CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
EXECUTIVE SUMMARY

Applicant:	Northern California Presbyterian Homes & Services, Inc. ("NCPHS") 1525 Post Street San Francisco, CA 94109-6567 (San Francisco County)	**Amount Requested:** **Loan Term:** **Date Requested:** **Resolution Number:**	$43,000,000 30 years August 26, 2004 F-306

Project Sites: San Francisco, CA (San Francisco County), Portola Valley, CA (San Mateo County), Greenbrae, CA (Marin County)

Facility Types: Independent living, assisted living and skilled nursing facilities.

Uses of Bond Proceeds: Bond proceeds will be used for various capital improvement projects to be completed at three of its continuing care retirement communities.

Type of Issue:	Negotiated public offering, variable interest rate
Credit Enhancement:	Allied Irish Bank Letter Of Credit (LOC)
Expected Rating:	A/A-1 (S & P), based on the Allied Irish Bank LOC
Senior Underwriter:	UBS Financial Services, Inc.
Bond Counsel:	Orrick, Herrington and Sutcliffe LLP

Financial Overview: NCPHS is recovering from a loss of all unrestricted net assets resulting from several operational and non-operational difficulties. While the balance sheet shows the impact of the financial difficulties, it also shows improvement over the past 18 months.

Sources of Revenue ($000s):
(FYE 12/31/03

	Amount	Percent
Residence Fees	$35,342	71%
Amortization of Entrance Fees	9,191	18%
Fees for services and other income	4,348	9%
Investment income	1,043	2%
	$49,924	100%

Sources of Funds (000's):		**Uses of Funds (000's):**	
Bond proceeds	$43,000	Construction/renovation	$51,775
Equity contribution	8,770	Financing costs	850
Investment earnings	855		
Total Sources	$52,625	Total Uses	$52,625

Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.

Staff Recommendation: Staff recommends the Authority approve a Resolution in an amount not to exceed $43,000,000 for Northern California Presbyterian Homes & Services, Inc., subject to the bonds having at least an "A" rating by a nationally recognized rating agency.

(mjb)

STAFF SUMMARY AND RECOMMENDATION

Northern California Presbyterian Homes & Services, Inc. ("NCPHS")

August 26, 2004
Resolution Number: F-306

I. PURPOSE OF FINANCING: Bond proceeds will be used for various capital improvement projects to be completed at three of its continuing care retirement communities.

Construction/Renovation.. $51,775,000

NCPHS seeks to make the following capital improvements that will aid in the organization's efforts to remain competitive.

Sequoias – Portola Valley $26,250,000

Assisted Living Facility – Construct a new two-story assisted living (AL) building with 26 single bedrooms.

Memory Loss Unit – Modify existing AL facility into a memory loss unit with 18 bedrooms.

Skilled Nursing Facility (SNF) Refurbishment – Refurbish the existing SNF to increase the number of single rooms from 8 to 18, which will positively impact future revenues.

Cogeneration Facility – Modify existing facility to achieve energy usage savings.

Sequoias – San Francisco $17,325,000

Landscape and waterproof, remodel a dining room, upgrade mechanical systems, and complete modifications to result in energy usage savings. These projects will not result in an increase or decrease in the capacity.

Landscaping and waterproofing concerns have driven the timing of the projects. The dining room remodel is a project that management has been considering for some years but delayed implementation due to the water penetration in the building. To avoid damage to the building structure, the water penetration issue needs to be addressed immediately. The HVAC equipment is in need of replacement since it is over 35 years old and scheduled energy upgrade modifications will generate utility savings expected to cover the financing costs.

Tamalpais	$8,200,000

Replace boiler, construct cogeneration facility, and install domestic water risers, sprinklers, fire alarm system, emergency generator, chiller, and new HVAC. These projects will not result in an increase or decrease to the existing capacity.

