# CHFFA REVENUE BOND FINANCING PROGRAM
# EXECUTIVE SUMMARY

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|---|---|---|---|
| **Applicant:** | Montecito Retirement Association ("MRA")<br>300 Hot Springs Rd<br>Montecito, CA 93108<br>Santa Barbara County | **Amount Requested:**<br>**Date Requested:**<br>**Requested Loan Term:**<br>**Resolution Number:** | $55,000,000<br>May 25, 2017<br>Up to 25 years<br>427 |

**Project Site:** 300 Hot Springs Rd, Montecito, CA 93108
**Facility Type:** Continuing Care Retirement Community
**Eligibility:** A multilevel facility pursuant to Government Code 15432(d) (9)
**Prior Borrower:** No

**Background:** MRA is a nonprofit 501(c)(3) public benefit corporation that owns and operates Casa Dorinda, a continuing care retirement community. Casa Dorinda's campus is comprised of 209 independent living apartments, 21 personal care units (assisted living), five memory care beds (assisted living) units, and a 52-bed medical center (skilled nursing) providing a full-service life care retirement service to its senior residents. Casa Dorinda's on-site facilities also include a 13,000 square foot activity center, library, craft room, spa, indoor pool, and an exercise room. Casa Dorinda's residents enter into a LifeCare Contract, which covers lifetime residence and service plan for use of independent living, assisted living, and skilled nursing services. Casa Dorinda's medical care program covers all Medicare covered services including copayments and deductibles. In FY 2016, Casa Dorinda has provided services to approximately 322 residents.

**Use of Proceeds:** Bond proceeds will be used to finance the cost of construction, expansion, remodeling, renovation, furnishings, and equipping of certain capital projects. 2017C Bond proceeds will also be used to refund a 2012 County of Santa Barbara Installment Sale Financing, which will provide MRA approximately $184,000 in net present value savings over the life of the bonds. In addition, MRA expects the drawdown structure of the new money portion of the bonds will provide savings of an approximately $1 million.

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| **Type of Issue:** | Private placement with three series of variable and fixed rate Bonds |
| **Purchaser:** | Compass Mortgage Corporation, an Alabama corporation (Qualified Institutional Buyer ("QIB")) |
| **Expected Credit Rating:** | Unrated – *Please see Guideline discussion on page 3* |
| **Financing Team:** | *Please see Exhibit 1 to identify possible conflicts of interest* |

**Financial Overview:** MRA's income statement exhibits positive financials with steady total revenues during the review period. MRA appears to have a solid financial position with a net proforma debt service coverage ratio of 1.54x.

| **Estimated Sources of Funds:** | | **Estimated Uses of Funds:** | |
|---|---|---|---|
| Bond proceeds | $ 55,000,000 | Project Fund | $ 48,000,000 |
| Borrower funds | 2,120,000 | Refinancing | 7,000,000 |
| | | Capitalized interest | 1,745,000 |
| | | Financing costs | 375,000 |
| **Total Estimated Sources** | $ 57,120,000 | **Total Estimated Uses** | $ 57,120,000 |

**Legal Review:** Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through, Seismic, and the Iran Contracting Act Certificate documentation. All documentation satisfies the Authority's requirements.

**Staff Recommendation**: Staff recommends the Authority approve Resolution Number 427 for Montecito Retirement Association in an amount not to exceed $55,000,000 subject to the conditions in the resolution for unrated debt. Macias Gini & O'Connell, LLP, the Authority's financial analyst, and KNN Public Finance, LLC, the Authority's financial advisor, concur with the Authority's staff recommendation.

## I. PURPOSE OF FINANCING:

Montecito Retirement Association ("MRA") seeks an amount not to exceed $55,000,000 variable rate and fixed rate revenue bonds (the "2017 Bonds") to (i) finance and refinance the acquisition, construction, expansion, renovation and equipping of certain facilities located on Casa Dorinda's campus (the "Campus"), and (ii) refund the 2012 County of Santa Barbara Installment Sale Financing.

The expansion of MRA's independent living and assisted living facilities are needed to meet the growing demand for senior housing units, personal care units, and memory care units. Currently, MRA has a waiting list for larger size rooms such as the two-bed independent living units. MRA's waiting list has an average wait time of three to five years before a unit becomes available. The 2017 Bonds project expansion of 22 independent living units had sold out within five months of project announcement; current and future residents have submitted deposits to hold these units until they are built.

As part of this transaction, MRA also plans to refund the 2012 County of Santa Barbara Installment Sale Financing to resolve a scheduled balloon payment, of approximately $2 million due in April 2022, improve its cash flow and provide Compass Mortgage Corporation, an Alabama corporation, with a first lien deed of trust. The 2017 Bonds will be unrated and privately placed with Compass Mortgage Corporation, an Alabama corporation.

