

**CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY**

| | | |
|------------------------|--|--|
| Applicant: | Gateways Hospital and Mental Health Center ("Gateways") 1891 Effie Street Los Angeles, CA 90026 Los Angeles County | Amount Requested: \$900,000 Date Requested: October 25, 2012 Requested Loan Term: 15 years Resolution Number: HII-275 |
| Project Site: | 1355 South Hill Street, Los Angeles, CA 90015 (Los Angeles County) | |
| Facility Type: | Community Care Facility (Adult Residential Facility) | |
| Eligibility: | A qualified health facility pursuant to Government Code Section 15432(d)(13) | |
| Prior Borrower: | Yes (2003 HELP II loan, outstanding balance approximately \$29,596 and 2011 CHFFA bonds, outstanding balance approximately \$8,085,000.) | |

Background: Gateways was established in 1953 for the primary purpose of operating mental health facilities, providing housing, and operating an acute psychiatric hospital to serve the needs of mentally ill, emotionally disturbed and maladjusted adults and adolescents. Gateways provides mental health services at six (6) facilities grouped into "campus" locations and serves primarily judicially committed individuals as well as uninsured, low-income and underinsured residents of the Los Angeles community. Gateways served approximately 2,084 clients and had approximately 128,389 total patient visits in FY 2011.

Uses of Loan Proceeds: Loan proceeds will be used to complete the renovation of Gateway's South Hill Street facility which will be used as a 60-bed adult residential facility.

Financing Structure:

- 15-year fixed rate.
- 180 equal monthly payments of approximately \$6,215 (annual payments of \$74,580)
- First (1st) position liens on the properties located at 415, 421, and 433 North Hoover Street, Los Angeles, CA 90004.
- Construction contract for property located at 1355 South Hill Street, Los Angeles, CA 90015
- Corporate gross revenue pledge.
- Current appraisals of the collateralized properties prior to closing acceptable to the Authority, not to exceed loan to value ratio of 95% (currently estimated at 75%).

Financial Overview: Over the review period, the income statement appears to exhibit solid operating results with positive operating margins and revenue growth. Gateways appears to have a solid financial position with an adequate proforma debt service coverage ratio of 1.24x.

| Estimated Sources of Funds: | | Estimated Uses of Funds: | |
|------------------------------------|--------------------------|---------------------------------|--------------------------|
| HELP II Loan | \$ 900,000 | Renovation & Remodeling | \$ 900,000 |
| Borrower Funds | <u>17,000</u> | Financing Costs | <u>17,000</u> |
| Total Estimated Sources | <u>\$ 917,000</u> | Total Estimated Uses | <u>\$ 917,000</u> |

Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through and Community Service Requirement documentation. All documentation satisfies the Authority's requirements.

Parties of Interest: *(Included for the purpose of discerning conflicts of interest)*

Contractor: Shangri-La Construction, LP. Title: Fidelity National Title Company

Staff Recommendation: Staff recommends approval of Resolution Number HII-275 for Gateways Hospital and Mental Health Center in an amount not to exceed \$900,000 for a term not to exceed 15 years, contingent upon receipt of consent from the Office of Statewide Health Planning and Development (OSHPD), and contingent upon financing terms acceptable to the Authority. Macias Gini & O'Connell, LLP, the Authority's financial analyst, concurs with the Authority's staff recommendations.

I. PURPOSE OF FINANCING: In 2011, the Authority issued Insured Revenue Bonds (Gateways Hospital and Mental Health Center), Series 2011 A&B to Gateways to finance, in part, the acquisition and renovation of real property with the intention of converting it into an adult residential facility. Gateways is now seeking HELP II funds to complete the renovation. Gateways experienced higher renovation costs than originally planned due to the age of the property, which was built in 1920. Gateways plans to convert this facility into a 60-bed residence for individuals suffering from chronic mental health issues and to house programs that provide mental health services, case management, medication management and crisis intervention services, as well as round the clock supervision. This project is expected to be completed in January 2013.

