

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
BOND FINANCING PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: On Lok Senior Health Services (Senior Health) 1333 Bush Street San Francisco, CA 94109 San Francisco County</p>	<p>Amount Requested: \$80,000,000 Requested Loan Term: Up to 40 years Authority Meeting Date: January 25, 2024 Resolution Number: 456</p>												
<p>Project Site: <i>See Exhibit 1</i></p> <p>Facility Type: Community Clinic and Adult Day Health Care</p> <p>Eligibility: Government Code Section 15432(d)(6) & (7)</p> <p>Prior Borrower: Yes (date of last Authority approval – September 2020)</p> <p>Obligated Group: The Obligated Group is comprised of Senior Health and On Lok Community Housing, Inc. (Community Housing).</p>													
<p>Background: Senior Health is a family of community-based, not-for-profit organizations whose mission is to pursue quality of life and quality of care for older adults and their families. The program that Senior Health pioneered became known as Program of All-inclusive Care for the Elderly (PACE). Based on the vision and work of the co-founders, PACE expanded into a nationally replicated program. Senior Health’s PACE program includes nine facilities and four alternative care locations, serving over 1,800 members annually in the counties of Alameda, San Francisco and Santa Clara.</p>													
<p>Use of Proceeds: Bond proceeds will be used to fund the costs of the construction, renovation, remodeling, and equipping of PACE centers located in San Francisco, San Jose, and Union City.</p>													
<p style="text-align: center;">Type of Issue: Direct Bank Placement, tax-exempt fixed rate</p> <p>Expected Credit Rating: Unrated – Please see Guidelines Discussion on page 3</p> <p style="text-align: center;">Financing Team: <i>See Exhibit 2 to identify possible Conflicts of Interest</i></p>													
<p>Financial Overview: The Obligated Group appears to demonstrate solid operating margins over the review period. The Obligated Group appears to have a solid financial position with a pro-forma FY 2023 operating debt service coverage ratio of 1.4x.</p>													
<p><u>Estimated Sources of Funds:</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Bond proceeds</td> <td style="text-align: right;">\$ 80,000,000</td> </tr> <tr> <td style="border-top: 1px solid black;">Total Estimated Sources</td> <td style="text-align: right; border-top: 1px solid black;"><u>\$ 80,000,000</u></td> </tr> </table>	Bond proceeds	\$ 80,000,000	Total Estimated Sources	<u>\$ 80,000,000</u>	<p><u>Estimated Uses of Funds:</u></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Project fund</td> <td style="text-align: right;">\$ 72,574,926</td> </tr> <tr> <td>Capitalized interest fund</td> <td style="text-align: right;">7,012,574</td> </tr> <tr> <td>Financing costs</td> <td style="text-align: right;">412,500</td> </tr> <tr> <td style="border-top: 1px solid black; border-bottom: 3px double black;">Total Estimated Uses</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;"><u>\$ 80,000,000</u></td> </tr> </table>	Project fund	\$ 72,574,926	Capitalized interest fund	7,012,574	Financing costs	412,500	Total Estimated Uses	<u>\$ 80,000,000</u>
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<p>Due Diligence: Staff has confirmed the following documentation provided by On Lok Senior Health Services satisfies the California Health Facilities Financing Authority’s (Authority) requirements: Eligibility, Legal Review, the California Environmental Quality Act, and the certifications for Pass-Through Savings and Community Service Obligation.</p>													
<p>Staff Recommendation: Staff recommends the Authority approve Resolution No. 456 in an amount not to exceed \$80,000,000 for On Lok Senior Health Services, subject to the terms and conditions in the resolution. TAP International, Inc., the Authority’s financial analyst, and KNN Public Finance, LLC, the Authority’s municipal advisor, concur with the Authority’s staff recommendation.</p>													

Disclaimer: Any information related to the borrower, including any data or analysis related to the borrower’s financial condition or ability to repay the financing, described in this staff report is based on information provided by the borrower and was prepared solely for members of the Authority’s Board and to satisfy certain provisions of the California Health Facilities Financing Authority Act (Gov. Code, §15430 et seq.). Prospective investors should not rely on information in this staff report and must perform their own due diligence to obtain information essential to making an informed investment decision.

STAFF SUMMARY, ANALYSIS, AND RECOMMENDATION

I. PURPOSE OF FINANCING

Senior Health is requesting approval to issue tax-exempt bonds in an amount not to exceed \$80 million. In the spring of 2023, Senior Health acquired two buildings, one located in San Jose and one in Union City, that it plans to convert into new PACE centers. A portion of the bond proceeds will be used for the construction, renovation, remodeling, and equipping of the two buildings to be used as PACE centers with the intent to open both in early 2025. Bond proceeds also will be used to renovate two buildings located in San Francisco, one is used by Senior Health and Community Housing and the other is used by Community Housing.