**Project Fund.............................................................................................. $48,000,000**

2017 Bond proceeds will be used to finance the construction of 22 new independent living, six new personal care, and six new memory care units. 2017 Bond proceeds will also be used to finance improvements to enhance infrastructure, a clinic facility, a new dining venue, and road improvements, all with respect to the facilities located on the Campus. The 2017 Bonds Series A (the "2017A Bonds") in an amount not to exceed $32 million will be amortized over five years at a variable interest rate, with interest only payments required for the first 59 months with an optional redemption provision that would allow for the principle to be repaid at the first of each month. The 2017 Bonds Series B (the "2017B Bonds") in an amount not to exceed $16 million will be amortized over 25 years at a fixed interest rate, with interest only payments required for the first three years.

**Refinance ............................................................................................... 7,000,000**

2017 Bond proceeds will be used to refinance County of Santa Barbara Installment Sale Financing Series 2012 (the "2012 Financing"). Proceeds from the 2012 Financing were used to finance and refinance the acquisition, construction, renovations, and equipping of certain health facilities located on the Campus. The 2017 Bonds Series C (the "2017C Bonds") will be amortized over seven years at a fixed interest rate.

| | | | |
|---|---|---|---|
| **Capitalized Interest** ........................................................................ | | | **1,745,000** |
| MRA plans to fund capitalized interest during the anticipated two and a half years of construction. | | | |
| **Financing Costs** ........................................................................ | | | **375,000** |
| | Estimated cost of issuance ............................ | $310,000 | |
| | Estimated placement agent fee ..................... | 65,000 | |
| **Total Estimated Uses of Funds** ............................................................ | | | ***$57,120,000*** |

**Draw Down Structure**

The 2017A Bonds and the 2017B Bonds are being issued as drawdown Bonds in amounts not to exceed $28,500,000 and $15,000,000, respectively. The amount of 2017A Bonds and 2017B Bonds privately placed with the purchaser pursuant to the purchase agreement and issued pursuant to the bond indenture will not exceed the amount to be authorized pursuant to the Authority resolution. However, the purchase price of the 2017A Bonds and 2017B Bonds will be funded in increments (Advances). For federal tax law purposes, drawdown bonds are treated as part of a single issue of obligations, the issue date of which is the first date on which the aggregate draws under the loan exceed the lesser of $50,000 or 5% of the issue price. Funds to pay costs of issuance will comprise the initial Advance to be funded at closing. The amount of the purchase price of the Initial advance to be funded at closing will exceed the lesser of $50,000 or 5% of the issue price. For state law purposes, the 2017A Bonds and 2017B Bonds will be issued and delivered incrementally. This structure will provide significant cost savings to the MRA of approximately $1 million.

## II. GUIDELINES DISCUSSION:

The 2017 Bonds will be unrated and privately placed by Hilltop Securities to Compass Mortgage Corporation, an Alabama corporation. The following guidelines have been applied to the issuance of the 2017 Bonds:

- Must be privately placed with and transferred only to (1) a “Qualified Institutional Buyer” (“QIB”) as defined by SEC Rule 144A, promulgated under the Securities Act of 1933; and certain “Accredited Investors” as defined by SEC Regulation D, Section 501(a), as further described in the Indenture.
- Minimum denomination of $250,000;
- Unconditional Promise to Pay from MRA, as borrower;
- Investor Letter required at issuance;
- Investor Letter required upon each transfer;
- Bonds transfer restrictions must be noted conspicuously on the Bonds itself; and
- Bonds must be physically delivered.

All of the foregoing requirements are designed to maximize the likelihood that the unrated 2017 Bonds will be placed with more sophisticated investors given the higher risk typically perceived to be associated with unrated debt. The 2017 Bonds are not rated because the purchaser does not require a rating. The purchaser and subsequent transferees are required to be a QIB under SEC Rule 144A or an Accredited Investor and will make an independent credit determination to purchase the 2017 Bonds.The foregoing will be reflected in the purchaser’s investor letter.

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## III. PROPOSED COVENANTS, SECURITY PROVISIONS AND DISCLOSURES:

MRA ("MRA" or "the Corporation") is a California nonprofit public benefit corporation, which is solely and severally obligated with respect to payments on the 2017 Bonds. MRA will be the borrower under the loan agreement with CHFFA. All covenants below are applicable to MRA.

In connection with the issuance of the 2017 Bonds, there will be a Bond Indenture for the 2017 Bonds, executed by the Authority and U.S. Bank National Association, as trustee, and a Loan Agreement for the 2017 Bonds, executed by the Authority and MRA.

This Executive Summary and recommendations are based on the covenants and disclosures listed below. Additional or more stringent covenants or disclosures may be added following consultation with Authority staff but without further notification to the Authority's Board. These covenants and disclosures cannot be diluted or removed without subsequent review. If there have been modifications to the proposed covenants and disclosures following the preparation of this executive summary, staff will report it at the meeting.

After reviewing MRA's current financial profile, MRA's prior bond transactions, and considering what the market will support, MRA, Hilltop Securities Inc. (the placement agent), Compass Mortgage Corporation, an Alabama corporation, (the direct placement purchaser), Quint & Thimmig LLP (Bond Counsel), and KNN Public Finance (the Authority's financial advisor), have all concluded the below listed covenants should be applicable to this transaction, are consistent with covenants that have applied to MRA's prior bond transactions, and that MRA's current financial profile does not suggest additional covenants should be required.