The Authority will finance the total cost of the project costs of \$900,000, while the borrower will be contributing \$17,000 to cover the cost of the financing. The normal borrower contribution for the HELP II Program is 5%, plus closing costs, which would have been \$45,000. This contribution was waived since the project itself is secured by three separate real properties in which the borrower contributed funds for the down payment during the purchase process. The estimated value of the three properties is \$1.2 million, leading to a loan to value ratio of 75%. Additionally, Gateways has already invested more than \$1.8 million in the project.

Renovate and remodel a facility..... \$900,000

Gateways plans to use the proceeds of the loan to complete the renovation of a 15,024 square foot facility located at 1355 South Hill Street, Los Angeles, CA 90015. The facility will be used as a 60-bed adult residential facility.

Since the property being renovated has a first lien position by Cal-Mortgage, Gateways is offering three properties located at 415, 421, and 433 North Hoover Street, Los Angeles, CA 90004 as security for the proposed HELP II loan. Gateways estimates the value of the three properties at \$1.2 million, leading to a loan to value ratio of 75%. The Authority will require current appraisals on these properties prior to closing.

Financing Costs 17,000

| | |
|--------------------------|--------------|
| Authority Fees..... | \$11,250 |
| Title & Escrow Fees..... | <u>5,750</u> |

Estimated Uses of Funds \$917,000

II. FINANCIAL STATEMENTS AND ANALYSIS

Gateways Hospital and Mental Health Center Income Statement of Operations (Unrestricted)

| | As of June 30, | | |
|--|---------------------|---------------------|---------------------|
| | 2011 | 2010 | 2009 |
| Revenue | | | |
| Patient services revenue, net* | \$ 25,359,281 | \$ 24,404,218 | \$ 23,707,163 |
| Allocation and grants | 191,950 | 131,723 | 156,150 |
| Other revenue | 268,987 | 246,801 | 188,261 |
| Net assets released from restrictions | 236 | - | - |
| Total revenue | <u>25,820,454</u> | <u>24,782,742</u> | <u>24,051,574</u> |
| Expenses: | | | |
| Salaries and wages | 17,023,932 | 15,950,250 | 15,536,398 |
| Professional fees | 2,387,934 | 2,338,032 | 2,279,195 |
| Purchased services | 1,197,437 | 994,197 | 1,062,420 |
| Rents and leases | 1,305,026 | 1,315,055 | 1,316,406 |
| Supplies | 2,019,493 | 1,954,427 | 1,785,784 |
| Utilities | 490,105 | 476,069 | 430,334 |
| Insurance | 271,695 | 291,627 | 305,540 |
| Depreciation and amortization | 480,741 | 351,388 | 413,059 |
| Other | 609,100 | 557,603 | 535,126 |
| Total expenses | <u>25,785,463</u> | <u>24,228,648</u> | <u>23,664,262</u> |
| Increase in net assets from operating activities | 34,991 | 554,094 | 387,312 |
| Investment income (loss) | 671,473 | 341,505 | (368,807) |
| Gain (loss) on sale of property | (1,300) | 5,853 | 100 |
| Total nonoperating revenue (expense) | <u>670,173</u> | <u>347,358</u> | <u>(368,707)</u> |
| Change in unrestricted net assets | 705,164 | 901,452 | 18,605 |
| Unrestricted net assets at beginning of year | 8,477,010 | 7,575,558 | 7,556,953 |
| Unrestricted net assets at end of year | <u>\$ 9,182,174</u> | <u>\$ 8,477,010</u> | <u>\$ 7,575,558</u> |

| *Net Patient Services (FYE June 30, 2011) | Percent |
|--|----------------|
| L.A. County Department of Mental Health | 66.10 |
| California State Department of Mental Health | 17.00 |
| Federal Bureau of Prisons | 7.80 |
| Private Patients, Insurance and Other | 5.80 |
| L.A. County Department of Children & Family Services | 2.00 |
| Grants and Contributions | 1.30 |
| Total | <u>100.00</u> |

