

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
THE HELP II PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Sierra View Homes (“SVH”) 1155 E. Springfield Ave. Reedley, California 93654 Fresno County</p> <p>Project Site: Same as above</p> <p>Facility Type: Skilled Nursing Facility</p> <p>Prior HELP II Borrower: No.</p>	<p>Amount Requested: \$725,000</p> <p>Requested Loan Term: 15 years</p> <p>Date Requested: May 28, 2009</p> <p>Resolution Number: HII-239</p>
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Policy Issue: Under the HELP II Loan Program guidelines, the Authority requires a corporate gross revenue pledge, which includes accounts receivables. Staff recommends approval of an exception to these guidelines. Please refer to page 2 of the Staff Summary and Recommendation for additional information.

Background: Located in Reedley, California, SVH is a licensed non-profit skilled nursing facility founded in 1968. SVH’s vision is to be an outstanding full service retirement community that celebrates and enhances the lives of each resident.

Uses of Loan Proceeds: SVH intends to construct a new 3,000 square foot activity and dining center to help relieve overcrowding at its current facility and provide additional capacity.

Financing Structure

- 15-year loan.
- 180 equal monthly payments of approximately \$5,007 (yearly payments of approximately \$60,084).
- Corporate gross revenue pledge behind Cal-Mortgage.
- First (1st) lien position on property located at 1140 E. Evening Glow Ave., Reedley, CA 93654.
- Loan to value ratio not to exceed 95% (estimated loan to value ratio of 35%).

Financial Overview: SVH’s income statement appears to exhibit a solid financial position in fiscal years 2006 through 2008. SVH’s balance sheet appears to be solid with approximately \$4.48 million in total net assets, good liquidity and a healthy cash balance. The proforma debt service coverage ratio for the proposed HELP II loan is 2.04x.

Sources of Funds

HELP II Loan	\$725,000
Borrower Funds	<u>75,000</u>
Total Sources	<u>\$800,000</u>

Uses of Funds

Construction	\$788,937
Financing Costs	<u>11,063</u>
Total Uses	<u>\$800,000</u>

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 for a HELP II loan for Sierra View Homes in an amount not to exceed \$725,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.

STAFF SUMMARY AND RECOMMENDATION

THE HELP II PROGRAM

May 28, 2009

Sierra View Homes (“SVH”)

Resolution Number: HII- 239

POLICY ISSUE: SVH financed Certificates of Participation (COPs) through Cal-Mortgage in March 1996 and secured these COPs with their accounts receivable and a first lien on real property owned by SVH. Though HELP II Loan Program guidelines require securing a gross revenue pledge, including an accounts receivable pledge, staff recommends waiving this guideline to permit the continued pledge of accounts receivable to Cal-Mortgage. In turn, Cal-Mortgage has agreed to subordinate its first lien position in SVH’s real property to the Authority so the Authority may have ample security (estimated value of real property is approximately \$2 million leading to an estimated loan to value ratio of 35%). In addition to the foregoing rationale, SVH’s financials demonstrate general financial strength. CHFFA will also secure a corporate gross revenue pledge behind Cal-Mortgage.

I. PURPOSE OF FINANCING

Construction of a New Activity and Dining Center **\$ 788,937**

SVH seeks to construct a new 3,000 square foot activity and dining center for its skilled nursing residents at its 10-acre campus located at 1155 E. Springfield Ave., Reedley, California. The proposed larger activity and dining center will provide a spacious environment for residents which will include a wide entry way, a significant larger lobby and two strategically placed medical offices. The new center will allow skilled nursing resident to move around more freely, as well as provide easy access to essential services. The existing facility will be utilized for residential care residents. SVH submitted an executed construction contract and the construction is expected to be completed by August 2009.

The proposed HELP II loan will be secured by a first (1st) lien position on property owned by SVH located at 1140 E. Evening Glow Ave., Reedley, California. A full appraisal on this property which has an estimated value of \$2 million will be required prior to closing.

