

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**

**THE HELP II PROGRAM**

**Executive Summary**

<p><b>Applicant:</b> Santa Barbara Neighborhood Clinics ("SBNC") 7970 Embarcadero del Mar Isla Vista, California Santa Barbara County</p> <p><b>Project Site:</b> 915 North Milpas Street, Santa Barbara, California</p> <p><b>Facility Type:</b> Community Clinic</p>	<p><b>Amount Requested:</b> \$400,000</p> <p><b>Date Requested:</b> July 25, 2002</p> <p><b>Loan Term:</b> 15 years</p> <p><b>Resolution Number:</b> HII-104</p>																								
<p><b>Uses of Loan Proceeds:</b> Loan proceeds will be used to refinance an existing short-term line of credit loan. This loan was secured by SBNC in February 2002 as interim financing for the purchase of an 1,100 square foot building, which SBNC intends to renovate and expand.</p>																									
<p><b>Type of Issue:</b> HELP II Loan</p> <p><b>Prior HELP II Borrower:</b>No</p> <p><b>Existing Borrower:</b> 1988 bonds issued by the Authority and insured by Cal-Mortgage</p> <p><b>Payments current:</b> Yes, however borrower has requested covenant waiver (see page 10)</p>																									
<p><b>Financial Overview:</b> SBNC has operated basically at break-even net income during the past two fiscal years with improving financial results during fiscal year 2002. SBNC's balance sheet exhibits good liquidity, but is leveraged with significant long-term debt compared to unrestricted net assets.</p>																									
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<p>* As of 6/30/02 SBNC has received written pledges/grant awards of \$1.38 million and additional cash donations of \$325,000.</p>																									
<p><b>Legal Review:</b> No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																									
<p><b>Staff Recommendation:</b> Staff recommends the Authority approve a resolution for Santa Barbara Neighborhood Clinics in an amount not to exceed \$400,000 for a term of 15 years, subject to SBNC providing satisfactory evidence to the Authority that at least \$1.3 million of the required \$1.5 million in capital campaign funds have been pledged and/or received, covenant waivers from Cal-Mortgage for the 1988 bonds are received, a satisfactory property appraisal is completed and standard HELP II loan provisions.</p>																									

**STAFF SUMMARY AND RECOMMENDATION**

**THE HELP II PROGRAM**

Santa Barbara Neighborhood Clinics

July 25, 2002

Resolution Number: HII-104

- I. **PURPOSE OF FINANCING:** One of SBNC’s clinics, the Carrillo Clinic, has operated from its present location in Santa Barbara under a series of leases for the past 20 years. The clinic was notified by its current owner that the lease would not be renewed when it expired in June 2002. This lease has been extended until SBNC can occupy the newly acquired building. Consequently, SBNC recently purchased a building to maintain the services offered at the current leased facility.

***Refinance Short-Term Bank Line of Credit* ..... **\$400,000****

In February 2002, SBNC purchased an 1,100 square foot residential building with a 550 square foot shop on a 10,000 square foot lot. The purchase price of the building was \$700,000. SBNC financed the purchase with a short-term line of credit loan of \$400,000. The balance of the purchase was funded from SBNC’s internal funds generated by the clinic’s fundraising efforts. SBNC wishes to refinance this loan, since this note has a balloon payment clause due in August 2003.

The new proposed HELP II loan payment for SBNC will be approximately \$1,400 per month less than its current lease payment, thus saving them approximately \$17,000 in occupancy costs per year.

SBNC completed an appraisal of the property in September 2001, with an “as is” appraised value of \$700,000, leading to a loan to value ratio of 57%. This relatively low loan-to-value ratio is significantly below the maximum loan-to-value ratio allowed by the HELP II loan program of 95%, thus providing excellent loan security.

***Renovate, Expand and Equip the Newly Purchased Building* ..... **1,400,000****

SBNC’s strategic plan is to relocate the Carrillo Clinic operations to a new site by renovating and expanding the newly acquired building. The purchased building is approximately the same square footage as the existing leased facility, but SNBC expects patient volume to increase by approximately 10% due to improved visibility. The site is located five blocks away from the existing leased Carrillo clinic facility. The purchased site has sufficient space for the addition of a two-story, 3,500 square foot building. This expansion project will house additional clinic functions and administrative or program space. The site also includes enough room for 16 parking spaces.