**Gateways Hospital and Mental Health Center
Balance Sheet**

| | As of June 30, | | |
|--|-----------------------|----------------------|----------------------|
| | 2011 | 2010 | 2009 |
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 3,710,274 | \$ 3,286,857 | \$ 3,462,625 |
| Investments | 3,387,307 | 3,006,189 | 3,196,722 |
| Patient receivables, net | 565,909 | 817,111 | 797,254 |
| Other current assets | 398,942 | 386,806 | 434,950 |
| Total current assets | <u>8,062,432</u> | <u>7,496,963</u> | <u>7,891,551</u> |
| Property and equipment, net | 6,685,326 | 4,997,032 | 4,571,612 |
| Investment in partnership | 925,000 | 925,000 | 925,000 |
| Note receivable ^(a) | - | 1,470,844 | - |
| Other assets | 32,401 | 33,901 | 33,901 |
| Total assets | <u>\$ 15,705,159</u> | <u>\$ 14,923,740</u> | <u>\$ 13,422,064</u> |
| Liabilities and net assets | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | \$ 607,631 | \$ 644,758 | \$ 586,265 |
| Accrued salaries and employee benefits | 1,306,381 | 1,171,266 | 1,146,170 |
| Due to government programs and third parties | 1,956,770 | 1,963,552 | 2,191,282 |
| Current maturities on long-term debt | 555,585 | 49,134 | 36,943 |
| Deferred income | 241,803 | 203,631 | 151,219 |
| Total current liabilities | <u>4,668,170</u> | <u>4,032,341</u> | <u>4,111,879</u> |
| Long-term debt | 873,842 | 1,433,180 | 753,418 |
| Other liabilities | 53,719 | 53,719 | 53,719 |
| Total liabilities | <u>5,595,731</u> | <u>5,519,240</u> | <u>4,919,016</u> |
| Net assets: | | | |
| Unrestricted | 9,182,174 | 8,477,010 | 7,575,558 |
| Temporarily restricted | 927,254 | 927,490 | 927,490 |
| Total net assets | <u>10,109,428</u> | <u>9,404,500</u> | <u>8,503,048</u> |
| Total liabilities and net assets | <u>\$ 15,705,159</u> | <u>\$ 14,923,740</u> | <u>\$ 13,422,064</u> |

Financial Ratios:

**Proforma ^(b)
FYE June 30, 2011**

| | | | | |
|--|------|-------|-------|-------|
| Debt Service Coverage of Operating Income (x) | 1.24 | 5.81 | 18.71 | 15.09 |
| Debt Service Coverage of Unrestricted Net Assets (x) | 2.15 | 12.72 | 25.79 | 8.25 |
| Debt to Unrestricted Net Assets (x) | 0.18 | 0.09 | 0.15 | 0.09 |
| Margin (%) | | 0.14 | 2.24 | 1.61 |
| Current Ratio (x) | | 1.73 | 1.86 | 1.92 |

^(a) In June 2010, Gateways purchased a commercial property real estate with a mortgage loan for approximately \$1.47 million, which was originally made with another mortgagee. The note is collateralized by a commercial building and improvements for Hill Street property.

^(b) Recalculates FYE June 2011 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

Gateways' income statement appears to exhibit solid operating results over the review period with positive operating margins and revenue growth.

Over the review period, Gateways has continuously increased its change to unrestricted net assets, recording an approximate \$705,000 increase in FY 2011. Gateways reports that the increase in unrestricted net assets can be attributed to increases in realized gains in investments and patient services revenue for (1) inpatient services that provide intensive therapy to adults and adolescents in need of acute psychiatric evaluation, stabilization and treatment, (2) ambulatory services that provide homeless occupancy, shelter, outpatient and residential and vocational programs, and (3) forensic services that comprise all of the residential and outpatient programs for criminal system clients diagnosed as mentally ill.

