

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

Executive Summary

| <p>Applicant: Children's Treatment Center (CTC) 1340 Imperial Beach Blvd. # 101 Imperial Beach, CA 91932 San Diego County</p> | <p>Amount Requested: \$400,000 Date Requested: February 28, 2002 Loan Term: 15 years Resolution Number: HII-112</p> | | | | | | | | | | | | |
|---|---|---|---------------------------------|------------------------|----------------------------------|------------------------------------|---------------------------|------------------------------|------------------------------|--------------------------------|-----------------------------|------------------|-------------|
| <p>Project Site: 2205 El Prado Avenue, Lemon Grove, California Facility Type: Group Home</p> | | | | | | | | | | | | | |
| <p>Uses of Loan Proceeds: Loan proceeds will be used to purchase a 10-bed group for young boys.</p> | | | | | | | | | | | | | |
| <p>Type of Issue: HELP II Loan Prior Authority Borrower: No</p> | | | | | | | | | | | | | |
| <p>Financial Overview: CTC is a financially stable organization with growing revenues, and strong demand for its services. The balance sheet remains solid with good liquidity, a growing net asset balance and an ability to manage the increased loan obligation.</p> | | | | | | | | | | | | | |
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| <p>Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.</p> | | | | | | | | | | | | | |
| <p>Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$400,000 for a term not to exceed fifteen (15) years for Children's Treatment Center, subject to a final appraised value on the property satisfactory to the Authority, submission of 2001 audited financial statements consistent with the unaudited 2001 interim financials presented in this summary and the standard HELP II loan provisions.</p> | | | | | | | | | | | | | |

STAFF SUMMARY AND RECOMMENDATION

THE HELP II PROGRAM

Children’s Treatment Center (CTC)

February 28, 2002

Resolution Number: HII-112

I. PURPOSE OF FINANCING:

CTC intends to purchase a home located in Lemon Grove for purposes of establishing a group home similar to the 8-bed facility it operates in Imperial Beach. The second group home will allow CTC to meet the demand for long-term residential care for children in San Diego County by adding 10 additional beds for young boys. Management has determined it would be more cost effective to purchase a permanent facility versus leasing. Currently, there are few providers in the Lemon Grove area offering group home services for children.

***Purchase Real Property* \$450,000**

CTC has signed a contract to purchase a 4,900 square foot building situated on a half acre lot, located at 2205 El Prado Avenue in Lemon Grove. The two-story building consists of 9 bedrooms and 4 bathrooms with a large backyard. CTC has leased the property since February 1, 2002 and anticipates having a license in place upon the close of escrow. The purchase price of the property is \$450,000, and is being financed by the proposed HELP II loan and a \$50,000 loan from the seller of the property. CTC is in the process of having the property appraised and its value must be satisfactory to the Authority’s policies regarding a loan to value ratio no greater than 95%.

***Purchase Equipment*..... 15,000**

Equipment purchases include one washer, one dryer, two refrigerators and other home furnishings.

***Financing Costs* 7,000**

Authority Closing Fee..... \$5,000
Estimated Closing Costs 2,000

***Total Uses of Funds* \$472,000**

Structure of Financing:

- 15 year term with 180 monthly payments of approximately \$2,762 (total annual payments of approximately \$33,148).
- Total interest payments of approximately \$97,219.
- A 1st lien Deed of Trust on the property located at 2205 El Prado Avenue, Lemon Grove, California.
- 89% anticipated loan to value ratio (based on purchase price of \$450,000).
- Corporate gross revenue pledge.

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II. FINANCIAL STATEMENTS AND ANALYSIS:

Children's Treatment Center
Statement of Activities
(Unrestricted)