Project Costs **\$79,587,500**

San Jose PACE Building

Bond proceeds will be used for the construction, renovation, remodeling, and equipping of a new PACE center that will provide adult day health care services and primary care clinic services. The single-story building is approximately 20,500 square feet with 60 rooms, and the following services are currently planned to be provided: primary care (including medical and nursing), dentistry, audiology, podiatry, optometry, physical therapy, occupational therapy, recreational therapy, home care coordination, nutritional counseling, pre-cooked meals, nursing home care coordination, social services coordination, and social work counseling.

Union City PACE Building

Bond proceeds will be used for the construction, renovation, remodeling, and equipping of a new PACE center that will provide adult day health care services and primary care clinic services. The single-story building is approximately 26,600 square feet with 65 rooms, and the following services are currently planned to be provided: primary care (including medical and nursing), dentistry, audiology, podiatry, optometry, physical therapy, occupational therapy, recreational therapy, home care coordination, nutritional counseling, pre-cooked meals, nursing home care coordination, social services coordination, and social work counseling.

Montgomery Building

Bond proceeds will be used for the renovation of the Montgomery building in San Francisco that provides Alternative Care Setting services, primary care services, and residential housing. The building is approximately 16,200 square feet with four floors, and renovation will include the waterproofing and repair of the exterior façade along with the renovation of the residential floors.

Gee Building

Bond proceeds will be used for renovations at the Gee Building in San Francisco that provides primary care clinic services, adult day health care services, residential housing, meal services, and home health services. The building is approximately 69,300 square feet with four floors, and renovations will include replacing the heating-ventilation-air-conditioning units, roof and solar panel replacements, stairwell repairs, and the waterproofing and renovation of a healing garden.

Financing Costs	<u>412,500</u>
Total Estimated Uses of Funds	<u>\$80,000,000</u>

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II. GUIDELINES DISCUSSION

The CHFFA Series 2024 bonds (Series 2024 Bonds) will be an unrated direct placement with JP Morgan Chase Bank (Purchaser). The following are the Authority's guidelines for unrated debt:

- Must be privately placed with and transferred only to a "Qualified Institutional Buyer" (QIB) as defined by SEC Rule 144A, promulgated under the Securities Act of 1933*;
- Minimum denomination of \$250,000;
- Unconditional Promise to Pay from Borrower;
- Investor Letter required at issuance;
- Bond transfer restrictions must be noted conspicuously on the bond itself*; and
- Bonds must be physically delivered*

All of the foregoing requirements are designed to maximize the likelihood that the unrated Series 2024 Bonds will be placed with more sophisticated investors given the higher risk typically perceived to be associated with unrated debt. The Series 2024 Bonds are not rated at this time because the Purchaser does not require the Series 2024 Bonds to be rated. The Purchaser has indicated it is a QIB under SEC Rule 144A and will make an independent credit determination to purchase the Series 2024 Bonds.

* Senior Health has requested the following exceptions to the Authority's Bond Issuance Guidelines for Unrated Debt for this transaction:

Senior Health and the Purchaser request delivery of the Series 2024 Bonds electronically through the Depository Trust Company's book-entry system. In addition to permitting transfers of the Series 2024 Bonds to QIBs, Senior Health and the Purchaser also request that the Series 2024 Bonds may also be transferred to (1) "accredited investors" as defined in Rule 501 of Regulation D of the Securities Act of 1933, as amended (Accredited Investors) and (2) a trust or other custodial arrangement established by the purchaser or one of its affiliates, the owners of any beneficial interest in which are limited to QIBs or Accredited Investors. The Authority has made similar exceptions in prior transactions. KNN Public Finance, LLC (KNN), the Authority's municipal advisor, considers that the minimum denomination of \$250,000, along with the requirements in the Bond Indenture regarding transferability to the purchasers described in the preceding sentence, and the representations and warranties provided by the Purchaser with regard to transferability in the form of an Investor Letter, provide adequate surety that only QIBs, Accredited Investors, or a trust or other custodial arrangement established by the purchaser or one of its affiliates, the owners of any beneficial interest in which are limited to QIBs or Accredited Investors, would hold the Series 2024 Bonds – both at purchase and in the event the Series 2024 Bonds are transferred.

III. PROPOSED COVENANTS, SECURITY PROVISIONS, AND DISCLOSURES

This executive summary and recommendations include minimum requirements. 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 Board meeting.

After reviewing the Obligated Group's (defined below) credit profile, including its current financial profile, prior bond transactions, and considering what the market will support, Senior Health, KNN, and the financial advisor for Senior Health have all concluded the covenants listed below should be applicable to this transaction, are consistent with covenants that have applied to the Obligated Group's prior bond transactions, and the Obligated Group's current financial situation does not suggest additional covenants should be required. The Purchaser may require additional covenants from the Obligated Group.