SNBC estimates that it will cost approximately \$1.3 million for the renovation, expansion and fundraising expenses, with an additional \$200,000 earmarked for equipping and furnishing, for a total project cost of \$1.5 million. SBNC has embarked upon an aggressive capital campaign over the past seven months. This fundraising has generated \$325,000 in cash contributions in addition to \$1.38\* million in additional written pledges/grant commitments, which completes its capital campaign. Management indicates that most of the pledged funds will be received in calendar years 2003 and 2004. The expected construction start date is August 2002 and the estimated construction completion date is late April 2003, with occupancy expected shortly thereafter.

\* Pledges/Grants Receivable are exhibited below:

General Pledges	\$315,967
Cal Endowment Grant (1)	565,000
Weingart Foundation Grant	225,000
Cottage Hospital Grant	200,000
SB Foundation Grant	<u>75,000</u>
Total Pledges/Grants	<u>\$1,380,967</u>

Note: The total pledges/grant commitments and cash donations received to date is approximately \$1.7 million, of which \$1.54 million is available for construction (see (1) below), which is in excess of the estimated capital campaign requirements of \$1.5 million. However, management and the Authority believe it is prudent to have a financial cushion in case certain commitments do not materialize.

(1) Approximately \$165,000 of these funds are restricted to funding staff and outreach costs and are not available to meet construction costs.

<b>Fundraising Expenses</b> .....	<b>100,000</b>
<b>Financing Costs</b> .....	<b><u>8,000</u></b>
Authority Closing Fee.....	5,000
Estimated Closing Costs .....	3,000
<b>Total Uses of Funds</b> .....	<b><u>\$1,908,000</u></b>

**Structure of Financing:**

- 15 year term with 180 monthly payments of approximately \$2,762 (yearly payments of approximately \$33,144).
- Total interest payments of approximately \$92,219.
- A 1<sup>st</sup> lien Deed of Trust on the property located at 915 North Milpas Street, Santa Barbara, California 93103.
- Maximum loan-to-value ratio of 95% (estimated loan to value ratio is only 57%).
- A subordinate lien on corporate gross revenues; second to Cal-Mortgage Insurance.

## II. FINANCIAL STATEMENTS AND ANALYSIS:

### Santa Barbara Neighborhood Clinics Income Statement (Unrestricted)

	<u>June 30,</u>	<u>As of June 30,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(Unaudited)			(Unaudited)
<b>Revenues and Support:</b>				
Patient Service Revenue	\$ 1,100,947	\$ 938,992	\$ 894,818	\$ 1,297,352
Premium Revenue	652,305	329,413	360,827	105,542
Government Contracts	460,670	493,320	487,446	269,733
Contributions + Grants	630,870	463,642	277,177	165,669
Other Income	93,053	188,788	135,710	127,284
Total revenues and support	<u>2,937,845</u>	<u>2,414,155</u>	<u>2,155,978</u>	<u>1,965,580</u>
<b>Expenses:</b>				
Salaries	1,445,043	1,485,401	1,239,113	1,280,554
Supplies	154,579	140,875	114,727	204,952
Payroll Taxes	144,404	127,106	107,514	65,850
Occupancy	135,688	111,123	114,549	83,040
Employee Benefits	95,737	101,053	75,809	38,574
Laboratory fees	68,332	88,840	72,405	9,761
Professional fees	55,403	75,870	76,451	46,524
Contract Labor	163,591	75,283	69,867	57,419
Depreciation	85,387	62,832	58,236	60,101
Interest Expense	51,394	41,935	41,654	42,748
Insurance	28,795	41,408	44,866	61,114
Communication and computers	155,718	29,783	30,683	22,991
Office Supplies	31,060	20,315	14,159	14,572
Equip. Rental & Maint.	31,810	13,942	14,150	11,009
Printing and Copying	9,884	13,726	7,992	1,011
Employee Development	15,872	7,686	6,194	2,478
Other	16,709	37,914	34,889	39,636
Total Expenses	<u>2,689,406</u>	<u>2,475,092</u>	<u>2,123,258</u>	<u>2,042,334</u>
<b>Change in unrestricted net assets</b>	<b>248,439</b>	<b>(60,937)</b>	<b>32,720</b>	<b>(76,754)</b>
Unrestricted net assets, beginning of yr.	568,077	629,014	443,122	503,457
Prior period adjustment	-	-	153,172	16,419
Unrestricted net assets, adjusted	<u>568,077</u>	<u>629,014</u>	<u>596,294</u>	<u>519,876</u>
Unrestricted net assets, end of year	<u>\$ 816,516</u>	<u>\$ 568,077</u>	<u>\$ 629,014</u>	<u>\$ 443,122</u>

