<u>3,855,009</u>
Long-term liabilities			
Loans payable	917,145	1,098,651	1,279,312
Deposits	2,500	2,500	2,500
Total noncurrent liabilities	<u>919,645</u>	<u>1,101,151</u>	<u>1,281,812</u>
Total liabilities	<u>2,422,106</u>	<u>3,216,213</u>	<u>5,136,821</u>

(Continued)

		As of June 30,		
		2023	2022	2021
<b>Net assets</b>				
Without donor restrictions		15,903,355	9,959,397	8,057,637
With donor restrictions		421,361	5,228,751	3,157,677
Total net assets		16,324,716	15,188,148	11,215,314
Total liabilities and net assets		\$ 18,746,822	\$ 18,404,361	\$ 16,352,135
		<b>Proforma <sup>(a)</sup></b>		
		<b>FYE 6/30/2023</b>	<b>2023</b>	<b>2022</b>
Debt Service Coverage (x) - Net	23.1	31.8	10.5	6.8
Debt to Unrestricted Net Assets (x)	0.1	0.1	0.1	0.2
Margin (%)		31.9	15.1	7.5
Current Ratio (x)		4.2	3.7	2.6

<sup>(a)</sup> Recalculates FY 2023 audited results to include the impact of this proposed financing.

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## **Financial Discussion**

### **Dientes' income statement appears to exhibit positive margins over the review period.**

Dientes demonstrates increasing positive margins from 7.5% in FY 2021 to 31.9% in FY 2023. Dientes' primary source of revenue comes from government contracts and Medi-Cal and Healthy Kids. Government contracts increased from nearly \$1.8 million in FY 2021 to approximately \$2.2 million in FY 2023. Dientes' management explains this is due to the addition of a dental chair to its Watsonville clinic, which helped increase visits from 37,014 in FY 2021 to 45,303 in FY 2023. Medi-Cal and Healthy Kids revenue increased from nearly \$5.8 million in FY 2021 to nearly \$7.4 million in FY 2023. Healthy Kids is an insurance program under Medi-Cal for low-income children without documentation of residency to qualify for Medi-Cal. Dientes' management states Medi-Cal and Healthy Kids revenue increased due to the opening of the new 11-chair clinic at 1500 Capitola Road, which helped add an additional 13,264 visits for FY 2023. Dientes' management also noted Medi-Cal revenue increased in FY 2023 as a result of the additional coverage of the costs of crowns, which in prior years patients were required to pay out of pocket. This also explains the decrease in patient fees in FY 2023.

Total expenses for Dientes increased from approximately \$9.5 million in FY 2021 to approximately \$12.7 million in FY 2023. Salaries and related expense being the main contributor, increased from approximately \$7.1 million in FY 2021 to nearly \$9.1 million in FY 2023. According to Dientes' management, salaries and related expense increased due to the opening of the new clinic at 1500 Capitola Road and the hiring of an additional 21 employees. Additionally, operating costs increased because of the new clinic with Dientes purchasing lab supplies and utilities and general occupancy expenses.

Dientes received two loans from the Paycheck Protection Program (PPP) each in the amount of \$1,116,077 for a total of \$2,232,147. Dientes met all requirements associated with the funding and was granted full forgiveness of both PPP loans in FY 2022.

### **Dientes' balance sheet appears strong with a pro-forma net debt service coverage ratio of 23.1x.**

Dientes has demonstrated a strong ability to service its debt with a net debt service coverage ratio of 6.8x, 10.5x, and 31.8x in FYs 2021, 2022, and 2023, respectively. With the increased debt of this HELP II loan, Dientes pro-forma net debt service coverage ratio will decrease to 23.1x; however, still demonstrating Dientes' strong ability to repay its debt obligations.

In 2013, 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 \$182,000 outstanding.

Furthermore, Dientes appears to display financial stability in its balance sheet as total liabilities decreased nearly 52.9%, from approximately \$5.1 million in FY 2021 to about \$2.4 million in FY 2023. The decrease in total liabilities is related to refundable advances in FY 2021 of nearly \$2.2 million from the forgiveness of the PPP loans in FY 2021. Moreover, total property and equipment increased by approximately 114.3%, from approximately \$5.6 million in FY 2021 to nearly \$11.9 million in FY 2023. Dientes' management explains that property and equipment increased because of the capitalization of the new 1500 Capitola Road clinic building and equipment.

