

**STAFF SUMMARY AND RECOMMENDATION
CALIFORNIA-NEVADA METHODIST HOMES
("CNMH")**

Resolution Number 317
March 23, 2006

ORIGINAL AMOUNT APPROVED:	\$39,000,000	ORIGINAL APPROVAL DATE:	Dec. 1, 2005 (See Exhibit A for Original Executive and Staff Summary)
AMENDED ISSUE AMOUNT:	\$45,000,000		
EXPECTED RATING:	"A" Standard & Poor's (Based on Cal Mortgage's credit rating)		
CREDIT ENHANCEMENT:	Cal Mortgage Insurance		
SENIOR UNDERWRITER:	Herbert J. Sims & Co.		
TYPE OF FACILITY:	Residential care facility, skilled nursing facility		
LOCATION:	Pacific Grove, California, Monterey County Oakland, California, Alameda County		
USE OF BOND PROCEEDS:	Bond proceeds will be used to expand and improve Forest Hill Manor and to reimburse Lake Park Retirement Residence improvement costs.		

ISSUE: California-Nevada Methodist Homes ("CNMH") is requesting Resolution Number 317 authorizing the increase in the bond amount from \$39 million to \$45 million to cover an increase in construction costs. This request supercedes Resolution Number 315 adopted on December 1, 2005 in the amount of \$39 million. There are four primary factors that have contributed to the increase in costs:

- Design Changes/Enhancements:** During the past 12 months, there have been several programmatic design changes made primarily to enhance the residential units, which resulted in increased construction costs beyond that which was estimated.
- Office of Statewide Health and Planning Department (OSHPD) Requirements:** During the 20-month review process, OSHPD required many design changes which individually were minor in nature, but cumulatively resulted in higher than anticipated construction costs.
- Inflation:** The costs of construction materials and labor have increased substantially during the past two years, specifically concrete, steel and lumber pricing. Higher than average cost escalation was factored into the most recent construction estimate, but the devastation from the hurricanes last fall and other worldwide demands have pushed construction material cost inflation even higher than projected.
- Delayed Construction Start:** The final factor adding to increased construction costs is the delayed construction start. The delays in the OSHPD approval process resulted in a delay in the process for establishing the guaranteed maximum price contract, a mandatory condition for financing. As a result, a general contractor was not selected and the project plans were not issued to subcontractors for bid until mid-November. Due to diverted attentions during the holiday season, subcontractor participation in the initial bid process was significantly diminished. At this point the construction start date has been delayed another full six months and the construction costs now include an additional six months' inflation.

The following is an estimate of the revised sources and uses to incorporate the effect of the increase amount.

Estimated Sources of Funds:

Bond Proceeds	\$45,000,000
Equity Funds	4,552,000
Investment Earnings on Trustee Held Funds	<u>1,165,000</u>
Total Sources	<u>\$50,717,000</u>

Estimated Uses of Funds:

Construction	\$37,215,000
Reimbursement	4,500,000
Debt Service Reserve Fund	2,052,000
Financing Costs	<u>6,950,000</u>
Total Uses	<u>\$50,717,000</u>

FINANCIAL UPDATE: CNMH is currently asking for an additional \$6 million to bring the total financing to \$45 million. CNMH's proforma debt service coverage is 1.40x, indicating CNMH has the ability to repay the proposed loan. This proforma debt service coverage is based on a budget projection of Year 3 in the feasibility study. Normally, the proforma debt service coverage is calculated based on the fiscal year 2005 audited results with the additional bond debt payment. The proforma debt service coverage using the normal calculation is 0.58x, which does not take into consideration the additional revenue that will be generated from the new facility.

RELIGIOUS AFFILIATION DUE DILIGENCE: Staff has reviewed the Applicant's responses to the questions contained in the Religious Affiliation portion of the application. No information was disclosed in the questionnaire or discovered by staff to question the Applicant's compliance with the provisions of the Authority's Act relating to religious affiliation.

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.

RECOMMENDATION: Staff recommends the Authority rescind Resolution Number 315 in the amount of \$39,000,000 and approve Resolution Number 317 in an amount not to exceed \$45,000,000 for California-Nevada Methodist Homes, subject to a final Cal-Mortgage Insurance commitment.