Obligated Group: Senior Health and its affiliate, Community Housing, are currently the only members of the Obligated Group created under a Master Trust Indenture, dated as November 1, 2020 (as supplemented from time to time, the Master Indenture). Senior Health is the Obligated Group Representative under the Master Indenture and acts on behalf of itself and the other Member of the Obligated Group, pursuant to the provisions of the Master Indenture. On the date of issuance of the Series 2024 Bonds, Senior Health and Community Housing will be the only Members of the Obligated Group.

Senior Health will be the borrower under the loan agreement (Loan Agreement) to be entered into with the Authority in connection with the issuance of the Series 2024 Bonds. Acting on behalf of itself and the other Member of the Obligated Group, as Obligated Group Representative, Senior Health will issue an Obligation No. 2 under the Master Indenture to secure the obligations of Senior Health under the Loan Agreement. Both Senior Health and Community Housing, as Members of the Obligated Group, will be jointly and severally liable for payments on the Obligation No. 2. The Series 2024 Bonds will be directly purchased by the Direct Purchaser, who will separately enter into a Continuing Covenant Agreement with Senior Health.

The following covenants are applicable for this transaction:

Unconditional Promise to Pay. *Senior Health agrees to pay the Trustee all amounts required for payment of the principal (or Redemption Price), interest with respect to the proposed Series 2024 Bonds and agrees to pay the additional payments and expenses specified in the Loan Agreement. In addition, Senior Health, acting on behalf of itself and the other Member of the Obligated Group, will issue an Obligation No. 2 under the Master Indenture to secure the obligations of Senior Health under the Loan Agreement.*

All Revenues¹ (which will include payments by Senior Health under the Loan Agreement and payments by the Obligated Group on the Obligation No. 2) and amounts held in the funds and account established under the Indenture (excluding the Rebate Fund) will be pledged to secure the full payment of the proposed Series 2024 Bonds.

¹ Capitalized terms are defined in the Indenture.

Pledge of Gross Revenues. *Each Member of the Obligated Group has in the Master Indenture granted to the Master Trustee a security interest in the Gross Revenues of the Obligated Group Members and the Gross Revenue Fund established under the Master Indenture.*

Limitation on Liens; Permitted Liens. *Each Member of the Obligated Group has agreed in the Master Indenture not to create, assume or suffer to exist any Lien upon its Property except for Permitted Liens.*

Debt Service Coverage Requirement. *The Master Indenture will require that the Obligated Group maintain a minimum Debt Service Coverage Ratio.*

Limitations on Indebtedness and Restrictions on Guaranties. *Each Member of the Obligated Group has agreed not to incur Indebtedness or Guaranties unless authorized by various provisions set out in the Master Indenture.*

Limitations on Disposition of Assets. *Each Member of the Obligated Group has covenanted not to voluntarily sell, lease, or otherwise dispose of Property in any Fiscal Year other than as authorized by various provisions set out in the Master Indenture.*

Limitations on Merger, Consolidation, Sale, or Conveyance. *Each Member of the Obligated Group has agreed not to merge or consolidate with any entity, which is not a Member of the Obligated Group or sell or convey all or substantially all of its assets to an entity not a Member of the Obligated Group other than as authorized by the various provisions set out in the Master Indenture.*

Days Cash on Hand Requirement. *The Master Indenture contains a minimum Days Cash on Hand covenant, which will be effective only as long as the Series 2020 bonds previously issued remain outstanding.*

Security Interest in Designated Property/Deed of Trust. *Under the Master Indenture, the Obligated Group has granted a deed of trust and security agreement in certain of its facilities, including real estate and equipment, as security for payment of all Master Indenture obligations, including the Obligation for the Series 2024 Bonds for so long as the obligations relating to the Series 2020 Bonds and the Series 2024 Bonds are outstanding.*

Limitations on Withdrawal from the Obligated Group and Entrance into the Obligated Group. *The Master Indenture sets forth certain requirements, including certain financial tests, which must be met for withdrawal from, or entry into, the Obligated Group.*

Staff has completed its due diligence, and KNN has reviewed the bond documents associated with the proposed financing and found these documents and proposed covenants and guidelines to be acceptable.

IV. FINANCIAL STATEMENTS AND ANALYSIS

The Obligated Group includes On Lok Senior Health Services and On Lok Community Housing, Inc., and financial statements for each organization are presented and analyzed here for FY 2021 through FY 2023.

