

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

EXECUTIVE SUMMARY

Applicant:	Alliance for Community Care ("Alliance")	Amount Requested:	\$12,000,000
Location:	San Jose, California (Santa Clara County)	Loan Term:	20 years
		Date Requested:	April 25, 2002
		Resolution Number:	F-289
Project Sites:	San Jose		
Facility Types:	Mental health residential treatment facility.		
Uses of Bond Proceeds: Bond proceeds will be used to current refund two separate tax-exempt Series 1992 Cal-Mortgage insured certificates of participation (COPs) and an existing taxable mortgage, resulting in a net present value savings of \$869,000 or approximately 7.2% of the refunded issues.			
Type of Issue:	Fixed rate, public offering		
Credit Enhancement:	Cal-Mortgage Insurance		
Expected Credit Rating:	A+ (S&P), based on Cal-Mortgage Insurance. (Alliance does not have an underlying credit rating.)		
Senior Underwriter:	Wells Fargo Institutional Securities, LLC.		
Bond Counsel:	Orrick, Herrington & Sutcliffe LLP		
Financial Overview: Despite a loss in 2001, Alliance is a profitable organization with steady revenues and strong demand for its services. The balance sheet remains strong with good liquidity, a stable net asset balance and ability to manage the increased loan obligation.			
Sources of Revenue: (6/30/01) Unrestricted	<u>Amount</u>	<u>Percent</u>	
Government grants and fees	\$19,838,627	84%	
Fee for services	2,919,376	12%	
Interest and dividend income	255,931	1%	
Contribution and support	275,389	1%	
Miscellaneous income	99,030	0%	
Net assets released from restriction	<u>329,300</u>	<u>2%</u>	
Total	<u>\$23,717,653</u>	<u>100%</u>	
Sources of Funds:		Uses of Funds :	
Bond proceeds	\$12,000,000	Refund existing debt	\$11,148,462
Transfer from prior reserve funds	801,225	Debt service reserve	894,895
Accrued interest	5,807	Financing costs	763,675
Total Sources	<u>\$12,807,032</u>	Total Uses	<u>\$12,807,032</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 Alliance for Community Care, in an amount not to exceed \$12,000,000 subject to a final Cal-Mortgage Insurance commitment.			

ALLIANCE FOR COMMUNITY CARE (“Alliance”)

STAFF SUMMARY AND RECOMMENDATION

April 25, 2002
Resolution Number: F-289

- I. PURPOSE OF FINANCING:** Alliance proposes to current refund two separate Series 1992 ABAG Finance Authority, Cal-Mortgage insured Certificates of Participation (COPs) and an existing taxable mortgage with a balloon payment of \$1.2 million, to take advantage of lower interest rates. The proposed refinancing is expected to generate overall net present value savings of approximately \$869,000.

***Refinancing* \$11,148,462**

The proposed Authority’s Series 2002 bonds will not include any new project financing and is solely being issued to current refund two separate Series 1992 Cal-Mortgage insured COPs and an existing taxable mortgage.

First COP Issue: Alliance’s first Series 1992 insured COPs were issued for its Rehabilitation Mental Health Services project in the amount of \$7,500,000. As of June 30, 2001, \$6,617,615 remaining outstanding. Loan proceeds for this issue refinanced a previous loan that was used to acquire land, construct new buildings and renovate existing buildings.

Second COP Issue: The second Series 1992 insured COPs were issued for Miramonte Mental Health Services project in the amount of \$2,600,000. As of June 30, 2001, \$2,335,000 remains outstanding. Loan proceeds for this issue financed the purchase and renovation of a building at 206 California Avenue, Palo Alto. Both projects have been completed.

Taxable Mortgage: Alliance currently has an existing mortgage with the Bank of Santa Clara on its facility located at 2001 The Alameda, San Jose. This mortgage was issued for \$1,361,250, and as of June 30, 2001, \$1,245,000 remains outstanding, with a balloon payment due on June 1, 2002.

Financing Costs 763,675

Bond Insurance	\$537,037
Cost of Issuance	161,210
Underwriters Discount	60,790
Contingency	3,996

Debt Service Reserve 894,895

Total Uses of Funds..... **\$12,807,032**

Financing Structure:

- Negotiated public offering.
 - Fixed interest rates
 - 20-year maturity date.
 - Credit enhancement – Cal-Mortgage Insurance.
 - Expected Credit Rating: A+ (S&P), based on Cal-Mortgage Insurance.
 - Debt Service Reserve Fund.
 - General obligation and gross revenue pledge.
 - Financial covenants acceptable to the Authority in accordance with guidelines for A rated financings.
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II. FINANCIAL STATEMENTS AND ANALYSIS:

ALLIANCE FOR COMMUNITY CARE Statements of Activities (Unrestricted)