Financing Costs **11,063**

Authority Fees..... 9,063

Title and Escrow..... 2,000

Total Uses of Funds **\$800,000**

II. FINANCIAL STATEMENTS AND ANALYSIS

Sierra View Homes Statement of Activities

	For the Year Ended December 31,		
	2008	2007	2006
Unrestricted Revenue:			
Skilled nursing services	\$3,599,630	\$3,383,036	\$3,237,175
Residential care services and housing revenue	1,496,546	1,394,447	1,315,656
Other operating revenue	33,195	36,289	38,853
Investment income, unrealized loss	(146,125)	70,484	97,375
Charitable contributions	198,533	58,110	33,141
Total unrestricted revenue	<u>5,181,779</u>	<u>4,942,366</u>	<u>4,722,200</u>
Unrestricted expenses:			
Nursing services	2,175,062	2,060,252	1,921,786
Dietary services	619,358	655,173	737,992
Operation and maintenance	518,618	453,104	468,518
Administration	501,447	450,250	430,115
Depreciation and amortization	264,809	252,591	234,488
Interest	178,427	185,149	192,785
Insurance and property taxes	144,642	154,940	160,027
Housekeeping	122,628	130,860	139,184
Activities	111,600	118,434	127,718
Laundry and linen	90,995	91,909	95,347
Social Services	26,696	26,305	28,446
Education	26,239	25,917	27,460
Total unrestricted expenses	<u>4,780,521</u>	<u>4,604,884</u>	<u>4,563,866</u>
Increase in unrestricted net assets	401,258	337,482	158,334
Increase in temporarily restricted net assets	60,152	-	-
Increase in net assets	461,410	337,482	158,334
Net assets, beginning of year	4,016,831	3,679,349	3,521,015
Net assets, end of year	<u>\$4,478,241</u>	<u>\$4,016,831</u>	<u>\$3,679,349</u>

Sierra View Homes
Financial Position

	As of December 31,		
	2008	2007	2006
ASSETS:			
Cash and cash equivalents	\$1,193,591	\$613,754	\$385,437
Accounts receivable	429,667	605,877	606,892
Prepaid expenses	22,616	63,019	29,435
Investments	658,972	894,399	959,448
Property and equipment	4,846,083	4,714,662	4,722,159
Restricted Assets	590,562	632,391	607,681
Debt issue costs	76,693	82,948	89,202
Total assets	\$ 7,818,184	\$ 7,607,050	\$ 7,400,254
LIABILITIES AND NET ASSETS:			
Liabilities:			
Accounts payable	\$69,570	\$106,943	\$82,655
Wages and related benefits payable	103,786	180,516	183,681
Interest payable	58,549	61,287	63,863
Other accrued expenses and liabilities	42,442	41,473	40,706
Long-term debt	3,065,596	3,200,000	3,350,000
Total liabilities	3,339,943	3,590,219	3,720,905
Net assets:			
Unrestricted	4,418,089	4,016,831	3,679,349
Temporarily restricted	60,152	-	-
Total net assets	4,478,241	4,016,831	3,679,349
TOTAL LIABILITIES AND NET ASSETS	\$7,818,184	\$7,607,050	\$7,400,254

Financial Ratios:	Proforma (a)			
	<u>FYE December 31, 2008</u>			
Debt service coverage (x)	2.04	2.39	2.31	1.76
Debt/Unrestricted Net Assets (x)	0.90	0.73	0.83	0.95
Margin (%)		7.74	6.83	3.35
Current Ratio (x)		8.40	5.58	5.34

(a) Recalculates 2008 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

SVH income statement appears to exhibit a solid financial position in fiscal years 2006 through 2008.

SVH experienced positive operating results with increasing net income over the past three fiscal years, along with continued revenue growth in skilled nursing and residential care services as a result of facility upgrades. SVH has posted increases in unrestricted net assets during our review period, improving from \$158,000 in FY 2006 to \$401,000 in FY 2008. This increase in unrestricted net assets was due to charitable donations and fund raising revenue that was prescribed without instructions.