The following covenants are applicable to this transaction:

**Unconditional Promise to Pay**. *MRA agrees to pay the Trustee all amounts required for principal, interest or redemption premium, if applicable, and other payments and expenses designated in the Loan Agreement. MRA guarantees all such payments. All Revenues and any other amounts held in a designated fund or account under the Indenture are pledged to secure the full payment of the Bonds.*

**Pledge of Gross Revenues**. *MRA pledges to deposit all revenues, income, receipts and money received into a Gross Revenue Fund. In the event the Corporation is delinquent on a loan repayment, the Gross Revenue Fund will transfer to the name and credit of the Trustee upon consent of the bond owners.*

**Negative Pledge Against Prior Liens.** *MRA agrees not to create, assume or permit any Lien upon the Gross Revenues or its Property other than Permitted Encumbrances or Parity Debt.*

**No Reserve Fund.** *The purchaser is not requiring the funding of a reserve fund for the 2017 Bonds.*

**Limited Permitted Encumbrances.** *MRA is subject to a restrictive set of allowable encumbrances it may incur pursuant to the Indenture.*

**Debt Service Coverage Requirement.** *The Loan Agreement contains a debt service coverage requirement based on 1.50 times (1.25 times during construction) Maximum Aggregate Annual Debt Service coverage ratio. A debt service coverage requirement is a ratio measuring MRA's ability to make interest and principal payments as they become due by assessing the amount of revenue available to meet future debt service payments.*

***Rates, Fees and Charges.*** *MRA is required to set its rates, fees and charges to be such that, in each fiscal year, Income Available for Debt Service is at least 1.50 times (or 1.25 times during construction) Maximum Aggregate Annual Debt Service for each Fiscal Year. This requirement measures MRA's ability to make interest and principal payments as they become due by assessing the amount of revenue available to meet debt service payments.*

***Days Cash on Hand.*** *MRA is required to maintain, as of June 30 and December 31 of each Fiscal Year, beginning with June 30, 2017, at least one hundred fifty (150) Days Cash on Hand, as shown on the Corporation's unaudited and audited financial statements, respectively.*

**Additional Debt Limitation.** *MRA agrees not to incur additional Indebtedness unless authorized by various financial performance or projection measures set out in the Loan Agreement.*

**Disposition of Cash and Property Limitations.** *MRA agrees not to sell, lease or dispose of any property, plant or equipment or liquid assets unless authorized by various limiting measures set out in the Loan Agreement.*

**Other Security.** *MRA pledges and grants a security interest in its facilities to the Trustee for the benefit of bond owners and Parity Debt. Deeds of trust on MRA facilities will secure MRA's obligations under the Loan Agreement.*

**Staff has reviewed the contents of this financing package and find these documents and proposed covenants to be acceptable. KNN Public Finance, LLC has reviewed the Indenture and Loan Agreement associated with this financing package and find these documents and proposed covenants to be acceptable.**

## IV. FINANCIAL STATEMENTS AND ANALYSIS:

**Montecito Retirement Association**
**Statement of Operations**
**(Unrestricted)**

| | For the year ended December 31, | | |
|---|---|---|---|
| | **2016** | **2015** | **2014** |
| **Operating Revenues** | | | |
| Monthly fees* | $ 17,017,080 | $ 16,916,852 | $ 16,512,913 |
| Net entrance fees earned | 6,247,193 | 6,615,700 | 5,599,308 |
| Medical revenue | 777,779 | 830,815 | 921,408 |
| Contributions | 59,979 | 5,050 | 1,500 |
| Service income | 798,172 | 910,523 | 805,026 |
| Investment income | 461,120 | 481,694 | 471,169 |
| Net assets released from restrictions | 114,850 | 124,415 | 244,700 |
| Total revenue, gains and other support | 25,476,173 | 25,885,049 | 24,556,024 |
| **Expenses** | | | |
| Food services | 4,690,280 | 4,549,540 | 4,386,406 |
| Resident services | 958,411 | 683,147 | 749,040 |
| Medical center | 4,217,474 | 4,306,478 | 4,310,697 |
| Housekeeping | 1,426,529 | 1,457,163 | 1,426,740 |
| Plant operations and maintenance | 2,505,368 | 2,425,744 | 2,392,868 |
| Information technology | 617,129 | 590,057 | 506,725 |
| General and administrative | 2,673,279 | 2,697,592 | 2,670,304 |
| Education | 108,763 | 70,667 | - |
| Security | 402,563 | 412,633 | 388,403 |
| Fundraising | 171,893 | 176,685 | 46,282 |
| Marketing | 496,113 | 406,805 | 457,840 |
| Personal care and social services | 1,464,797 | 1,622,391 | 1,572,540 |
| Ancillary services | 111,025 | 281,445 | 433,916 |
| Clinic | 647,035 | 634,978 | 624,918 |
| Health and fitness | 153,755 | 156,947 | 138,625 |
| Activities | 412,313 | 400,993 | 403,904 |
| Depreciation | 2,984,092 | 2,869,552 | 2,761,965 |
| Amortization | 22,332 | 22,332 | 22,332 |
| Interest expense | 96,401 | 218,973 | 261,383 |
| Total Expenses | 24,159,552 | 23,984,122 | 23,554,888 |
| Income from operations | 1,316,621 | 1,900,927 | 1,001,136 |
| Non-operating revenue, gains and other support | | | |
| Realized gains on sales of investments | 866,449 | 811,156 | 1,477,171 |
| Unrealized gains (loss) on investments | 388,660 | (1,832,501) | (1,090,014) |
| Loss on disposal of assets | - | (10,233) | - |
| Net assets released from restriction - purchase of equipment | 662,623 | 17,280 | - |
| Increase in unrestricted net assets | 3,234,353 | 886,629 | 1,388,293 |
| Unrestricted Net Assets, Beginning of Year | 7,854,906 | 6,968,277 | 5,579,984 |
| Unrestricted Net Assets, End of Year | $ 11,089,259 | $ 7,854,906 | $ 6,968,277 |