The scheduled Tamalpais improvements would have been financed internally if not for the immediate capital needs at the San Francisco and Portola Valley locations. Management has included these projects in the financing so they can be addressed on an expedited basis.

Financing Costs		***850,000***
Cost of Issuance	590,000	
Underwriter discount	260,000	
Total Uses of Funds		***$52,625,000***

Financing Structure:

- Negotiated public offering.
- Variable interest rates, 30-year maturity.
- A/A-1 rating (Standard and Poor's).
- Allied Irish Bank Letter Of Credit.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Northern California Presbyterian Homes and Services, Inc.

Statement of Unrestricted Revenue and Expenses ($000's)

	Six month Period Ending June 2004 (unaudited)	For the years ended December 31 2003	2002	2001
Unrestricted revenues, gains and other support:				
Resident fees*	$ 18,408	$ 35,342	$ 33,297	$ 30,873
Amortization of entrance fees	4,400	9,191	8,763	8,199
Fees for services and other income	2,700	4,348	4,625	4,578
Investment income (losses)	1,033	1,043	(986)	(331)
Total operating revenues and support	26,541	49,924	45,699	43,319
Expenses:				
Housing				
Program	5,875	12,243	11,420	11,612
Interest expense	790	1,594	1,655	1,701
Depreciation	2,886	5,056	5,030	4,609
Food services	4,758	9,579	9,161	8,734
Health care	5,548	11,521	11,064	10,271
Other program services	7,079	13,897	12,790	12,114
Total expenses	26,936	53,890	51,120	49,041
Change in unrestricted net assets from operations	**(395)**	**(3,966)**	**(5,421)**	**(5,722)**
Net unrealized gains (losses) on investments	917	4,071	(1,914)	59
Change in additional minimum pension liability	-	1,218	(1,431)	-
Grants (used) received for programs and facilities	372	947	1,484	598
Other	46	(60)	-	(872)
Increase (decrease) in unrestricted net assets	**940**	**2,210**	**(7,282)**	**(5,937)**
Unrestricted net assets, beginning of year	134	(2,076)	5,206	11,143
Unrestricted net assets, end of year	$ 1,074	$ 134	$ (2,076)	$ 5,206

*HUD Regulatory Agreements require that revenues from each of the 3 HUD (not the three stated in this application) properties owned be segregated and not used to support any other facility. Per NCPHS management, HUD managed facilities are breakeven operations. Revenues and expenses have not been removed from the above information to mirror the information supplied in the Official Statement associated with the proposed bond financing.

NOTE: NCPHS's subsidiary corporation, the NCPHS Foundation, has an unrestricted net asset balance of $5.2 million as of December 31, 2003. The Foundation's annual contribution to the activities of NCPHS averaged $990,000 during the past three years, ranging from a low of $635,000 in 2001 to a high of $1,516,000 in 2002. Financial results of the Foundation have not been included in the above presentation since the Foundation is not obligated under the Loan Agreement or liable with respect to debt service on the bonds.

Northern California Presbyterian Homes and Services, Inc.

Balance Sheet ($000's)

	As of 6/30/04 (unaudited)	As of December 31, 2003	2002	2001
ASSETS				
Current assets				
Cash and cash equivalents	$ 2,353	$ 3,777	$ 2,078	$ 5,241
Marketable securities	33,231	31,856	29,311	29,804
Other current assets	1,991	1,907	2,458	1,939
Long-term investments	-	2,130	2,275	2,036
Limited use assets	1,173	885	887	3,909
Property and equipment, net	73,856	73,203	71,301	67,817
Other assets	2,626	605	640	-
Total assets	$ 115,230	$ 114,363	$ 108,950	$ 110,746
LIABILITIES				
Current liabilities	$ 6,743	$ 8,679	$ 9,535	$ 6,269
Long-term debt	33,545	33,228	35,258	35,649
Unamortized entrance fees	73,868	71,606	64,648	63,622
Other non-current liabilities	-	716	1,585	-
Total liabilities	114,156	114,229	111,026	105,540
Unrestricted net assets	1,074	134	(2,076)	5,206
TOTAL LIABILITIES AND NET ASSETS	$ 115,230	$ 114,363	$ 108,950	$ 110,746