Particular Facts to Note:

- During the review period, Gateways' total patient visits appear to have grown 11.14% from 115,517 in FY 2009 to 128,389 in FY 2011, which Gateways attributes to an increase in demand for inpatient, ambulatory and forensics services. Gateways has indicated there is a need for additional forensic services with Los Angeles County and that Gateways has a verbal commitment from the County to increase utilization by an additional 60 beds once the South Hill Street facility is completed.
- In FY 2011, the income statement appears to exhibit a decrease in operating results which Gateways attributes to the fact that employees of Adolescent Outpatient¹ and California Wraparound² programs were under billing their services to the contract with Los Angeles County Department of Mental Health. The program expanded in 2011 and the expenses were incurred in FY 2011; however, it took time to train the staff to the level of billing required to maximize revenues from the contract.
- In FY 2011, salaries and wages increased by \$1.1 million due to hiring a full time pharmacist, director of nursing, and additional staff to expand the Adolescent Outpatient and Wraparound programs.
- In FY 2011, gain from investments income grew by approximately \$330,000, a 96.6% increase from FY 2010, due to favorable market conditions. During FY 2009, Gateways appears to have experienced an unrealized/realized loss of approximately \$369,000 in investments which Gateways attributes to market and economic volatilities. As a result of these volatilities, Gateways indicates that it decreased its investment assets at the end of FY 2009 by 30% and increased its cash on hand to narrow its exposure to market fluctuations.

¹ The program provides a variety of health services for adolescents, ages 13 to 17.

² This program offers services that assist children (ages 3-21) and families to address behavioral and mental health needs.

- Subsequent to FY 2011, CHFFA issued bonds on behalf of Gateways, in the amount of \$8,085,000 for the purchase of the Percy Village facility, an adult residential facility, and to finance and/or refinance, reimburse, renovate and remodel the South Hill Street facility.
- Gateways is not aware of any anticipated funding cuts at the State or County level. In addition, in 2011, Gateways prepared a five-year strategic plan addressing its funding sources as well as new programs to enhance Gateways as an organization. Gateways also enjoys specialized forensic programs funded by the State for which there are currently few competing providers.

Financial Discussion – Statement of Financial Position (Balance Sheet)

Gateways’ balance sheet exhibits solid financial strength with an adequate proforma debt service coverage ratio of 1.24x.

Gateways’ balance sheet shows continuous growth with good liquidity and significant financial resources over the review period with total unrestricted net assets increasing from approximately \$7.6 million in FY 2009 to \$9.2 million in FY 2011, an increase of nearly 21.5%. Gateways attributes this increase to growth in patient services revenue, property and equipment, and unrealized gains in investments. The operating debt service coverage ratio for FY 2011 appears solid at 2.15x, and with the proposed financing, the proforma operating debt service coverage ratio appears to remain acceptable at 1.24x.

Particular Facts to Note:

- In FY 2011, Gateways appears to be highly liquid with approximately \$3.7 million in cash and cash equivalent and approximately \$3.4 million in investments. Gateways days cash on hand for FY 2011 is 110 days.
- With the proposed financing, the debt to unrestricted net assets ratio appears to be 0.18x. When accounting for the CHFFA 2011 Bonds (\$8,085,000), the actual debt to unrestricted net assets yields a 0.76x, indicating Gateways appears to be more leveraged.
- Gateways’ unaudited financial statements for the period ending on June 30, 2012 displays a solid growth in unrestricted net assets, an increase of 14.7% from \$9.2 million to \$10.5 million, which leads to a solid proforma debt service coverage ratio of 3.14x. This proforma debt service coverage ratio, according to Gateways’ management, indicates a continuous demand for Gateways expanding services and proper control of operational costs. Also, along with the growth in net assets, days cash on hand seems to have grown to a healthy 115 days.