| *Monthly Fees by Payor Source | FY 2016 | FY 2015 |
|---|---|---|
| Private Pay | 97.9% | 97.8% |
| Financial Assistance Program[1] | 0.3% | 0.5% |
| Medicare | 1.8% | 1.7% |
| | 100% | 100% |

[1] MRA's Financial Assitance Program subsidizes monthly fees for residents who are unable to make payments.

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**Montecito Retirement Association**
**Balance Sheets**

| **Assets** | **2016** | **2015** | **2014** |
|---|---|---|---|
| | **As of December 31,** | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 3,720,376 | $ 1,265,953 | $ 2,698,669 |
| Accounts receivable, net of allowance | 1,549,083 | 1,474,498 | 1,572,809 |
| Current portion of notes receivable | 356,789 | 1,361,668 | 1,238,450 |
| Accrued interest receivable | 11,657 | 26,000 | 13,897 |
| Pledges receivable, current portion | 152,000 | - | - |
| Inventories | 198,778 | 122,971 | 168,558 |
| Prepaid expenses and deposits | 525,503 | 411,935 | 312,285 |
| Total current assets | 6,514,186 | 4,663,025 | 6,004,668 |
| Assets Whose Use is Limited: | | | |
| Deposits in escrow | 5,585,400 | - | - |
| Donor restricted | 1,463,623 | 1,381,521 | 794,692 |
| Board designated reserves | 1,920,372 | 918,672 | 917,020 |
| Liquid reserve assets | 21,800,259 | 19,094,243 | 19,562,585 |
| Total limited use assets | 30,769,654 | 21,394,436 | 21,274,297 |
| Property, Plant and Equipment: | | | |
| Land and buildings | 32,751,824 | 32,751,824 | 32,751,824 |
| Fixtures and equipment | 3,644,928 | 3,663,865 | 3,799,423 |
| Improvements | 32,348,459 | 27,493,703 | 29,403,800 |
| Construction in progress | 5,950,483 | 3,805,897 | 1,856,988 |
| | 74,695,694 | 67,715,289 | 67,812,035 |
| Less accumulated depreciation | (34,789,425) | (32,890,951) | (34,553,077) |
| Net property, plant and equipment | 39,906,269 | 34,824,338 | 33,258,958 |
| Other Assets: | | | |
| Notes receivable, net of current portion | 311,653 | 1,721,566 | 2,162,561 |
| Pledges receivable, net of current portion | 456,000 | - | - |
| Debt issue costs, net of amortization | 117,233 | 139,565 | 161,897 |
| Deferred compensation plan | 575,623 | 533,689 | 558,308 |
| Assets held in charitable remainder trusts | 57,547 | 62,100 | 65,783 |
| Total other assets | 1,518,056 | 2,456,920 | 2,948,549 |
| Total assets | 78,708,165 | 63,338,719 | 63,486,472 |

**Continued**

**Liabilities and Net Assets**

| | | | |
|---|---|---|---|
| Current Liabilities: | | | |
| Accounts payable | 836,066 | 407,508 | 328,008 |
| Accrued expenses | 1,713,729 | 1,778,335 | 1,023,752 |
| Deferred revenue from monthly fees | 1,481,765 | 1,417,953 | 1,413,998 |
| Current portion of long-term debt | 685,190 | 645,021 | 581,202 |
| Total current liabilities | 4,716,750 | 4,248,817 | 3,346,960 |
| Long Term Liabilities: | | | |
| Long-term debt, net of current portion | 6,006,449 | 7,303,885 | 8,558,424 |
| Refundable deposits in escrow | 5,585,400 | - | - |
| Refundable fees | 22,477,662 | 18,137,050 | 20,986,554 |
| Entry fee deposits | 1,093,774 | 1,263,221 | 823,000 |
| Deferred revenue from entrance fees | 25,034,079 | 22,553,530 | 21,384,474 |
| Deferred compensation plan | 575,623 | 533,689 | 558,308 |
| Liabilities under charitable remainder trusts | 13,645 | 15,361 | 17,267 |
| Total long term liabilities | 60,786,632 | 49,806,736 | 52,328,027 |
| Total liabilities | 65,503,382 | 54,055,553 | 55,674,987 |
| Net assets: | | | |
| Unrestricted | 11,089,259 | 7,854,906 | 6,968,277 |
| Temporarily restricted | 1,854,883 | 1,191,192 | 652,676 |
| Permanently restricted | 260,641 | 237,068 | 190,532 |
| Total net assets | 13,204,783 | 9,283,166 | 7,811,485 |
| Total Liabilities and Net Assets | $ 78,708,165 | $ 63,338,719 | $ 63,486,472 |