**On Lok Senior Health Services
Statement of Activities
Unrestricted**

	Year Ended June 30,		
	2023	2022	2021
Support and revenue			
Medicare premiums earned	\$ 57,429,037	\$ 52,898,856	\$ 49,437,526
Medi-Cal premiums earned	168,051,963	151,251,799	140,824,960
Premiums from participants	1,197,262	1,179,434	1,227,997
Grants and contributions	601,953	177,618	181,866
Interest and dividend income	3,467,830	4,507	99,231
In-kind contribution	35,003	2,559,606	2,333,198
Rental - related organizations	2,389,513	369,437	558,619
Government grants and contracts	1,291,043	67,334	23,464
Miscellaneous	611,873	1,808,126	1,745,168
Net assets released from restriction	189,551	1,538,784	201,053
Total support and revenue	<u>235,265,028</u>	<u>211,855,501</u>	<u>196,633,082</u>
Expenses:			
Payroll expenses	100,922,680	89,326,827	86,832,185
Contracted services	90,776,893	77,254,235	71,320,266
Management contracts	14,128,347	-	-
Travel and training	1,221,055	835,965	497,034
Rent	4,189,150	4,009,820	4,222,198
Prescriptions	-	11,873,807	10,472,572
Supplies	6,774,712	5,548,018	4,809,601
Maintenance and repairs	748,675	1,621,097	2,053,250
Utilities	878,109	671,611	675,556
Telephone and dispatch	1,136,528	959,104	1,046,782
Insurance	1,335,722	1,262,346	1,065,925
Interest	978,594	980,066	720,417
Contributions	9,525	9,345	6,344
Depreciation and amortization	3,024,887	3,154,742	3,457,353
Other	3,675,347	3,127,878	3,201,812
Total expenses	<u>229,800,224</u>	<u>200,634,861</u>	<u>190,381,295</u>
Change in net assets from operations	5,464,804	11,220,640	6,251,787
Other gains (losses)			
Net realized gains on investments	(2,526,348)	2,680,276	4,279,614
Net unrealized loss on investments	7,015,314	(24,603,732)	13,806,540
Loss on disposal of assets	-	(1,812,247)	(108,612)
Loss on extinguishment of debt	-	-	(273,168)
Total other gains (losses)	<u>4,488,966</u>	<u>(23,735,703)</u>	<u>17,704,374</u>
Change in net assets	9,953,770	(12,515,063)	23,956,161
Net Assets, beginning of year	<u>135,200,585</u>	<u>150,715,648</u>	<u>139,759,487</u>
Distribution to related organization	-	(3,000,000)	(13,000,000)
Net Assets, end of year	<u>\$ 145,154,355</u>	<u>\$ 135,200,585</u>	<u>\$ 150,715,648</u>

**On Lok Senior Health Services
Statement of Financial Position**

	As of June 30,		
	2023	2022	2021
Current Assets			
Cash and cash equivalents	\$ 12,760,797	\$ 9,849,705	\$ 10,442,645
Receivable from related organizations	234,896	157,098	132,221
Accounts receivable	18,693,666	14,129,592	14,186,632
Contributions receivable	70,439	30,600	1,456,199
Prepaid expenses and deposits	3,512,403	3,360,009	4,001,061
Total current assets	<u>35,272,201</u>	<u>27,527,004</u>	<u>30,218,758</u>
Noncurrent Assets			
Investments	120,215,870	121,342,904	137,652,445
Property and equipment, net	44,028,734	31,567,724	31,757,475
Contributions receivable, net of current portion	217,327	109,925	136,018
Operating lease right-of-use asset, net	1,557,405	1,583,398	2,553,496
Finance lease right-of-use asset, net	37,297	87,027	136,757
Bond project fund	4,627,692	6,469,097	7,332,243
Debt service reserve	1,527,111	1,474,962	1,474,078
Cash restricted for Knox-Keene license	300,000	300,000	300,000
Endowment fund held by trustee	1,641,792	1,588,272	1,856,674
Other assets	95,684	69,693	76,985
Total noncurrent assets	<u>174,248,912</u>	<u>164,593,002</u>	<u>183,276,171</u>
Total assets	<u>\$ 209,521,113</u>	<u>\$ 192,120,006</u>	<u>\$ 213,494,929</u>
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts payable	\$ 2,572,281	\$ 2,784,084	\$ 1,129,247
Medical claims payable	4,849,064	4,780,474	4,168,124
Accrued payroll, benefits and taxes	10,886,462	11,198,426	15,285,354
Accrued liabilities	4,470,789	3,856,652	3,457,289
Due to government program-Medicare	337,997	614	131,259
Current portion of bonds payable	335,353	326,038	316,722
Payable to related organizations	4,065,903	2,116,077	3,224,485
Deferred revenue	5,311,747	73,139	-
Operating lease liability	1,061,530	855,236	1,016,748
Finance lease liability	38,706	50,274	48,790
Total current liabilities	<u>33,929,832</u>	<u>26,041,014</u>	<u>28,778,018</u>
Long-term Liabilities:			
Operating lease liability, net of current portion	585,220	874,217	1,729,453
Finance lease liability, net of current portion	-	38,706	88,980
Bonds payable, net	-	23,478,555	23,788,886
Deferred financing costs	3,285,022	-	-
Premium on bonds payable	23,158,908	3,479,701	3,680,026
Total long-term liabilities	<u>27,029,150</u>	<u>27,871,179</u>	<u>29,287,345</u>
Total liabilities	<u>60,958,982</u>	<u>53,912,193</u>	<u>58,065,363</u>
Net Assets:			
Without donor restrictions			
Designated	89,405,211	76,993,592	77,232,734
Undesignated	55,749,144	58,206,993	73,482,914
Total without donor restrictions	<u>145,154,355</u>	<u>135,200,585</u>	<u>150,715,648</u>
With donor restrictions	3,407,776	3,007,228	4,713,918
Total net assets	<u>148,562,131</u>	<u>138,207,813</u>	<u>155,429,566</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 209,521,113</u>	<u>\$ 192,120,006</u>	<u>\$ 213,494,929</u>