Financial Ratios:

	Proforma (a) FYE December 31, 2003	2003	2002	2001
Debt Service Coverage (x)	1.75	3.42	(0.23)	0.14
Debt-to-unrestricted net assets (x)	576.63	255.74	-16.98	6.85
Margin (%)		0.04	-0.15	-0.14
Current Ratio (x)		4.33	3.55	5.90

(a) Recalculates 2003 audited results to include the impact of this proposed financing. Extraordinary items and other non-recurring costs have been excluded from the calculation.

Financial Discussion:

NCPHS is recovering from a loss of all unrestricted net assets resulting from several operational and non-operational difficulties.

Over the past three fiscal years, the unrestricted net asset balance fell from $5 million to $134,000. Management attributes the reduction to fluctuating investment markets and increasing operating expenses such as insurance premiums, employee benefits and energy costs. During this time, the organization's management maintained cash and marketable securities balances exceeding $30 million and even raised the balances from FYE 2002 to 2003 by a combined $4 million through increases in entrance fees and investment gains. In addition, while maintaining high occupancy and utilization rates, management increased total revenues from FYE 2002 to FYE 2003 by 9%, while the growth in expenses over the same period remained similar to the 5% increase posted from FYE 2001 to FYE 2002.

The interim operating expenses are currently under budget as savings have been achieved in the areas of employee benefits (specifically workers' compensation) and utilities. Management expects additional improvements to the unrestricted net asset balance in the coming years as the investment portfolio has been rebalanced to include a higher percentage of fixed rate assets and as monthly care fees are slated to increase at a rate commensurate with its competitors.

While the balance sheet shows the impact of the financial difficulties, it also shows improvement over the past 18 months.

From FYE 2002 through the current period, total liabilities increased 3% in comparison to the 5% increase to total assets. The slower liability growth came even as unamortized entrance fees increased by 14% during the period, which is primarily attributable to 8 new units opening in the Portola Valley complex resulting in an increase to unamortized entrance fees of approximately $5 million.

Although NCPHS is highly leveraged, it maintains a balance of over $34 million in cash and marketable securities. The proposed debt will leverage the organization even further, but the proforma debt service coverage ratio of 1.75x gives a good indication that this organization has the capacity to repay the proposed additional debt.

III. BACKGROUND:

NCPHS is a California nonprofit public benefit corporation headquartered in San Francisco, California. NCPHS's mission is to improve the quality of life of older persons from all economic levels and cultural backgrounds. Retirement housing is provided in San Jose, Portola Valley, San Francisco (three locations), Greenbrae, and Little River, California. NCPHS also operates outreach programs that provide nutritional and social service programs for seniors.

NCPHS's organizational structure includes the parent corporation, NCPHS, and two non-profit subsidiary corporations: Ross Valley Homes, Inc. and the NCPHS Foundation.

Ross Valley Homes (RVH) holds legal title to the Tamalpais. RVH was organized in 1965 and was responsible for the construction and initial management of the Tamalpais, a life care community in Greenbrae, California. The Corporation became the sole corporate member of RVH in 1984 and presently manages the Tamalpais.

NCPHS Foundation was established to receive and maintain gifts of money and property and make distributions to NCPHS facilities and related activities.

Neither RVH nor the Foundation will be obligated under the Loan Agreement or liable with respect to debt service on the proposed bonds.

Licenses

NCPHS holds the following licenses: (a) a Certificate of Authority from Social Services to enter into continuing care contracts: (b) a license to operate residential care facilities for the elderly issued by Social Services and (c) a license to operate skilled nursing facilities issued by the California Department of Health Services.