**Santa Barbara Neighborhood Clinics  
Balance Sheet**

	<u>June 30,</u>	<u>As of June 30,</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
	(Unaudited)			(Unaudited)
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 515,956	\$ 118,313	\$ 105,061	\$ 131,026
Accounts and grants receivable	476,423	292,370	359,967	161,589
Other	26,033	103,652	71,405	19,299
Total current assets	<u>1,018,412</u>	<u>514,335</u>	<u>536,433</u>	<u>311,914</u>
Assets whose use is limited				
Pledges/Grants Receivable	1,380,967	59,874	53,796	-
Property & equipment, net	1,745,678	811,044	786,457	819,541
Other	20,976	14,902	15,690	72,739
<b>TOTAL ASSETS</b>	<u><u>\$ 4,166,033</u></u>	<u><u>\$ 1,400,155</u></u>	<u><u>\$ 1,392,376</u></u>	<u><u>\$ 1,204,194</u></u>
<b>LIABILITIES AND NET ASSETS</b>				
Current Liabilities:				
Note payable to individual	\$ 5,523	\$ 25,000	\$ 25,000	\$ -
Bank Line of Credit	10,043	11,330	12,782	-
Accounts payable	154,295	141,911	83,370	147,455
Accrued vacation pay	45,254	45,254	36,249	-
Accrued wages payable	33,793	32,941	29,429	47,457
Advance rental payments	30,488	29,595	20,350	-
Other	2,633	12,883	12,715	12,610
Total Current Liabilities	<u>282,029</u>	<u>298,914</u>	<u>219,895</u>	<u>207,522</u>
Long-Term Debt	<u>856,101</u>	<u>490,989</u>	<u>503,467</u>	<u>553,550</u>
Total Liabilities	<u>1,138,130</u>	<u>789,903</u>	<u>723,362</u>	<u>761,072</u>
<b>Net Assets</b>				
Unrestricted	816,516	568,077	629,014	443,122
Restricted	2,211,387	42,175	40,000	-
Total net assets	<u>3,027,903</u>	<u>610,252</u>	<u>669,014</u>	<u>443,122</u>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<u><u>\$ 4,166,033</u></u>	<u><u>\$ 1,400,155</u></u>	<u><u>\$ 1,392,376</u></u>	<u><u>\$ 1,204,194</u></u>

**Financial Ratios:**

	<u>Proforma (a)</u>			
	<u>FYE 2001</u>			
Debt Service Coverage (x)	1.06 (b)	0.80	2.44	0.48
Debt/Unrestricted Net Assets (x)	1.57	0.86	0.80	1.25
Margin (%)		-2.52	1.52	-3.90
Current Ratio (x)		1.72	2.44	1.50

(a) Recalculates 2001 audited results to include the impact of this proposed financing.

(b) Using 2002 unaudited results, proforma debt service coverage improves to 4.58x

## **Financial Discussion:**

**SBNC has operated basically at break-even net income during the past two fiscal years with improving financial results during fiscal year 2002.**

SBNC is the result of a merger between the Westside, Carrillo, and Isla Vista clinics located in the Santa Barbara area. The merger was completed on July 1, 1999. Financial statements for the Carrillo Clinic in fiscal year 1998-1999 were unaudited.

SBNC's most recent audited income statement for fiscal year 2001 indicates a small operating loss of \$60,000, due primarily to increased personnel costs incurred in anticipation of a grant from the Robert Wood Johnson Foundation for a Children's Dental Access Program which was ultimately not approved. SBNC has been under the direction of a new Executive Director since May 2001, who has reduced personnel costs by eliminating two of these staff positions.

The most recent fiscal year's unaudited financials indicate that financial results have improved significantly, with operating income of \$248,000. Management attributes this improvement in 2002 to four factors. First, management has moved to a full accrual accounting basis system for revenues and expenses. Management indicates that during the unaudited fiscal year 2002, they implemented an accounting software package which allows them to more accurately track income and expenses for the year. Under the prior system, some revenues were not recognized on the income statement until the following fiscal year's audit report, in which a prior period adjustment was made to increase revenues for the prior fiscal year. Management has indicated that, in their opinion, fiscal year 2002 numbers more accurately reflect its true financial results. Secondly, due to higher patient volume, net patient revenues and premium revenues (capitation payments) have increased. Thirdly, the new Executive Director has focused on improving fundraising efforts by increasing contributions and grant revenues. Finally, management has controlled salaries, employee benefits and professional fees.