	For the eight months ended 2/28/02 (Unaudited)	For the year ended June 30		
		2001	2000	1999
Unrestricted Revenue:				
Contributions and support	\$ 537,563	\$ 275,389	\$ 422,960	\$ 514,528
Government grants and fees	14,141,532	19,838,627	21,029,574	16,784,580
Fee for services	2,001,041	2,919,376	2,772,383	3,870,005
Interest and dividend income	81,264	255,931	207,666	197,468
Miscellaneous income	6,398	99,030	78,620	80,613
Net assets released from restriction	-	329,300	329,300	522,491
Total support and revenue	<u>16,767,798</u>	<u>23,717,653</u>	<u>24,840,503</u>	<u>21,969,685</u>
Expenses:				
Salaries and related expenses	12,756,465	18,509,948	16,979,555	15,296,739
Professional fees	593,242	943,851	1,144,171	1,093,293
Supplies	381,795	728,129	724,389	747,380
Telephone, postage and shipping	225,332	373,702	364,963	340,093
Occupancy	864,334	1,374,951	1,188,119	1,131,808
Equipment rent and maintenance	95,861	191,263	232,112	166,383
Travel, transportation and conference	163,817	363,518	468,523	485,220
Interest expense	500,236	777,710	761,307	765,668
Insurance	200,214	267,948	251,813	236,234
Bad debts	100,000	144,481	185,613	395,203
Depreciation	578,059	767,748	724,366	671,898
Miscellaneous	257,679	183,595	284,364	410,572
Total expenses	<u>16,717,034</u>	<u>24,626,844</u>	<u>23,309,295</u>	<u>21,740,491</u>
Increase (decrease) in unrestricted net asse	50,764	(909,191)	1,531,208	229,194
Unrestricted net assets, beginning of year	<u>10,114,750</u>	<u>11,023,941</u>	<u>9,492,733</u>	<u>9,263,539</u>
Unrestricted net assets, end of year	<u>\$ 10,165,514</u>	<u>\$10,114,750</u>	<u>\$ 11,023,941</u>	<u>\$ 9,492,733</u>

ALLIANCE FOR COMMUNITY CARE
Statements of Financial Position

	<u>As of Feb. 28</u>	<u>As of June 30</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
<u>Assets</u>	<u>(Unaudited)</u>			
Current Assets:				
Cash and cash equivalents	\$ 2,707,006	\$ 1,975,056	\$ 2,253,564	\$ 2,011,823
Accounts receivable - net	1,673,714	1,304,074	917,340	4,172,401
Grants receivable - net	2,923,765	2,790,595	3,977,416	479,143
Investments	954,237	1,718,460	1,300,030	1,766,933
Other current assets	457,979	540,982	409,394	464,276
Total Current Assets	8,716,701	8,329,167	8,857,744	8,894,576
Land, buildings and equipment - net	14,497,074	14,881,722	15,413,417	15,345,034
Other assets	1,831,343	1,803,061	1,699,364	313,529
Total Assets	<u>\$ 25,045,118</u>	<u>\$ 25,013,950</u>	<u>\$ 25,970,525</u>	<u>\$ 24,553,139</u>
<u>Liabilities & Net Assets</u>				
Liabilities:				
Accounts payable	\$ 42,519	\$ 161,085	\$ 60,463	\$ 312,353
Accrued expenses	1,966,105	1,844,013	1,790,831	1,763,254
Other current liabilities	149,708	197,247	133,066	67,039
Bonds payable - current	205,000	210,000	200,000	185,000
Notes payable - current	1,233,208	1,247,828	25,380	31,356
Total current liabilities	3,596,540	3,660,173	2,209,740	2,359,002
Bonds payable	8,705,000	8,742,615	8,952,616	9,151,820
Loan payable	2,187,511	2,190,008	3,194,928	3,220,284
Other liabilities	-	-	250,000	-
Total Liabilities	14,489,051	14,592,796	14,607,284	14,731,106
Net Assets				
Unrestricted net assets	10,165,514	10,114,750	11,023,941	9,492,733
Temporarily restricted net assets	390,553	306,404	339,300	329,300
Total Net Assets	10,556,067	10,421,154	11,363,241	9,822,033
Total Liabilities & Net Assets	<u>\$ 25,045,118</u>	<u>\$ 25,013,950</u>	<u>\$ 25,970,525</u>	<u>\$ 24,553,139</u>

	<u>Proforma (a)</u>			
	<u>2/28/02</u>			
Debt Service Coverage (x)	1.27	0.63	3.11	1.72
Debt/Unrestricted Net Assets (x)	1.34	1.22	1.12	1.33
Margin (%)		-4.00%	6.00%	1.00%
Current Ratio (x)		2.28	4.01	3.78

(a) Recalculates February 2002 unaudited results to include the impact of this proposed financing.

Financial Discussion:

Despite a loss in 2001, Alliance is a profitable organization with steady revenues, and a strong demand for its services.

Alliance provides comprehensive residential and outpatient mental health treatment services to its clients in Santa Clara County. Alliance's revenues have remained steady over our review period and show slight improvement (on an annualized basis) for the year to date. Alliance receives over 75% of its revenues from its contract with the County of Santa Clara for services provided as part of the County Mental Health delivery system. Additional revenue sources for Alliance are fees for services, investment income and other miscellaneous income. For the last four years, Alliance has maintained an average occupancy rate of 88% for adult residential beds and 67% for adolescent residential beds.