| **Financial Ratios:** | **Proforma [a] FYE 2016** | **2016** | **2015** | **2014** |
|---|---|---|---|---|
| Debt service coverage (x) -- Operating | 1.11 | 5.93 | 6.24 | 4.85 |
| Debt service coverage (x) -- Net | 1.54 | 8.52 | 4.97 | 5.31 |
| Debt/Unrestricted Net Assets (x) | 4.97 | 0.60 | 1.01 | 1.31 |
| Margin (%) | | 5.17 | 7.34 | 4.08 |
| Current Ratio (x) | | 1.38 | 1.10 | 1.79 |

[a] Recalculates FY 2016 results to include the impact of this proposed financing.

## Financial Discussion – Statement of Operations (Income Statement)

**MRA's income statement exhibits positive financials with steady total revenues during the review period.**

MRA's income from operations has increased approximately 31% from FY 2014 of approximately $1 million to FY 2016 of approximately $1.3 million. Total revenues increased approximately 3.7%, while total expenses increased approximately 2.6%. According to MRA's management, MRA's 2012-2017 strategic plan goals were to strengthen its financial position, through various means by increasing monthly fees to adequately cover MRA's expenses, prudently monitoring expenses, maximizing census, and developing a fundraising program. As a result, monthly fees, which generate approximately 70% of total revenues, have increased from FY 2014 of approximately $16.5 million to FY 2016 of approximately $17 million. According to MRA's management, MRA has lowered expenses by carefully reducing overtime expenses, managing workers' compensation claims, and developing a wellness program to lower the costs of employee health insurance.

*Particular Facts to Note:*

- Education expenses increased from FY 2015 of approximately $70,700 to FY 2016 of approximately $108,800. According to MRA's management, there are several mandatory training requirements for skilled nursing facility employees and all other employees. In FY 2014, the job was split between the Human Resources Director (administration) and Director of Staff Development (medical center). Part ways through FY 2015, the responsibility was assigned to one person under the Education Department. In FY 2014, these expenses were included in other department categories.
- Medical revenues have decreased approximately 15% from FY 2014 of approximately $920,000 to FY 2016 of approximately $780,000. According to MRA's management, FY 2014 had an exceptionally high number of Medicare covered days in the medical center, which produced an unusually high level of revenues for that year. Both FY 2015 and FY 2016 were more in line with historical and projected medical revenue levels. Since MRA does not admit patients to its skilled nursing facility from outside of Casa Dorinda, its medical revenue can fluctuate from year to year depending on the need for skilled nursing care from year to year.
- Contributions have increased from FY 2014 of approximately $1,500 to FY 2016 of approximately $60,000. According to MRA's management, the contribution increase is attributed to a new fundraising team comprised of employees, residents, board members and past board members. Such efforts included a capital campaign to help finance the new expansion project; however, these contributions are included in temporarily restricted contributions.
- Unrealized gains and losses on investments struggled from FY 2014 of approximately negative $1 million to FY 2015 of approximately negative $1.8 million, then increased in FY 2016 to approximately $389,000. According to MRA's management, there was a significant amount of investment activity in all three years and unrealized gains were converted to realized gains. In FY 2015, the investment markets were not as strong as during FY 2014 and FY 2016 and MRA's portfolio performed at a loss and performed under its policy index. A true picture of MRA's investment management performance can be seen when unrealized gains and losses on investments are combined with realized gains and losses on investments.

**<u>Financial Discussion – Statement of Financial Position (Balance Sheet)</u>**

**MRA appears to have a solid financial position with a net proforma debt service coverage ratio of 1.54x over the review period.**

MRA's increase in total assets has outpaced total liabilities. Total assets have increased approximately 24% from FY 2014 of approximately $63 million to FY 2016 of approximately $78.7 million. While total liabilities have increased approximately 18% from FY 2014 of approximately $55.6 million to FY 2016 of approximately $65.5 million. With the issuance of the 2017 Bonds, the net proforma debt service coverage ratios appears to be 1.54x. According to MRA's management, the projected net debt service coverage ratio for FY 2017 would be 5.73x, based on future estimated project revenues.