SBNC expects to save approximately \$17,000 per year in operating cash flow as a result of the proposed HELP II loan, with the new loan payment being approximately \$1,400 less per month than the clinic's existing lease payments. SBNC's budget conservatively projects an operating profit of \$58,000 for fiscal year 2003, with improved operations related to newly funded Hepatitis C, HIV and Outreach programs, realization of benefits from new practice management software (funded by the Cedillo-Alarcón Grant), and increasing donation income related to higher visibility created by the capital campaign.

**SBNC's balance sheet exhibits good liquidity, but is leveraged with significant long-term debt compared to unrestricted net assets.**

SBNC has good liquidity, with over \$500,000 in cash and cash equivalents. The clinic has been very successful in raising cash donations of approximately \$700,000 (\$375,000 received for the purchase of the building and \$325,000 received for renovation/expansion phase) over the past seven months.

However, the clinic is highly leveraged with .86x debt to unrestricted net assets. With the proposed financing, SBNC will be more leveraged at 1.57x debt to unrestricted net assets. However, SBNC's leveraged position is due to financing the purchase of its clinic facilities which increases its asset base and builds equity.

SBNC's debt service coverage for the most recent audited fiscal year 2001 is .80x. Per the loan agreement for the 1988 CHFFA issued bonds insured by Cal-Mortgage, the minimum debt coverage required by this agreement is 1.25x (see "Status of Existing Bonds", page 10). However, proforma debt service coverage improves to 1.06x, due to improved cash flow savings realized from the proposed financing. In addition, unaudited fiscal year 2002 operations have improved compared to 2001, with proforma debt service coverage of 4.58x, further indicating that the clinic should be able to manage the proposed payment.

**III. BACKGROUND:**

The Santa Barbara Neighborhood Clinics was formed in 1999 as a result of the merger of three local Santa Barbara community clinics, the Isla Vista Open Door Medical Clinic, the Westside Community Medical Clinic, and the Carrillo Community Clinic. Each of these clinics was opened in the early 1970s and has provided primary care and a variety of health related programs to its patients for nearly 30 years.

The new clinic will replace the Carrillo Community Clinic. It was originally formed in 1971 as the "Freedom Community Clinic of Santa Barbara" and its mission is to provide primary medical care services to those individuals on Santa Barbara's Eastside who would otherwise not have access to medical care.

Carrillo is a major provider of Medi-Cal services and provides capitated medical service to approximately 950 individuals under the Santa Barbara Health Initiative. It is a provider under several private insurance plans as well. In addition to provision of primary care, it provides family planning services to men and women as well as a full array of women's reproductive health services, including breast and cervical cancer screenings. Carrillo provides screening, testing, counseling and some treatment for patients who have contracted or are at risk of infection with HIV/AIDS, Diabetes, Hepatitis C and the full range of sexually transmitted diseases. Carrillo provides well child examinations and immunizations, as well as employment physicals, tests and shots for adults. Other special services include prenatal counseling, alcohol and drug recovery counseling and case services, tobacco cessation programs and a full service dental clinic.

**Licenses and Contracts:**

Currently, SBNC operates three community clinics in Santa Barbara and is licensed through the State Department of Health Services. In addition to providing Medi-Cal primary care services, SBNC is contracted to provide services under the Children’s Health and Disease Prevention (CHDP) program, FamilyPACT women’s reproductive health services, Extended Access to Primary Care (EAPC), Breast and Cervical Cancer Control Project (BCCCP), Comprehensive Perinatal Services Program (CPSP), as well as a variety of county contracts including HIV/AIDS testing, counseling and treatment programs, Hepatitis C counseling and support, Homeless and MIA treatment programs, in addition to limited private insurance contracts.

**Service Area and Competition:**

Franklin Community Clinic and American Indian Health Services provide clinical services in the same service area as the Carrillo Clinic.

Franklin Community Clinic is operated by the County of Santa Barbara and is approximately one mile from the proposed site. It operates well beyond capacity and has a long waiting list for patient visits. Carrillo Clinic and Franklin Community Clinic have operated in the same service area for the past 20 years.

American Indian Health and Services has indicated an intention to open a satellite medical clinic about two miles from the proposed site. Once this 3-room satellite facility opens, it will serve the American Indian Health and Services’ patients who have problems traveling to their primary site on the other side of the city.