EXHIBIT 1

**Clients Served / (Patients Visits)
FISCAL YEAR ENDED JUNE 30**

| | 2009 | 2010 | 2011 |
|---------------|-------------------|-------------------|-------------------|
| Totals | 1,811 / (115,517) | 1,894 / (113,760) | 2,084 / (128,389) |

EXHIBIT 2
OUTSTANDING DEBT

| <u>Date Issued</u> | <u>Original Amount</u> | <u>Amount Outstanding As of June 30, 2011 ^(a)</u> | <u>Estimated Amount Outstanding after Proposed Financing</u> |
|--|------------------------|--|--|
| -EXISTING LONG-TERM DEBT: | | | |
| Center Bank - Note Payable ^(b) , 2010 | \$ 728,896 | \$ 714,282 | \$ 714,282 |
| California Emergency Housing and Assistance Program (EHAP) - Note Payable ^(c) , 2008 | 500,000 | 500,000 | 500,000 |
| California Energy Commission Note Payable - 2006 | 257,491 | 167,990 | 167,990 |
| CHFFA HELP II - Note Payable, 2003 | 150,000 | 47,155 | 47,155 |
| - PROPOSED NEW DEBT: | | | |
| HELP II LOAN | | | 900,000 |
| - TOTAL DEBT | | \$ 1,429,427 | \$ 2,329,427 |

(a) Includes current portion of long-term debt. However, it does not include \$8,085,000 in CHFFA bonds issued after the end of FY 2011

(b) This note was refinanced by the CHFFA, 2011 bonds

(c) This note was forgivable loan that matured in FY 2012.

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

Gateways Hospital and Mental Health Center (“Gateways”) is a 501(c)(3) nonprofit public corporation established in 1953 for the primary purpose of operating mental health facilities, housing and an acute psychiatric hospital to serve the needs of mentally ill, emotionally disturbed and maladjusted adults and adolescents who may benefit from in-patient, outpatient, rehabilitation services, treatment and care, and housing.

Gateways provides mental health care services through six facilities grouped into “campus” locations: the main hospital or main campus has an acute psychiatric hospital, adolescent outpatient program and adult residential facility; two campuses providing adult residential facility services to mental ill adults; one satellite campus with programs for the forensic mentally-ill; one outpatient forensic program; and one campus providing mental health services to the homeless. The campuses primarily serve judicially committed individuals as well as uninsured, low-income and underinsured residents of the Los Angeles County community. Gateways owns operational facilities and leases four other operational facilities. All such facilities are located in the County of Los Angeles, California.

Licensure and Memberships

Gateways is an eligible provider under Medi-Cal and Medicare and its adult residential facilities are licensed by the State of California, Department of Social Services.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-275

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 to 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, **Gateways Hospital and Mental Health Center** (the “Borrower”), a California nonprofit corporation and 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 the amount of **\$900,000** for a term not to exceed **15 years** for the purpose described in the application filed with the Authority and Exhibit A attached hereto (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. 15-year fixed rate;
2. 180 equal monthly payments of approximately \$6,215 (annual payments of \$74,580);
3. First (1st) position liens on the properties located at 415, 421, and 433 North Hoover Street, Los Angeles, CA 90004;
4. Construction contract for property located at 1355 South Hill Street, Los Angeles, CA 90015;
5. Corporate gross revenue pledge; and
6. Current appraisals of the collateralized properties prior to closing acceptable to the Authority, whereby loan to value ratio does not exceed 95% (currently estimated at 75%, using the three properties on North Hoover Street shown above).

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 loan may 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). 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 one year from the date of approval.

Date of Approval: _____

EXHIBIT A

PROJECT DESCRIPTION

Loan proceeds will be used to complete the renovation of the recently purchased 15,024 square foot South Hill Street facility to be used as a 60-bed adult residential facility.

Project Site: 1355 South Hill Street, Los Angeles CA, 90015