Total assets increased primarily due to an increase in both limited use assets and property, plant and equipment (including increases in improvements to facilities and construction in progress). According to MRA's management, MRA has increased its limited use assets from FY 2014 of approximately $21 million to FY 2016 of approximately $31 million. Approximately $5.6 million includes entrance fee deposits on the new independent living units included in the expansion project to be funded with proceeds of the 2017 Bonds. The increase is also due to improvements in MRA's operating performance, investment appreciation, project related donations and other factors. In FY 2014, MRA began incurring more intensive planning and entitlement expenses for the new facility improvements reflected in the increase of net property, plant and equipment by approximately 20% from FY 2014 of approximately $33 million to FY 2016 of approximately $40 million.

*<u>Particular Facts to Note:</u>*

- Cash and cash equivalents decreased from FY 2014 of approximately $2.7 million to FY 2015 of approximately $1.3 million and increased in FY 2016 to approximately $3.7 million. According to MRA's management, there were a low number of available units for new residents between the second half of FY 2014 to the first half of 2015. The inventory of units was very high in FY 2016; therefore, proceeds from entrance fees in FY 2014, FY 2015 and FY 2016 were $6.5 million, $3.4 million and $10.5 million, respectively.
- Single occurrences of pledges receivable, deposits in escrow and refundable deposits in escrow related to MRA's expansion project. According to MRA's management, deposits held in escrow are maintained by an escrow agent on behalf of MRA, for resident deposits made to reserve independent living units, which will be constructed as part of the project to be funded with proceeds of the 2017 Bonds. Pledges receivable is a reflection of MRA's capital campaign efforts to raise money for the new personal and memory care facilities.

## V. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- **Section 15438.5(a) of the Act (Savings Pass Through):** MRA properly completed and submitted the "Pass-Through Savings Certification" in addition to a narrative explaining how it intends to pass along savings**.**

- **Section 15491.1 of the Act (Community Service Requirement):** MRA properly completed and submitted this certification and indicated that Medicare patients are accepted.

  The population residing in MRA's service area and that in Casa Dorinda, do not generally meet the Medi-Cal eligibility requirements. MRA's model of service delivery and entrance fees conflicts with Medi-Cal eligible clients' ability to provide the upfront rate structure. Therefore, MRA does not have a contract implemented to accept Medi-Cal residents at this time. To the extent that residents outlive their financial resources, MRA subsidizes these residents through a designated fund established for residents in need.

  MRA also provides support to local charities that may have a direct or indirect impact on its residents or employees. Examples of charities includes the American Heart Association, Visiting Nurse and Hospice of Santa Barbara, the Music Academy of the West, and United Way of Santa Barbara.

  http://www.casadorinda.org/

- **Compliance with Seismic Regulations:** Not Applicable

- **Compliance with Section 15455(b) of the Act (California Environmental Quality Act):** MRA properly submitted relevant documentation addressing CEQA.

- **Religious Affiliation Due Diligence:** MRA properly completed and submitted relevant documentation to meet the religious due diligence requirement.

- **Legal Review:** MRA properly completed and submitted relevant documentation for the Authority's Legal Questionnaire.

- **Iran Contracting Act Certificate: MRA and** the placement agent have properly submitted the certificate to the Authority.

## EXHIBIT 1

## FINANCING TEAM

| | |
|---|---|
| **Borrower:** | Montecito Retirement Association |
| **Agent for Sale:** | California State Treasurer |
| **Issuer's Counsel:** | Office of the Attorney General |
| **Issuer's Financial Advisor:** | KNN Public Finance, LLC |
| **Issuer's Financial Analyst:** | Macias Gini & O'Connell, LLP |
| **Borrower's Counsel:** | McDougal, Love, Boehmer, Foley, Lyon & Canlas |
| **Borrower's Financial Advisor:** | G.L. Hicks Financial, LLC |
| **Bond Counsel:** | Quint & Thimmig LLP |
| **Placement Agent:** | Hilltop Securities Inc. |
| **Purchaser:** | Compass Mortgage Corporation, an Alabama corporation. |
| **Purchaser's Counsel:** | Stradling Yocca Carlson & Rauth, P.C. |
| **Trustee & Escrow Agent:** | U.S. Bank National Association |
| **Trustee's Counsel:** | Dorsey & Whitney LLP |
| **Verification Agent:** | Grant Thornton LLP |
| **Title Company:** | Chicago Title Company |
| **Auditor:** | Bartlett, Pringle & Wolf, LLP |

# EXHIBIT 2

## UTILIZATION STATISTICS

## Montecito Retirement Association

| | | As of December 31, | | |
|---|---|---|---|---|
| | **Capactiy** | **2016** | **2015** | **2014** |
| **RESIDENTS** | | | | |
| Independent Living | 282 | 263 | 271 | 274 |
| Assisted Living | 26 | 20 | 21 | 22 |
| Skilled Nursing | 52 | 39 | 40 | 36 |
| **Total Residents** | **360** | **322** | **331** | **332** |
| | | | | |
| **INDEPENDENT LIVING UNITS** | | | | |
| **Total Occupancy** | **213** | **210** | **211** | **211** |