**IV. UTILIZATION STATISTICS:**

<u>Service</u>	<u>6 months ending June 30, 2002</u>	<u>2001*</u>	<u>2000*</u>	<u>1999*</u>
CHDP Assessments	287	601	549	634
Medicare	39	85	35	19
Medi-Cal	1,125	2,309	1,912	1,705
EAPC	449	751	710	862
Family Planning	1,320	2,530	2,966	2,004
Self Pay / Private Insurance	1,166	2,279	2,390	3,883
Other County/State Program	505	2,126	3,180	2,742
Other Programs/Payors	130	-	2,218	-
HIV Treatment	-	257	-	-
HIV Testing	124	108	230	84
HIV Counseling	883	642	260	92
Dental (Adult)	623	720	690	617
Dental (Child)	920	1,410	1,074	818
STD (excl HIV)	450	-	585	565
Case Mgmt	0	389	621	-
Peri-natal Service	101	88	-	-
Totals	<u>8,122</u>	<u>14,295</u>	<u>17,420</u>	<u>14,025</u>

\* Based on Calendar Year



**V. OUTSTANDING DEBT:**

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 6/30/01</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
<b>Existing:</b>			
CHFFA series 1988 (Isla Vista Property)	\$375,000	357,945*	\$357,945
Hutton Foundation, note Payable (Westside property)	160,315	145,927*	145,927
Montecito Bank & Trust Payable (Carrillo Clinic)	490,000	-0-**	-0- **
<b>Proposed:</b>			
HELP II Loan, 2002			400,000
<b>TOTAL DEBT</b>		<u>\$503,872</u>	<u>\$903,872</u>

\* Includes current portion of long-term debt

\*\* Loan obtained in February 2002, subsequent to 6/30/01. Current outstanding balance is approximately \$400,000 and will be paid off with the proposed HELP II loan.

**Status of Existing Bonds:**

CHFFA issued bonds in 1988 which were insured Cal-Mortgage for Isla Vista Health Projects, Inc. (SBNC is the result of a 1999 merger between the Westside, Carrillo, and Isla Vista Health Projects, Inc. clinics) which currently have \$357,000 outstanding. Under the existing Loan Agreement, several covenants have not been met, which include:

- 1) Section 6.1 Maintenance of Corporate Existence of the Corporation; Consolidation, Merger Sale or Transfer under Certain Conditions. Specifically, “the corporation must obtain written consent of the Office to such transaction.” In July 1999, Isla Vista Health Projects Inc., Carrillo and Westside clinics merged without Cal-Mortgage consent.
- 2) Section 6.3, Rates and Charges; Debt Coverage. Specifically, “the corporation shall produce net income available for debt service equal to at least 1.25 times maximum aggregate annual debt service.” SBNC actual debt service coverage for fiscal year 2001 was .80x, below the required limit of 1.25x.
- 3) Section 6.5, Limitation on Indebtedness. There are various limitations placed on the corporation for future borrowings, which are described in this section. The corporation has obtained additional indebtedness beyond these allowable limitations without the Office’s consent.

The corporation has requested that Cal-Mortgage waive the above covenants and defer taking any action against the corporation. Cal-Mortgage is in the process of reviewing this request.

**VI. SECTION 15438.5 OF THE ACT:**

The savings resulting from this proposed financing when compared to SBNC's current lease are approximately \$17,000 per year. By owning its own building, SBNC will avoid future increases in occupancy costs associated with lease payment increases, and gain equity buildup. In addition, the savings of the proposed financing when compared to a market-rate conventional loan at 8.0% totals approximately \$190,000 over the life of the loan. This savings will be passed through to SBNC's clients by enabling SBNC to maintain and improve the quality of patient services while also maintaining reasonable sliding fee scales, including low or no cost programs and services based upon need and income.

**VII. LEGAL REVIEW:**

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

**VIII. STAFF RECOMMENDATION:**

Staff recommends the Authority approve a resolution for a HELP II Loan for Santa Barbara Neighborhood Clinics in an amount not to exceed \$400,000 for a term of 15 years, subject to SBNC providing satisfactory evidence to the Authority that at least \$1.3 million of the required \$1.5 million in capital campaign funds have been pledged and/or received, covenant waivers from Cal-Mortgage for the 1988 bonds are received, satisfactory property appraisal is completed and standard HELP II loan provisions.