On Lok Community Housing, Inc.
Statement of Activities
Unrestricted

	Year Ended June 30,		
	2023	2022	2021
Support and revenue			
Rental - related organizations	\$ 1,755,651	\$ 1,689,736	\$ 1,623,311
Rental - other	799,839	727,351	626,307
Maintenance contracts	1,147,278	1,075,310	1,183,118
Interest and miscellaneous income	465,145	189,953	306,051
Other contributions	599	25,000	-
Miscellaneous income	-	-	1,255
Total support and revenue	<u>4,168,512</u>	<u>3,707,350</u>	<u>3,740,042</u>
Expenses:			
Salaries and employee benefits	1,423,156	1,338,569	1,016,901
Contracted services	1,293,396	1,329,887	1,644,193
Travel and training	16,231	12,782	27,025
Supplies	80,277	54,620	79,245
Maintenance and repairs	277,185	277,419	209,180
Utilities	232,791	192,976	188,784
Telephone and dispatch	20,012	16,428	18,788
Insurance	77,452	76,176	60,975
Interest	592,761	597,234	383,637
Other	74,069	38,413	58,175
Depreciation and amortization	448,157	433,908	435,476
Total expenses	<u>4,535,487</u>	<u>4,368,412</u>	<u>4,122,379</u>
Change in net assets from operations	(366,975)	(661,062)	(382,337)
Other gains (losses)			
Net realized gains (loss) on investments	(153,729)	149,278	164,028
Net unrealized gains (loss) on investments	513,248	(1,501,365)	970,177
Loss on disposal of assets	-	(5,604)	-
Loss on extinguishment of debt	-	-	(61,105)
Total other gains (losses)	<u>359,519</u>	<u>(1,357,691)</u>	<u>1,073,100</u>
Change in net assets	(7,456)	(2,018,753)	690,763
Net Assets, beginning of year	<u>9,693,093</u>	<u>11,711,846</u>	<u>11,021,083</u>
Net Assets, end of year	<u>\$ 9,685,637</u>	<u>\$ 9,693,093</u>	<u>\$ 11,711,846</u>

On Lok Community Housing, Inc.
Statement of Financial Position

	As of June 30,		
	2023	2022	2021
Current Assets			
Cash and cash equivalents	\$ 421,745	\$ 867,294	\$ 236,207
Receivable from related organizations	36,372	69,834	413,373
Accounts receivable	1,206	3,973	5,305
Prepaid expenses and deposits	61,487	73,775	88,091
Total current assets	520,810	1,014,876	742,976
Property and equipment, net	8,344,464	6,838,606	6,427,546
Noncurrent Assets			
Investments	7,498,495	7,529,368	9,702,171
Operating lease right-of-use asset, net	30,396	56,489	81,765
Bond project fund	9,734,854	10,815,218	11,626,697
Debt service reserve	929,949	898,192	897,654
Tenants' security deposits	13,948	15,724	15,300
Total noncurrent assets	18,207,642	19,314,991	22,323,587
Total assets	\$ 27,072,916	\$ 27,168,473	\$ 29,494,109
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts payable	\$ 413,775	\$ 102,061	\$ 90,324
Payable to related organizations	13,421	102,732	29,279
Accrued payroll, benefits and taxes	439,830	91,556	150,467
Accrued liabilities	-	318,421	321,634
Operating lease liability	29,928	28,167	26,486
Current portion of bonds payable	204,647	198,962	193,278
Total current liabilities	1,101,601	841,899	811,468
Long-term Liabilities:			
Bonds payable, net	-	14,327,637	14,517,015
Premium on bonds payable	14,132,574	2,123,465	2,245,712
Deferred financing costs	2,004,664	-	-
Tenants' security deposits	13,967	17,979	15,500
Operating lease liability - net of current portion	3,899	33,826	61,994
Total long-term liabilities	16,155,104	16,502,907	16,840,221
Total liabilities	17,256,705	17,344,806	17,651,689
Net Assets:			
Without donor restrictions			
Designated	2,160,000	1,800,000	1,440,000
Undesignated	7,525,637	7,893,093	10,271,846
Total without donor restrictions	9,685,637	9,693,093	11,711,846
With donor restrictions	130,574	130,574	130,574
Total net assets	9,816,211	9,823,667	11,842,420
TOTAL LIABILITIES AND NET ASSETS	\$ 27,072,916	\$ 27,168,473	\$ 29,494,109

Financial Ratios
Obligated Group

	Proforma ^(a)			
	FYE 6/30/2023	2023	2022	2021
Debt Service Coverage (x) - Operating	1.4	4.7	7.4	6.3
Debt Service Coverage (x) - Net Assets	2.1	7.0	(4.4)	17.3
Debt to Unrestricted Net Assets (x)	0.8	0.2	0.3	0.2
Operating Margin (%)		2.1	4.9	2.9
Current Ratio (x)		1.0	1.1	1.0

^(a) Recalculates FY 2023 audited results to include the impact of this proposed financing.