In 2001, Alliance suffered a loss, mostly due to the closure of its Partial Hospital Program (PHP) at the end of November 2000 and poor performance of its outpatient services. PHP was established in 1996 as an intensive day treatment program for Medicare eligible clients contracting through Santa Clara County. PHP was closed because the new regulations by the federal Health Care Financing Administration would not allow Alliance to become a Community Mental Health Center (CMHC), thus depriving it of its funding source. The loss was further aggravated by increases in staffing costs of approximately 11% in 2000 and 9% in 2001. Despite closure of the PHP, staffing costs rose due to the enhancement of the Crisis Residential Program, the addition of the Jail Diversion Program and a 4% general salary increase. Despite the loss in 2001, Alliance has been a profitable organization with margins averaging just over 1%. To improve its profitability, Alliance's management implemented a hiring freeze and other cost saving measures. In addition, this refinancing will improve Alliance's financial position by reducing total debt service cost by approximately \$1.4 million.

The balance sheet remains strong with good liquidity, a stable net asset balance and ability to manage the increased loan obligation.

Alliance has maintained positive cash flows with adequate liquidity, as demonstrated by a strong current ratio that has exceeded 2x from 1999 to 2002. The proforma debt-to-unrestricted net assets ratio is slightly leveraged at 1.34x. With the proposed financing and the increase in net revenues, management anticipates that it will be able to meet all of its debt obligations. Based upon the current year unaudited financial results, Alliance's proforma debt service coverage is satisfactory at 1.27x.

III. BACKGROUND

Alliance was incorporated on January 1, 1997 with the consolidation of three mental health agencies in the County of Santa Clara. Alliance is headquartered in the City of San Jose, and has grown to be one of the largest providers of mental health services in the Bay Area, serving approximately 4,000 clients per year in different programs at 33 separate facilities.

Alliance is currently the largest mental health contract provider with Santa Clara County and receives approximately 75% of its annual revenues for its services with the County. The mission of Alliance is to help individuals achieve mental and emotional health, discover and reach their potential, and fully participate in life. Alliance offers a wide variety of community based mental health services including crises residence, transitional residence, board and care, and adolescent residence, day rehabilitation and day treatments, outpatient psychiatric and vocational services. Alliance also provides over one hundred supported housing units that it rents on a monthly basis to its clients.

Governance

Alliance is governed by a 17-member Board of Directors. There are currently 5 vacancies on the Board. Board members are initially elected to three-year terms and may serve one additional three-year term.

Licenses

Alliance's crisis residential facilities and group homes are licensed by the State Department of Social Services. Alliance's transitional residential facilities are licensed by the State Department of Mental Health. Alliance is certified to provide Medi-Cal services by the Department of Health Services. Alliance is also certified to provide vocational services by the State Department of Rehabilitation.

Service Area, Competition, and Market Share

Alliance's service area population is approximately 2 million, an increase of 15% since 1990. Several mental health care providers in the service area offer one or more of the services offered by Alliance. While Alliance does not compete with other mental health service providers for referrals, it does compete for the limited sources of funding. Alliance is one of twenty-four nonprofit organizations currently contracting with the County of Santa Clara to provide a wide variety of mental health services that the County does not provide. No other provider has the size and diversity of Alliance to provide similar programs.

IV. UTILIZATION STATISTICS:

	Eight Months Ended February	Year Ended June 30		
	2002	2001	2000	1999
<i>Adult Residential Beds</i>				
Beds in Service	181	181	181	173
Admissions	395	626	612	533
% Occupancy	87.8%	90.8%	90.0%	89.0%
<i>Adolescent Residential Beds</i>				
Beds in Service	23	30	23	23
Admissions	21	21	37	34
% Occupancy	67.2%	70.0%	78.6%	71.6%

V. SECTION 15438.5 OF THE ACT (Savings Pass Through).

The savings resulting from this proposed financing will contribute to Alliance's long-term viability and enable Alliance to maintain current rates. Furthermore, Alliance can maintain its level of commitment to provide for the health needs of the community, especially those who have special health needs.

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

Alliance has submitted a completed Physician's list and a completed Certification and Agreement Regarding Community Service Obligation with its application as required by the Act.

VII. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 6/30/01 (a)	Estimated Amount Outstanding After Proposed Financing
Existing:			
ABAG – COP Series 1992	\$7,500,000	\$6,617,615	\$-0-
ABAG – COP Series 1992	2,600,000	2,335,000	-0-
Bank of Santa Clara	1,361,250	1,245,332	-0-
Various Government Notes	N/A	2,192,504	2,192,504
Proposed:			
CHFFA, Bond Series 2002	12,000,000		12,000,000
TOTAL DEBT		\$12,390,451	\$14,192,504

(a) Includes current portion.

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 integrity of this applicant.

IX. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for Alliance for Community Care, in an amount not to exceed \$12,000,000 subject to a final Cal-Mortgage Insurance commitment.