

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY (“Authority”)  
EXECUTIVE SUMMARY AND RECOMMENDATION**

**Fellowship Homes, Inc. (“FH”)**

**Reinstatement of Resolution Number 358**

**August 25, 2011**

**PURPOSE OF THE REQUEST:**

Fellowship Homes, Inc. (“FH”) is seeking the Authority’s approval to reinstate Resolution Number 358 to extend the expiration date of the resolution by six months. The original resolution was previously approved for \$3.3 million at the January 6, 2011 board meeting and has since expired on June 6, 2011.

**BACKGROUND:**

At the January 6, 2011 meeting, the Authority approved Resolution Number 358, which authorized FH to offer bonds in the tax-exempt market in an amount not to exceed \$3.3 million. Bond proceeds were approved to current refund the CHFFA Insured Health Facility Refunding Revenue Bond Series 1996A, fund a debt service reserve fund, and pay the costs of issuance, including the fees and premiums associated with Cal-Mortgage insurance. FH has not issued the bonds because of the current financial market conditions, more specifically the increase in interest rates experienced since the board approval. Thus, interest rates have not decreased to a point sufficient enough to meet Cal-Mortgage’s interest savings requirements of 4%. FH is requesting the reinstatement of the resolution for the opportunity to issue debt as interest rates decline to a point sufficient to allow refunding.

**FINANCIAL OVERVIEW:**

Staff has received the updated audited (as of December 31, 2010) and unaudited interim financial statements (as of May, 31, 2011) for FH. FH’s audited income statement appears to reflect significant improvements over the review period with operating margins changing from a negative 15.50% in FY 2008 to 8.60% in FY 2010. According to FH’s financial advisor, the improvements in operating margins can be primarily attributed to increases in skilled nursing revenues through higher utilization and improved Medi-Cal reimbursement for FH’s skilled nursing facility in addition to decreases in expenses through a combination of staff reduction and salary freezes. FH’s financial strength appears to be solid with a proforma debt service coverage ratio of 2.76x. FH’s interim financial statements show that FH has a 3.78% operating margin, exhibiting that they appear operationally sound for the five month period of FY 2011.

**RECOMMENDATION:**

Staff recommends the reinstatement of Resolution Number 358 for Fellowship Homes, Inc. Macias Gini & O’Connell, LLP, the Authority’s financial analyst, and Public Financial Management, the Authority’s financial advisor concur with the Authority’s staff recommendation.