Financial Discussion

The Obligated Group appears to demonstrate solid operating margins over the review period.

The Obligated Group appears to demonstrate solid operating margins of 2.1%, 4.9%, and 2.9% in FYs 2023, 2022, and 2021, respectively. Although Community Housing experienced operating losses in all three years of the review period, Senior Health's strong operating results made up the deficit with changes in net assets from operations of approximately \$6.3 million in FY 2021, \$11.2 million in FY 2022 and \$5.5 million in FY 2023. Senior Health's total support and revenue increased by 20%, driven primarily by Medi-Cal premiums, which increased from approximately \$140.8 million in FY 2021 to approximately \$168.1 million in FY 2023. Senior Health's management noted that the increase in premiums was due to rate increases for serving low-income clients. From FY 2021 to FY 2023, Senior Health's rate in Alameda County increased 11%, and in Santa Clara County its rate increased 19%. Senior Health's second largest source of revenue, Medicare premiums, increased 16% from nearly \$49.4 million in FY 2021 to approximately \$57.4 million in FY 2023. According to Senior Health's management, Medicare premiums increased due to an increase in rates for the prescription drug benefit Medicare Part D by 38% from FY 2021 to FY 2023 for all counties Senior Health serves. Senior Health's total expenses grew by 21% from FY 2021 to FY 2023, which was a similar pace with total revenues that grew 20% over the same period. The two largest expenses, payroll and contracted services increased 16% and 27%, respectively, over the review period. Payroll expenses increased from approximately \$86.8 million in FY 2021 to approximately \$100.9 million in FY 2023. Contracted services grew from just over \$71.3 million to nearly \$90.8 over the same time frame.

Additionally, both Senior Health and Community Housing experienced improvement in investments from FY 2022 to FY 2023. Senior Health had an unrealized loss on investments of approximately \$24.6 million in FY 2022 that turned into an unrealized gain of \$7 million in FY 2023. Community Housing had an unrealized loss on investments of approximately \$1.5 million in FY 2022 that turned into an unrealized gain of \$513,000 in FY 2023.

Although Senior Health experienced numerous effects of the COVID-19 pandemic, particularly given the nature of its client base, Senior Health was able to post strong financial results. According to Senior Health's management, the organization shifted from an in-center model to conducting participant visits in the home. This allowed Senior Health to continue serving and providing care to its participants. This was also accompanied by significant cost reductions, lower facilities costs, and less staff and related costs. Senior Health did not receive any COVID-19 pandemic related funding as it did not participate in any of the various funding programs.

The Obligated Group appears to have a solid financial position with a pro-forma FY 2023 operating debt service coverage ratio of 1.4x.

Throughout the review period, the Obligated Group maintained a solid operating debt service coverage ratio of 6.3x in FY 2021, 7.4x in FY 2022 and 4.7x in FY 2023. With the proposed new tax-exempt bond financing, the pro-forma FY 2023 operating debt service coverage ratio decreases to 1.4x. The Obligated Group has displayed a low reliance on debt with a debt-to-unrestricted net assets ratio of 0.2x FY 2021, 0.3x in FY 2022 and 0.2x in FY 2023. With the additional \$80 million in new bonds, the Obligated Group's pro-forma FY 2023 debt-to-unrestricted net assets ratio increases to 0.8x, demonstrating a still manageable amount of debt.

Senior Health's liquidity was solid as it maintained a current ratio around 1x in all three years of the review period. Additionally, cash and cash equivalents increased 22% from \$10.4 million in FY 2021 to \$12.8 million in FY 2023.

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V. DUE DILIGENCE

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

- **Government Code section 15438.5(a) (Pass-Through Savings):** Senior Health properly completed and submitted the Pass-Through Savings Certification.
- **Government Code section 15459.1 (Community Service Obligation):** Senior Health properly completed and submitted the Community Service Obligation certification and indicated that Medi-Cal and Medicare patients are accepted.
- **Compliance with Government Code section 15455(b) (California Environmental Quality Act (Pub. Resources Code, § 21000 et seq.)):** Senior Health properly submitted relevant documentation addressing the California Environmental Quality Act.
- **Legal Review:** Senior Health properly completed and submitted relevant documentation for the Authority's Legal Status Questionnaire.
- **Iran Contracting Act Certificate:** The Iran Contracting Act Certificate (Pub. Contract Code, §2200 et seq.) is not applicable to this particular financing as it is a direct placement purchase.