Particular Facts to Note:

- In FY 2008, SVH enjoyed a 242% increase in charitable contributions compared to FY 2007. SVH has improved charitable contributions during the last three FY's by focusing on visibility, increasing fund raising activities and marketing future projects.
- Operation and maintenance increased 14% from \$453,000 in FY 2007 to \$519,000 in FY 2008 as part of a strategic plan to replace old equipment such as plumbing with new, more efficient equipment. Management upgraded equipment on its own (in-house) rather than using outside contractors for a cost savings.
- Administration costs increased nearly 11% in FY 2008 due to the addition of a part-time billing clerk. Medical billing has become more complicated and labor intensive, therefore the need for additional staff was crucial.

Financial Discussion – Statement of Financial Position (Balance Sheet)

SVH balance sheet appears to be solid with approximately \$4.48 million in total net assets, good liquidity and a healthy cash balance.

In fiscal year 2008, SVH balance sheet appears solid with good liquidity of over \$1 million in cash and cash equivalents and a current ratio of 8.40x. Management attributes this success to optimal billing, increases in Medicare rates and facility upgrades. SVH's proforma long-term debt to unrestricted net assets is a 0.90x, indicating moderate leverage. In addition, the debt service coverage ratio appears to be a solid 2.39x. With this proposed financing, the proforma debt service coverage ratio appears to be solid at 2.04x, indicating SVH should comfortably be able to repay the proposed loan.

Particular Facts to Note:

- Accounts receivable decreased in FY 2008 as a result of a concerted effort to delay billing for Medi-Cal payments and clearing any doubtful receivables.

III. UTILIZATION STATISTICS

Sierra View Homes Historical Occupancy by Level of Care

Facility Type	Units/Beds	As of December 31,		
		2008	2007	2006
Skilled Nursing Facility	59	94%	100%	96%
Retirement Living Center (independent)	63	100%	100%	100%
Residential Care/Assisted Living	42*	95%	97%	92%

* Please note: The Residential Care Facility/Assisted Living is licensed for 57 beds; however, since some residents elect to rent a "shared room" as a single, Residential Care/Assisted living is full with an average of 42 residents.

IV. ORGANIZATION

Background

Located in Reedley, California, Sierra View Homes ("SVH") is a non-profit organization incorporated in 1968. SVH owns and operates a skilled nursing facility with 59 beds, a retirement facility with 63 apartments, and a 36 room residential care facility situated on a 10-acre campus. Its vision is to be an outstanding full service retirement community that celebrates and enhances the lives of each resident through three individually unique programs.

SVH offers a spectrum of care from independent living to residential care to nursing care and rehabilitation to meet the individual needs of each resident. Additionally, SVH's 10-acre campus includes a wellness center which consists of a swimming pool and exercise equipment. Other program services include: rehabilitation, outpatient therapy, dining and nursing services as well as daily individual and group activities.

Licenses

SVH is licensed by the State of California Health Services to operate and maintain a Skilled Nursing Facility. Additionally, SVH is licensed by the State of California Department of Public Health to operate and maintain a Residential Care Facility.

V. OUTSTANDING DEBT

<u>Date Issue:</u>	<u>Original Amount</u>	<u>Amount Outstanding* as of 12/31/2008</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing Long-Term Debt:			
Series 1996, Cal Mortgage Certificates of Participation	\$4,200,000	\$3,045,000	\$3,045,000
TCF Equipment Finance	52,000	20,596	20,596
Proposed:			
CHFFA HELP II, 2009		N/A	725,000
TOTAL DEBT		<u>\$3,065,596</u>	<u>\$3,790,596</u>

*Includes current portion of long-term debt.

VI. DUE DILIGENCE:

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

- Savings Pass Through: SVH has provided a description of its savings pass through in **Exhibit A**.
- Section 15459.1 of the Act (Community Service Requirement): SVH has executed this certification indicating that Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **Exhibit B**.
- Religious Due Diligence
- Legal Review

VII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II loan for Sierra View Homes in an amount not to exceed \$725,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.