# EXHIBIT 3

## OUTSTANDING DEBT

## Montecito Retirement Association

| Date Issued | Original Amount | Amount Outstanding As of December 31, 2016 | Estimated Amount Outstanding after Proposed Financing |
|---|---|---|---|
| **-EXISTING LONG-TERM DEBT:** | | | |
| County of Santa Barbara | | | |
| Installment Sale Financing Series 2012 | $ 11,550,000 | $ 6,491,639 | $ - |
| Private Lender, 2013 | | | |
| Mortgage: 1330 Pepper Lane | 500,000 | 200,000 | 200,000 |
| ***- PROPOSED NEW DEBT:*** | | | |
| ***CHFFA 2017 Bonds Series A, B, C*** | | | **55,000,000** |
| ***- TOTAL DEBT*** | | **$ 6,691,639** | **$ 55,200,000** |

## EXHIBIT 4

## BACKGROUND AND LICENSURE

### Background

Montecito Retirement Association ("MRA") is a nonprofit 501(c)(3) public benefit corporation that owns and operates Casa Dorinda, a continuing care retirement community. Casa Dorinda is comprised of 209 independent living apartments, 21 personal care units (assisted living), five memory care units (assisted living), and a 52-bed medical center (skilled nursing facility) to provide a full-service life care retirement service to its residents. Casa Dorinda facilities also include a 13,000 square foot activity center, library, craft room, spa, indoor pool, and an exercise room. Most of the buildings that comprise Casa Dorinda were originally built in 1975. The medical center was constructed in 1997 and has been awarded a five-star rating by the Centers for Medical & Medicaid Services.

Casa Dorinda's residences enter into a LifeCare Contract with MRA, which covers lifetime residence and independent living, assisted living, and skilled nursing services. Casa Dorinda is the only continuing care retirement community in Santa Barbara County that is licensed as a "life care" facility, meaning that it offers a full continuum of care without a change in the monthly fee based on the level of service. In addition to the entrance fee, also known as the LifeCare Contract, residents pay monthly fees based on the actual cost of operations. Casa Dorinda's medical care program covers certain Medicare-covered services including copayments and deductibles. Casa Dorinda provides medi-gap coverage for Medicare, which would cover 20% of medical expenses that Medicare does not pay, as long as the service is approved by Medicare and performed by a Medicare provider.

### Licensure and Memberships

MRA is licensed by the California Department of Public Health as a Skilled Nursing Facility and by the State of California Department of Social Services as a Residential Care Facility for the Elderly.

**RESOLUTION NO. 427**

**RESOLUTION OF THE CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY RELATING TO THE ISSUANCE OF REVENUE BONDS TO FINANCE AND REFINANCE PROJECTS FOR MONTECITO RETIREMENT ASSOCIATION**

WHEREAS, the California Health Facilities Financing Authority (the "Authority"), a public instrumentality of the State of California, is authorized and empowered by the provisions of the California Health Facilities Financing Authority Act (the "Act") to issue revenue bonds and loan the proceeds thereof to any participating health institution to finance the construction, expansion, remodeling, renovation, furnishing, equipping, and acquisition of health facilities operated by participating health institutions (including by reimbursing expenditures made for such purposes) or refinance indebtedness in connection therewith;

WHEREAS, Montecito Retirement Association is a nonprofit, public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation"), which owns and operates health care facilities in the State of California, including a skilled nursing facility operated in conjunction with a residential care facility for the elderly;

WHEREAS, in March 2012, the County of Santa Barbara issued debt in the form of a fixed-rate obligation held by Santa Barbara Bank & Trust (subsequently acquired by Union Bank N.A. in December 2012) in the principal amount of $11,550,000 to refinance the acquisition, rehabilitation, construction and equipping of the Corporation's multi-level retirement facilities ("2012 Project");

WHEREAS, the Corporation desires to (a) finance the construction of 22 new independent living, 6 personal care and 6 memory care units, enhanced infrastructure, an updated clinic facility, a new dining venue and road improvements, all with respect to the Corporation's facilities located in Montecito, California, known as Casa Dorinda (the "2017 Project" and, with the 2012 Project, the "Project"), (b) prepay its obligations under a Second Installment Sale Agreement, dated as of March 1, 2012, by and between the Corporation and the County of Santa Barbara relating to the 2012 Project, executed to refinance the acquisition, construction and equipping of the Corporation's retirement facilities and, therefore, to provide for the redemption of certificates of participation executed and delivered in 2004 for the benefit of the Corporation, (the "2012 Agreement"), and (c) pay costs in connection with the issuance of the Bonds;

WHEREAS, Project is or will be owned and operated by the Corporation, a California nonprofit public benefit corporation and an organization described in section 501(c)(3) of the Internal Revenue Code of 1986, as amended;