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VI. OUTSTANDING DEBT

<u>Issue</u>	<u>Original Amount</u>	<u>Amount Outstanding as of June 30, 2023</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
EXISTING LONG-TERM DEBT			
CHFFA Series 2020	\$ 39,680,000	\$ 37,831,482	\$ 37,831,482
PROPOSED NEW DEBT			
CHFFA Series 2024			80,000,000
TOTAL DEBT		<u>\$ 37,831,482</u>	<u>\$ 117,831,482</u>

VII. UTILIZATION STATISTICS

On Lok Senior Health Services

Program of All-inclusive Care for the Elderly (PACE)	Fiscal Year Ending June 30,		
	<u>2023</u>	<u>2022</u>	<u>2021</u>
Number of PACE Sites	8	8	8
PACE Member Months	21,279	20,407	19,610
Acute care facility admissions (per thousand/year)	24	25	24
Emergency room visits (per thousand/year)	23	21	19

On Lok Community Housing, Inc.

Occupancy / (Capacity)

Fiscal Year Ending June 30,		
<u>2023</u>	<u>2022</u>	<u>2021</u>
71/(85)	69 / (85)	52 / (85)

VIII. BACKGROUND AND LICENSURE

Background

Senior Health started in 1971 as dentist Dr. William Gee and social worker Marie-Louise Ansak saw that traditional models of health care in San Francisco were not meeting the needs of the elderly in the community. They created one of the country's first senior day health care centers by providing older adults in the Chinatown, North Beach, and Lower Nob Hill neighborhoods of San Francisco hot meals, health and social services and supervision during the daytime, while allowing them to return to their homes in the evening.

Senior Health's main objective is to develop, implement, and provide comprehensive health care services to seniors in the greater Bay Area region. To that end, Senior Health is a prototype of the PACE model, which provides comprehensive medical and social services to frail seniors and enables them to live independently in their own homes and communities. Senior Health's PACE program serves over 1,800 members annually in Alameda, San Francisco, and Santa Clara counties. In January 1999, Senior Health became a qualified health care service plan.

Obligated Group

The Obligated Group was created under a Master Trust Indenture and consists of Senior Health and Community Housing as the only members. Senior Health is the Obligated Group Representative and acts on behalf of itself and Community Housing as the other member of the Obligated Group.

Licensure and Memberships

Senior Health is licensed by the Department of Public Health to operate community clinics and by the Department of Social Services to operate adult day health care facilities.

STAFF RECOMMENDATION

Staff recommends the Authority approve Resolution No. 456 in an amount not to exceed \$80,000,000 for On Lok Senior Health Services, subject to the terms and conditions in the resolution. TAP International, Inc., the Authority's financial analyst, and KNN Public Finance, LLC, the Authority's municipal advisor, concur with the Authority's staff recommendations.

EXHIBIT 1
PROJECT SITES

- 1000 Montgomery Street, San Francisco, CA 94133
- 1333 Bush Street, San Francisco, CA 94109
- 151 Martinvale Lane, San Jose, CA 95119
- 2600, 2608, & 2610 Central Avenue, Union City, CA 94587

EXHIBIT 2

FINANCING TEAM

Borrower: On Lok Senior Health Services

Agent for Sale: California State Treasurer

Issuer's Counsel: Office of the Attorney General

Issuer's Municipal Advisor: KNN Public Finance, LLC

Issuer's Financial Analyst: TAP International, Inc.

Borrower's Counsel: Hooper, Lundy & Bookman, P.C.

Borrower's Financial Advisor: Cain Brothers,
a division of KeyBanc Capital Markets Inc.

Bond Counsel: Orrick, Herrington & Sutcliffe LLP

Bond Purchaser: J.P. Morgan Chase Bank, N.A.

Bond Purchaser's Counsel: Chapman and Cutler LLP

Bond Trustee: Computershare Corporate Trust

Bond Trustee's Counsel: Computershare Corporate Trust (In-House
Counsel)

Auditors: Armanino LLP

RESOLUTION NO. 456

RESOLUTION OF THE CALIFORNIA HEALTH FACILITIES
FINANCING AUTHORITY AUTHORIZING THE ISSUANCE OF
REVENUE BONDS TO FINANCE
PROJECTS AT THE HEALTH FACILITIES OF
ON LOK SENIOR HEALTH SERVICES

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 proceeds thereof to any participating health institution to finance the construction, expansion, remodeling, renovation, furnishing, equipping and acquisition of health facilities (including by reimbursing expenditures made for such purposes), to refinance indebtedness of a participating health institution in connection therewith and to refund any outstanding bonds or any outstanding series or issue of bonds of the Authority; and

WHEREAS, On Lok Senior Health Services (the “Corporation”) is a nonprofit public benefit corporation duly organized and existing under the laws of the State of California, which owns and operates health facilities in the State of California; and