Contracts

Medicare and Medi-Cal

NCPHS does not have a Medi-Cal or Medicare contract, as the income and asset levels of the residents of NCPHS do not permit them to qualify for Medi-Cal or Medicare. The life care program offered at NCPHS provides and subsidizes nursing care when needed. The nursing care is at no additional cost to the residents above the entrance fee and monthly service fees.

Governance

The governing body of NCPHS is the Board of Directors, consisting of up to twenty-one members. The by-laws require that a majority of the members of the Board be members of a Church or Presbytery within the Synod of the Pacific of the Presbyterian Church. Members are elected to three-year terms and may serve two consecutive terms. After two terms a member must vacate the Board for at least one year.

Service Area, Competition, and Market Share

Service Area and Competition

The primary service areas for NCPHS's Life Care Facilities and primary competitors, all of which are operating at or near capacity, within that area are described as:

The Sequoias – Portola Valley

The primary service area includes Portola Valley, Los Altos, Menlo Park, Atherton, Palo Alto, Stanford, Redwood City, Ladera and Woodside. About 70% of the future residents are expected to originate from these areas. A comparison of Sequoias – Portola Valley and its competitors is shown as:

Facility	Location	Miles from NCPHS Facility	No. of Units	Fee Type
The Sequoias - Portola Valley	Portola Valley	N/A	214	Entrance Fee
The Channing House	Palo Alto	12	254	Entrance Fee
Glenwood Inn	Menlo Park	14	130	Rental
Seven Oaks	Los Altos	9	152	Rental
Webster House	Palo Alto	12	37	Condo
Palo Alto Commons	Palo Alto	12	120	Rental

The Sequoias – San Francisco

The primary service area includes Telegraph Hill, Russian Hill, the Marina, Pacific Heights, the Richmond, the Sunset and the West of Twin Peaks Districts of San Francisco. About 80% of the future residents are expected to originate from these areas. A comparison of Sequoias – San Francisco and its competitors is shown as:

Facility	Location	Miles from NCPHS Facility	No. of Units	Fee Type
The Sequoias - San Francisco	San Francisco	N/A	289	Entrance Fee
San Francisco Towers	San Francisco	0.5	250	Entrance Fee
The Heritage	San Francisco	1	86	Entrance Fee
The Carlisle	San Francisco	0.1	122	Condo

The Tamalpais

The primary service area includes Stinson Beach, Mill Valley, Mt. Tamalpais, Tamalpais Valley, Sausalito, Belvedere, Tiburon, Corte Madera, Larkspur, Greenbrae, San Rafael, and San Anselmo. About 70% of the future residents are expected to originate from these areas. A comparison of Tamalpais and its competitors is shown as:

Facility	Location	Miles from NCPHS Facility	No. of Units	Fee Type
Tamalpais	Greenbrae	N/A	251	Entrance Fee
The Redwoods	Mill Valley	8	150	Rental
The Aldersly	San Rafael	6	64	Entrance Fee

IV. UTILIZATION STATISTICS:

Utilization by Level of Care
(days of care)

	2001	2002	2003	YTD 2004
The Sequoias - San Francisco				
Independent	108,315	108,014	110,708	54,618
Health Center	15,903	14,697	13,241	7,429
Assisted Living	5,225	4,432	4,857	2,685
TOTAL	129,443	127,143	128,806	64,732
The Sequoias - Portola Valley				
Independent	91,424	91,568	93,151	48,906
Health Center	14,060	12,819	14,031	6,118
Assisted Living	6,388	6,297	6,479	3,232
TOTAL	111,872	110,684	113,661	58,256
The Tamalpais				
Independent	101,693	100,953	102,361	50,988
Health Center	13,503	14,702	11,813	5,734
Assisted Living	3,391	3,530	3,800	1,780
TOTAL	118,587	119,185	117,974	58,502

Year-End Apartment Vacancy (%)