WHEREAS, it is proposed that the 2017 Project will be financed from the proceeds of two or more bond issues of the California Health Facilities Financing Authority (the "Authority"), being the Authority's Revenue Bonds (Montecito Retirement Association), Series 2017A, to provide temporary financing, to be issued in an aggregate principal amount not to exceed $32,000,000 (the "Series A Bonds"), and the Authority's Revenue Bonds (Montecito Retirement Association), Series 2017B, to provide permanent financing, to be issued in an aggregate principal amount not to exceed $16,000,000 (the "Series B Bonds");

WHEREAS, it is proposed that the 2012 Project will be refinanced from the proceeds of a third bond issue of the Authority, being the Authority's Refunding Revenue Bonds (Montecito Retirement Association), Series 2017C, to be issued in an aggregate principal amount not to exceed $7,000,000 (the "Series C Bonds" and, with the Series A Bonds and the Series B Bonds, the "Bonds");

WHEREAS, the Corporation requests that the 2017A Bonds and the 2017B Bonds be delivered in increments as described in the Indenture (defined below); and

WHEREAS, final approval of the terms of the issuance and sale of such bonds and various related matters is now sought;

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

Section 1. Pursuant to the Act, the Bonds are authorized to be issued at one time, or from time to time, in one of more series. The proceeds of the Bonds shall be used for the purposes set forth in the fourth WHEREAS clause above. The 2017A and the 2017B Bonds may be issued as a single issue for federal tax law purposes with delivery of the Bonds done in periodic increments under a draw down mechanism.

Section 2. The Treasurer of the State of California (the "Treasurer") is hereby authorized to enter into agreements to sell the Bonds at any time within six (6) months of the adoption of this Resolution, at public or negotiated sale, in such aggregate amount and at such prices and at such interest rate or rates as the Treasurer, with the consent of the Corporation, may determine, and upon such terms and conditions as the Treasurer, with the advice and consent of the Corporation, may determine. The Bonds or any series of them may, at the sole option of the Corporation, be secured by deeds of trust, a bond reserve fund, bond insurance, credit facility and other security arrangements and/or supported by one or more liquidity facilities. Delivery of the Bonds at such times to be determined by the Authority pursuant to documents approved in Section 3 hereof, is hereby approved.

Section 3. The following documents:

(a) an indenture relating to the Bonds (the "Indenture"), by and between the Authority and U.S. Bank National Association, as bond trustee (the "Trustee");

(b) a loan agreement (the "Loan Agreement"), by and between the Authority and the Corporation; and

(c) a bond purchase agreement, including the appendices thereto (collectively, the "Bond Purchase Agreement"), by and among Compass Mortgage Corporation, an Alabama corporation (the "Purchaser"), the Treasurer, and the Authority, and approved by the Corporation

are hereby approved in substantially the forms on file with the Authority prior to this meeting, with such insertions, deletions or changes therein (including, without limitation, insertions, deletions or changes therein appropriate to reflect provisions relating to a deed of trust, a bond reserve fund, bond insurance, any other form of credit or liquidity enhancement, at the sole option of the Corporation, for any series of Bonds) as the officer(s) executing the same may require or approve, such approval to be conclusively evidenced by execution and delivery thereof in the case of the Indenture, the Loan Agreement and the Bond Purchase Agreement. The Executive Director shall seek the advice of bond counsel and counsel to the Authority with respect to any such insertions, deletions, or changes therein.

Section 4. The Authority hereby specifically finds and declares that the findings of the Authority set forth in the Loan Agreement are true and correct.

Section 5. The date, maturity dates (not exceeding 25 years from the date of issue), interest rate or rates, interest payment dates, denominations, forms, registration privileges, place or places of payment, terms of redemption and other terms of the Bonds shall be as provided in said Indenture as finally executed.

Section 6. The Bonds, when executed, shall be delivered to the Trustee for authentication by the Trustee. The Trustee is hereby requested and directed to authenticate the Bonds by executing the Trustee's Certificate of Authentication appearing thereon, and to deliver the Bonds, when duly executed and authenticated, to or upon direction of the Purchaser in accordance with written instructions executed on behalf of the Authority, which instructions are hereby approved. Said instructions shall provide for the delivery of the Bonds to or upon direction of the Purchaser, as determined and confirmed by the Treasurer, upon payment of the purchase price thereof.

Section 7. Each officer of the Authority is hereby authorized and directed to do any and all things which they may deem necessary or advisable in order to consummate the issuance, sale, and delivery of the Bonds and otherwise to effectuate the purposes of this Resolution and the Indenture, the Loan Agreement and the Bond Purchase Agreement. The Authority hereby approves any and all documents to be delivered in furtherance of the foregoing purposes: (a) certifications, including, a tax certificate, and assignment of the Authority's right title and interest in any deed of trust; and (b) any agreement or commitment letter with respect to the provisions of bond insurance, a surety bond and/or a liquidity facility for the Bonds.

Section 8. The provisions of the Authority's Resolution No. 2017-01, apply to the documents and actions approved in this Resolution.

Section 9. The Authority hereby approves and ratifies each and every action taken by its officers, agents, and employees prior to the date hereof in furtherance of the purposes of this Resolution.

Section 10. This Resolution shall take effect from and after the date of adoption.

Date of Adoption: ______________________________