| | For the year ended December 31 | | | |
|--|---------------------------------------|-----------------|---------------|---------------|
| | 2001 | 2000 | 1999 | 1998 |
| | (Unaudited) | | | |
| <u>REVENUE</u> | | | | |
| Contract revenue | \$ 768,170 | \$ 683,941 | \$ 645,085 | \$ 578,489 |
| Grant-contribution revenue | 20,883 | 24,218 | 36,706 | 21,206 |
| Other income | 3,777 | 6,894 | 3,533 | 10,589 |
| Total revenues | 792,830 | 715,053 | 685,324 | 610,284 |
| <u>EXPENSES</u> | | | | |
| Salaries and related expense | 559,263 | 547,388 | 477,473 | 443,844 |
| Activities and programs | 38,003 | 41,549 | 66,257 | 30,141 |
| Professional fees, services and supplies | 34,046 | 32,569 | 15,009 | 16,618 |
| Rent, repairs and maintenance | 36,837 | 40,756 | 31,085 | 27,465 |
| Insurance, utilities and communications | 49,994 | 25,324 | 23,777 | 17,935 |
| Administration and training | 31,289 | 18,213 | 11,714 | 12,221 |
| Interest | 11,859 | 11,064 | 11,006 | 11,449 |
| Depreciation | 12,672 | 16,436 | 12,676 | 19,537 |
| Other | 3,115 | 11,219 | 10,321 | 15,076 |
| Total expenses | 777,078 | 744,518 | 659,318 | 594,286 |
| Change in unrestricted net assets | 15,752 | (29,465) | 26,006 | 15,998 |
| Unrestricted net assets at beginning of year | 137,401 | 166,866 | 140,860 | 124,862 |
| Unrestricted net assets end of year | \$ 153,153 | \$ 137,401 | \$ 166,866 | \$ 140,860 |

Statement of Financial Position

| | As of December 31 | | | |
|-------------------------------------|--------------------------|-------------------|-------------------|-------------------|
| | 2001 | 2000 | 1999 | 1998 |
| Assets | (Unaudited) | | | |
| Current Assets: | | | | |
| Cash | \$ 75,878 | \$ 53,781 | \$ 60,753 | \$ 48,437 |
| Accounts receivable | 74,047 | 70,092 | 83,907 | 67,004 |
| Other current assets | 242 | 407 | 272 | 412 |
| Total Current Assets | <u>150,167</u> | <u>124,280</u> | <u>144,932</u> | <u>115,853</u> |
| Noncurrent Assets: | | | | |
| Property and equipment, net | 156,209 | 168,231 | 161,384 | 167,417 |
| Total Assets | <u>\$ 306,376</u> | <u>\$ 292,511</u> | <u>\$ 306,316</u> | <u>\$ 283,270</u> |
| Liabilities & Net Assets | | | | |
| Current Liabilities: | | | | |
| Accounts payable | \$ 11,405 | \$ 7,371 | \$ 8,929 | \$ 8,020 |
| Accrued payroll - other liabilities | 1,438 | 1,403 | - | - |
| Current portion -long term debt | 11,858 | 14,683 | 13,161 | 14,967 |
| Total Current Liabilities | <u>24,701</u> | <u>23,457</u> | <u>22,090</u> | <u>22,987</u> |
| Long Term Debt | <u>128,522</u> | <u>131,653</u> | <u>117,360</u> | <u>119,423</u> |
| Total Liabilities | <u>153,223</u> | <u>155,110</u> | <u>139,450</u> | <u>142,410</u> |
| Total Unrestricted Net Assets | <u>153,153</u> | <u>137,401</u> | <u>166,866</u> | <u>140,860</u> |
| Total Liabilities & Net Assets | <u>\$ 306,376</u> | <u>\$ 292,511</u> | <u>\$ 306,316</u> | <u>\$ 283,270</u> |

Financial Ratios:

Proforma (a)
12/31/02

| | | | | | |
|----------------------------------|-------------|------|--------|------|------|
| Debt Service Coverage (x) | <u>1.29</u> | 1.52 | (0.08) | 1.91 | 1.78 |
| Debt/Unrestricted Net Assets (x) | 2.70 | 0.92 | 1.07 | 0.78 | 1.07 |
| Margin (%) | | 1.99 | (4.12) | 3.79 | 2.62 |
| Current Ratio (x) | | 6.08 | 5.30 | 6.56 | 5.04 |

(a) Projected results for 2002 to include anticipated revenues as a result of the proposed financing.

Financial Discussion:

CTC is a financially stable organization with growing revenues, and strong demand for its services.

CTC revenues have grown by almost 30% from 1998 to 2001. CTC receives over 90% of its revenues from a contract with the County of San Diego Department of Health and Human Services for foster care services. Additional funding sources for CTC are fundraising and grants. For the last ten years, CTC has maintained an average of 95% capacity because of the referrals from the county and need for additional capacity.

In 2000, CTC suffered a loss, mostly due to a lag in state reimbursement of \$85,000 in grant funds. These funds were received in 2001, and in the current year, CTC's revenues are now closer in line to their expenses and will show a small profit of \$15,752. Despite the loss in 2000, CTC has been profitable in all other years of our review, with a margin averaging just over 2%. CTC's management anticipates the addition of the second group home will further improve revenues without disproportionately increasing its overhead costs.