	2001	2002	2003	June 30, 2004
Sequoias - San Francisco				
Studio	2.7%	4.1%	6.7%	8.1%
One Bedroom	1.3%	6.7%	4.0%	4.0%
Two Bedroom	3.2%	1.6%	3.2%	3.2%
TOTAL VACANCY	2.1%	4.9%	4.6%	4.2%
Sequoias - Portola				
Studio	2.8%	2.8%	0.0%	2.8%
One Bedroom	2.5%	2.5%	2.5%	3.4%
Two Bedroom	1.6%	0.0%	1.6%	1.6%
TOTAL VACANCY	2.3%	1.9%	1.9%	2.8%
Tamalpais				
Studio	3.2%	9.5%	3.2%	0.0%
One Bedroom	0.0%	2.2%	0.0%	0.0%
Two Bedroom	0.0%	0.0%	0.0%	0.0%
TOTAL VACANCY	0.8%	3.6%	0.8%	0.0%

SECTION 15438.5 OF THE ACT (Savings Pass Through):

It is the intent of the Legislature in enacting this part to provide financing only to health facilities that can demonstrate the financial feasibility of their projects. It is further the intent of the Legislature that all or part of any savings experienced by a participating health institution, as a result of that tax-exempt revenue bond funding, be passed on to the consuming public through lower charges or containment of the rate of increase in hospital rates.

NCPHS has provided a description of its savings pass through in Attachment A.

VI. SECTION 15459.1 (b) OF THE ACT (Community Service Requirement):

As a condition of the issuance of revenue bonds, whether by the Authority or any local agency, each borrower shall give reasonable assurance to the Authority that the services of the health facility will be made available to all persons residing or employed in the area served by the facility. As part of this assurance, borrowers shall agree to a number of actions, including (a) To advise each person seeking services at the borrower's facility as to the person's potential eligibility for Medi-Cal and Medicare benefits or benefits from other governmental third-party payers, (b) To make available to the authority and to any interested person a list of physicians with staff privileges at the borrower's facility, and (c) To post notices in appropriate areas within the facility regarding services being available to all in the service area. This agreement is a standard “Certification and Agreement Regarding Community Service Obligation”.

NCPHS has executed this certificate, included as Attachment B.

VII. OUTSTANDING DEBT:

Issue:	Original Issue Amount	Amount Outstanding as 12/31/2003*	Estimated Amount Outstanding After Proposed Financing
Existing CHFFA:			
Revenue Bonds, 1998	$ 25,000,000	$ 23,240,000	$ 23,240,000
Other:			
State of California, OSHPD, 1976	400,000	73,682	73,682
FNMA, 1972	3,669,100	1,882,487	1,882,487
US Dept of Housing & Urban Development, 1980**	8,387,300	6,005,423	6,005,423
US Dept of Housing & Urban Development, 1973	3,835,900	2,017,246	2,017,246
US Dept of Housing & Urban Development, 1995***	969,900	1,050,883	1,050,883
Proposed:			
CHFFA Revenue Bonds 2004			43,000,000
		$ 34,269,721	77,269,721

*Includes current portion of long-term debt.

**HUD debt obligations (approximately $10 million at December 31, 2003), are separately secured and NCPHS is not obligated to contribute revenues to support any of its three HUD facilities. Revenues from the HUD facilities are accounted for separately pursuant to the regulatory agreements between NCPHS and HUD and do not comprise part of the gross revenues pledged under the Series 1998 or 2004 Bonds. In the event of default under a HUD Regulatory Agreement, HUD has the right to foreclosure upon the respective HUD facility but does not have any other recourse against NCPHS.

***Interest not due until loan repaid in full. All accrued interest is added to the loan balance.

VIII. 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.

IX. STAFF RECOMMENDATION:

Staff recommends the Authority approve a Resolution in an amount not to exceed $43,000,000 for Northern California Presbyterian Homes & Services, Inc., subject to the bonds having at least an "A" rating by a nationally recognized rating agency.