WHEREAS, the Corporation has requested that the Authority issue one or more series of its revenue bonds in an aggregate principal amount not to exceed \$80 million and make one or more loans of the proceeds thereof to the Corporation for any or all of the following purposes: (i) to finance, including reimburse for, the costs of the acquisition, construction, expansion, remodeling, renovation, furnishing and equipping of certain health facilities, which are all owned by the Corporation and/or any of its affiliates, and operated by the Corporation and/or any of its affiliates, as more particularly described under the caption “Project” in Exhibit A hereto (the “Project”); (ii) at the option of the Corporation, fund a capitalized interest fund; and (iii) pay costs of issuance of the Bonds (as defined below); and

WHEREAS, the Bonds will be offered for sale to JPMorgan Chase Bank, National Association, or an affiliate thereof, which is a “Qualified Institutional Buyer” as defined under Rule 144A of the Securities Act of 1933 (the “Purchaser”), for the purpose of financing the Project; and

WHEREAS, to the extent required by subdivision (b) of Section 15455 of the Government Code, the Corporation has provided documentation to the Authority demonstrating, to the extent applicable, that the Project has complied with Division 13 (commencing with Section 21000) of the Public Resources Code or is not a “project” under such division; and

WHEREAS, approval of the terms of issuance and sale of the 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, revenue bonds of the Authority designated as the “California Health Facilities Financing Authority Revenue Bonds (On Lok Senior Health Services), Series 2024” (the “Bonds”), in a total aggregate principal amount not to exceed \$80 million, are hereby authorized to be issued from time to time, in one or more series, with such other name or names of the Bonds or series thereof as designated in any of the bond indentures pursuant to which the Bonds will be issued. The proceeds of the Bonds shall be used for any or all of the purposes set forth in the third recital above. The Bonds or any series of them may, at the sole option of the Corporation, be secured by deeds of trust, bond reserve funds, bond insurance, any credit and/or liquidity facility and/or another security arrangement.

SECTION 2. The Treasurer of the State of California (the “Treasurer”) is hereby authorized to enter into agreements to sell the Bonds in one or more series, on one or more sale dates at any time prior to the first anniversary of the date of this Resolution, at public or private sales, in such aggregate principal amounts (not to exceed the aggregate principal amount set forth in Section 1) and in such series, at such prices (so long as the discount on the Bonds sold shall not exceed 6 percent of the par value thereof) and at such interest rate or rates and upon such other terms and conditions as the Treasurer, with the advice and consent of the Corporation, may determine.

SECTION 3. The proposed forms of the following documents:

- (i) one or more Loan Agreements relating to the Bonds (collectively, the “Loan Agreement”), each between the Authority and the Corporation,
- (ii) one or more Bond Indentures relating to the Bonds (collectively, the “Bond Indenture”), each between the Authority and Computershare Trust Company, N.A., as bond trustee (the “Bond Trustee”), and
- (iii) one or more Bond Purchase Contracts, including the exhibits thereto (collectively, the “Purchase Contract”), each among 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 credit and/or liquidity facility and/or another security arrangement, at the sole option of the Corporation, for any series of the Bonds) as the officer executing the same may require or approve, such approval to be conclusively evidenced by execution and delivery thereof of the Loan Agreement, the Bond Indenture, and the Purchase Contract. The Executive Director or Deputy 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 dated dates, maturity dates not exceeding 40 years from the date of issue, interest rates, interest rate modes, manner of determining interest rates, interest payment dates, series designation, denominations, forms, registration privileges or requirements, place or places of payment, terms of tender or purchase, terms of redemption, provisions governing transfer and other terms of the Bonds, including provisions for a credit facility and/or a liquidity facility from time to time, shall be as provided in the Bond Indenture, as finally executed.

SECTION 6. The Bonds, when executed, shall be delivered to the Bond Trustee for authentication by the Bond Trustee. The Bond Trustee is hereby requested and directed to authenticate the Bonds by executing the Bond 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, for and in the name of and on behalf of the Authority, 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 Bond Indenture, Loan Agreement, and the Purchase Contract. The Authority hereby approves any and all documents to be delivered in furtherance of the foregoing purposes, including without limitation: (a) a tax certificate and agreement and other certifications; and (b) any agreement or commitment letter with respect to the provisions of bond insurance, a letter of credit, a surety bond, a credit facility and/or a liquidity facility for the Bonds.

SECTION 8. The provisions of the Authority's Resolution No. 2023-06.

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: _____

EXHIBIT A

PROJECT

The Project consists of the acquisition, construction, expansion, remodeling, renovation, furnishing and equipping of community clinics and adult day health centers, including administrative and other related facilities, in each case, constituting a “health facility” as such term is defined under the Act, all owned by the Corporation and/or any of its affiliates, and operated by the Corporation and/or any of its affiliates, located at the following locations:

- 1000 Montgomery Street, San Francisco, California
- 1333 Bush Street, San Francisco, California
- 151 Martinvale Lane, San Jose, California
- 2600, 2608, 2610 Central Avenue, Union City, California