### III. UTILIZATION STATISTICS

#### Clients Served / Patient Visits For Fiscal Year End June 30

	2023	2022	2021
Totals	12,318 / 45,175	11,242 / 40,597	10,435 / 37,054

### IV. OUTSTANDING DEBT

	Original Amount	Amount Outstanding as of June 30, 2023	Estimated Amount Outstanding after Proposed Financing
<b>EXISTING LONG-TERM DEBT</b>			
California Department of Housing Community Development* (2013)	\$ 1,387,500	\$ 181,506	\$ 181,506
HELP II loan (2021)**	1,000,000	917,008	917,008
<b>PROPOSED NEW DEBT</b>			
HELP II loan (2024)			\$1,125,747
<b>TOTAL DEBT</b>		<b>\$1,098,514</b>	<b>\$2,224,261</b>

\* The loan bears no interest and is forgivable 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.

\*\* As of June 30, 2024, Dientes' remaining balance on the CHFFA HELP II Loan (2021) is \$874,253. With this new HELP II loan, Dientes will reach the \$2 million maximum.

## **V. BACKGROUND AND LICENSURE**

### **Background**

Dientes is a 501(c)(3) non-profit corporation, established in 1992 for the purpose of providing dental services for persons in need. Dientes operates four separate clinics located in Santa Cruz and Monterey counties. One clinic located in Monterey County has a dedicated children's wing and general and specialty services, the second clinic is co-located with a Santa Cruz County medical clinic, the third clinic is located in the Harvey West neighborhood of Santa Cruz County, and the fourth clinic located in Santa Cruz County was funded in part by CHFFA's 2021 HELP II loan and is part of a health and housing campus. All clinics provide general and preventative dental services to children and adults.

Dientes' mission is to create lasting oral health for the underserved children and adults of Santa Cruz County and neighboring communities. Dientes is the largest oral health provider for low-income people in Santa Cruz County with 97% of its patients at or below the federal poverty level. Dientes' patients include publicly insured and uninsured adults, seniors, and children; patients who are homeless; patients with HIV/AIDs; patients with physical or mental disabilities; and others who lack access to care. Approximately 40% of Dientes' patients are children.

### **Licensure, Certification and Accreditation**

Dientes is licensed by the California Department of Public Health to operate and maintain its community clinics.

## **VI. STAFF RECOMMENDATION**

Staff recommends the Authority approve Resolution No. HII-358 in an amount not to exceed \$1,125,747 for Dientes Community Dental Care, subject to the terms and conditions in the resolution. TAP International, Inc., the Authority's financial analyst, concurs with the Authority's staff recommendation.

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**  
**HEALTHCARE EXPANSION LOAN PROGRAM II (HELP II)**

**Resolution No. HII-358**

RESOLUTION APPROVING EXECUTION AND DELIVERY OF  
HELP II 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 (Gov. Code, §15430 et seq.) (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; and

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

WHEREAS, **Dientes Community Dental Care** (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 **\$1,125,747** for a term not to exceed **20 years** for the purposes described in Exhibit A of this resolution (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. Second lien on real property located at 1830 Commercial Way, Santa Cruz, CA 95065
2. 20-year, two percent (3%) fixed rate loan
3. A current appraisal that exhibits a combined loan-to-value ratio not to exceed 95%
4. Executed construction contract
5. Corporate gross revenue pledge
6. Verification of Borrower’s funds and receipt of other funding source(s) to close escrow

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 loan, and to approve any changes in the Project described in the application submitted to the Authority, as that officer shall deem appropriate and authorized under the Act, provided that the amount of the loan shall not be increased above the amount approved by the Authority and provided further that the loan continues to meet the Authority's guidelines for HELP II loans. This resolution shall not 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 and the Deputy Executive Director are 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 those amounts.

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 that the Executive Director or the Deputy Executive Director deems necessary or advisable to effectuate the purposes of this resolution and the transactions contemplated hereby, and that have heretofore been approved as to form by the Authority.

Section 5. This resolution is repealed on January 31, 2025.

Date of Approval: \_\_\_\_\_

## **EXHIBIT A**

### **USE OF HELP II LOAN PROCEEDS FOR RESOLUTION NO. HII-358**

- Renovation of the facility located at 1830 Commercial Way, Santa Cruz, CA 95065.