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

CTC has maintained positive cash flows with adequate liquidity, as demonstrated by a strong current ratio that has exceeded 5x from 1998 to 2001. The proforma debt-to-unrestricted net assets ratio is fairly leveraged at 2.70x. Because the addition of 10 beds will increase net revenues by at least \$40,000, staff anticipates that CTC will be able to meet all of its debt obligations. In addition, the \$50,000 that is being lent by the seller will be amortized over 25 years, thus helping CTC's cash flow and debt payments. Based upon the 2001 unaudited financial results and taking into account the projected 2002 financial results of the second group home, CTC should have an adequate proforma debt service coverage of 1.29.

III. BACKGROUND:

CTC was incorporated in 1977 as a California non-profit corporation for the purpose of providing a therapeutic home environment within a 24-hour, professionally staffed group home for severely emotionally disturbed, abandoned and neglected boys. In 1992, the name of the corporation was changed from Sunburst Schools to Children's Treatment Center. The current 8-bed group home at 1038 8th Street, Imperial Beach, was acquired in 1993 for \$162,509 and has been refinanced twice.

CTC is a residential community based program which serves the needs of emotionally and behaviorally disordered boys age 9 through 13, some of whom may have been abused and neglected. The program helps families successfully reunite, or if reunification is not possible, prepare a child to succeed at a permanent foster home. The treatment center seeks to serve boys of diverse ethnic and economic backgrounds.

Licenses and Contracts:

Currently, CTC’s group home at Imperial Beach is licensed by the State Department of Social Services through the Community Care Licensing Unit. CTC is accredited by the California Association of Child and Family Services. CTC contracts with the County of San Diego Department of Health and Human Services for Foster Care AFDC-FC (TANF) funding. CTC is currently leasing the property at Lemon Grove and a license will be issued by the Community Care Licensing Unit following the close of escrow of the proposed financing.

Service Area and Competition:

CTC is located in a low-income neighborhood community close to the California – Mexico border. CTC maintains approximately 58% of the market share and the other 42% is shared by Sullivan’s Group Home, which only has six beds. Sullivan’s Group Home is located about three miles from CTC’s proposed second group home. CTC is the Level 12 group home for boys ages 9 to 13 years in South San Diego County. The State Level 12 classification requires a high ratio of staff and services to children and there is a significant lack of capacity in San Diego County for therapeutic group homes specializing in this high level care.

IV. UTILIZATION STATISTICS:

| Services | Number of Clients Served | | | |
|--------------|--------------------------|-----------------|-----------------|-----------------|
| | Dec. 31 2001 | Dec. 31 2000 | Dec. 31 1999 | Dec. 31 1998 |
| Days of Care | 2,851 | 2,899 | 2,917 | 2,796 |
| No. of Beds | 8 | 8 | 8 | 8 |
| Occupancy % | 99 | 99 | 100 | 96 |

V. OUTSTANDING DEBT:

| <u>Description</u> | <u>Original Amount</u> | <u>Amount Outstanding As of 12/31/01</u> (Unaudited) | <u>Estimated Amount Outstanding After Proposed Financing</u> |
|--------------------------|------------------------|---|--|
| Existing: | | | |
| Ford Motor Credit | \$23,831 | \$14,950 | \$14,950 |
| Union Bank of California | 132,000 | 125,430 | 125,430 |
| Proposed: | | | |
| HELP II loan, 2002 | 400,000 | | 400,000 |
| Seller financed mortgage | 50,000 | | 50,000 |
| TOTAL DEBT | | <u>\$140,380</u> ⁽¹⁾ | <u>\$590,380</u> |

(1) Includes current portion.

VI. SECTION 15438.5 OF THE ACT:

CTC will recognize a savings of approximately \$10,000 per year in annual loan payments in comparison with the conventional loan. There is no significant savings in comparing annual loan payments of \$33,148 with the annualized lease payments of \$33,000. However, by purchasing a home, CTC will avoid future increases in occupancy costs which will be incurred under the lease. CTC also has the potential for equity buildup, which will provide an option to finance future property improvements that may not be possible under leasing situations. The total savings will be used to pay for the additional treatment programs for the children.

VII. 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.

VIII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$400,000 for a term not to exceed fifteen (15) years for Children's Treatment Center, subject to a final appraised value on the property satisfactory to the Authority, submission of 2001 audited financial statements consistent with the unaudited 2001 interim financials presented in this summary and the standard HELP II loan provisions.