

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

<p>Applicant: Acacia Adult Day Services (Acacia) 11391 Acacia Parkway Garden Grove, California Orange County</p> <p>Project Site: 5175 Ball Road, Cypress, California</p> <p>Facility Type: Adult Day Health Center</p>	<p>Amount Requested: \$400,000</p> <p>Requested Loan Term: 10 years</p> <p>Date Requested: December 5, 2002</p> <p>Resolution Number: HII-132</p>																				
<p>Policy Issue: Under the HELP II Loan Program guidelines, the Authority normally requires a 1st lien on the property financed with loan proceeds for eligible projects. Since the project is on leased property, staff recommends approval of an exception to the guidelines by requiring Acacia to provide a debt service reserve fund of \$45,000.</p>																					
<p>Use of Loan Proceeds: Loan proceeds will be used to remodel and expand a newly leased facility located in the City of Cypress.</p>																					
<p>Type of Issue: HELP II Loan.</p> <p>Prior HELP II Borrower: Yes</p> <p>Payments Status: Paid in full.</p>																					
<p>Financial Overview: Acacia is a financially stable organization, as shown by the positive growth in revenue and continues to operate with positive results through the current fiscal period. The balance sheet shows strong liquidity, low debt and a significant growth in net assets.</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 to Acacia Adult Day Services in an amount not to exceed \$400,000 for a term of 10 years, subject to a debt service reserve fund of \$45,000, satisfactory completion of the entitlements required in the ground lease and the standard HELP II loan provisions.</p>																					

STAFF SUMMARY AND RECOMMENDATION

ACACIA ADULT DAY SERVICES (“ACACIA”)

December 5, 2002

Resolution Number: HII-132

POLICY ISSUE: The HELP II Loan Program guidelines require a first lien on the property financed with loan proceeds for eligible projects. Since the project is on leased property, staff recommends approval of an exception to the guidelines by requiring a debt service reserve fund of \$45,000, which is equal to one year of loan payments.

I. PURPOSE OF FINANCING: Loan proceeds are proposed for expansion of the existing Acacia Adult Day Services at a newly leased property located in the City of Cypress. The new facility will be known as Acacia Adult Day Services-Northwest. An application has been submitted to the California Department of Health Services to have this facility licensed. This project will provide adult day care and adult day health care services to low income seniors and people with disabilities in the vicinities of Cypress, Los Alamitos and La Palma. Apart from providing more accessible services to the region’s senior population, the project location will reduce the long commute to adult day care services located outside of the immediate service area, which may compromise the health of medically fragile adults. The loan for this project will save approximately \$9,400 per year in interest payments in comparison to a commercial rate loan.

Construction ***\$1,000,000***

Acacia recently leased a building located at 5175 Ball Road in Cypress, California for a term of ten years with the option to renew the lease for three consecutive five-year periods. The project will allow Acacia to remodel a 2,200 square foot single story structure and expand it into a 5,245 square foot facility. The yard will be landscaped with an area allocated for outdoor activities. The remodeled building will house administrative offices, a multi-use assembly room for meals and group activities, a full kitchen for meals program, physical-occupational therapy room, rest rooms and other program support offices.

The project has already received funding of \$400,000 from individual contributions and Acacia Adult Care Service board allocated funds. The Weingart Foundation has also committed \$200,000 for this project.

Financing Costs **7,000**

1. Authority Closing Fee \$5,000

2. Title/Escrow/Other..... 2,000

Total..... **\$1,007,000**

Financing Structure:

The HELP II loan for Acacia Adult Care Services. will be structured as follows:

- 10-year loan term.
- 120 equal monthly payments of approximately \$3,860 (yearly payments of \$46,350).
- Total interest payments of approximately \$63,500.
- Corporate gross revenue pledge.
- Debt service reserve fund of \$45,000 for ten years.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Acacia Adult Day Services
Statement of Activities
(Unrestricted)

	For three months ended September 30	For the year ended June 30		
	2002	2002	2001	2000
	(Unaudited)			
<u>REVENUE</u>				
Public support - donations	\$ 399,667	\$ 499,175	\$ 309,643	\$ 95,838
Grant support - government programs	66,606	986,400	805,941	753,701
Other revenues	9,706	84,917	65,962	60,583
Net assets released from restrictions	-	140,301	552,133	332,483
Total revenues	<u>475,979</u>	<u>1,710,793</u>	<u>1,733,679</u>	<u>1,242,605</u>
<u>EXPENSES</u>				
Salaries and related expense	192,845	682,935	494,415	385,428
Activities and programs	75,705	215,217	159,382	136,796
Management and general	15,790	96,124	76,477	40,315
Utilities, repairs and maintenance	23,589	82,586	48,556	40,941
Insurance	15,472	56,517	30,779	24,730
Professional fees	8,548	34,277	56,027	39,573
Fund raising	15,179	46,473	91,756	83,483
Interest	22,276	81,693	9,620	6,459
Depreciation	38,000	122,963	43,113	37,349
Total expenses	<u>407,404</u>	<u>1,418,785</u>	<u>1,010,125</u>	<u>795,074</u>
Change in unrestricted net assets	68,575	292,008	723,554	447,531
Unrestricted net assets at beginning of year	1,995,693	1,703,685	980,131	532,600
Transfer to temporarily restricted net assets	(90,273)	-	-	-
Unrestricted net assets end of year	<u>\$ 1,973,995</u>	<u>\$ 1,995,693</u>	<u>\$ 1,703,685</u>	<u>\$ 980,131</u>

Statement of Financial Position

	<u>As of September 30</u>	<u>As of June 30</u>		
	<u>2002</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
<u>Assets</u>				
Current Assets:				
Cash	\$ 243,357	\$ 144,059	\$ 178,805	\$ 67,532
Restricted cash - building fund	820,442	586,653	616,588	324,633
Accounts - pledges receivable	162,636	162,633	140,360	161,930
Other current assets	20,303	16,907	14,987	12,021
Total Current Assets	<u>1,246,738</u>	<u>910,252</u>	<u>950,740</u>	<u>566,116</u>
Noncurrent Assets:				
Property and equipment, net	2,858,419	2,857,344	2,476,342	996,916
Other noncurrent assets	11,152	11,151	13,796	18,045
Total Assets	<u>\$ 4,116,309</u>	<u>\$ 3,778,747</u>	<u>\$ 3,440,878</u>	<u>\$ 1,581,077</u>
<u>Liabilities & Net Assets</u>				
Current Liabilities:				
Accounts payable	\$ 25,227	\$ 31,704	\$ 32,483	\$ 15,945
Accrued payroll - other liabilities	42,591	26,855	31,146	26,731
Current portion -long term debt	57,968	57,968	165,747	36,855
Total Current Liabilities	<u>125,786</u>	<u>116,527</u>	<u>229,376</u>	<u>79,531</u>
Long Term Debt	<u>831,688</u>	<u>831,688</u>	<u>839,500</u>	<u>155,247</u>
Total Liabilities	<u>957,474</u>	<u>948,215</u>	<u>1,068,876</u>	<u>234,778</u>
Unrestricted net assets	1,973,995	1,995,693	1,703,685	980,131
Temporarily restricted net assets	1,184,840	834,839	668,317	366,168
Total Liabilities & Net Assets	<u>\$ 4,116,309</u>	<u>\$ 3,778,747</u>	<u>\$ 3,440,878</u>	<u>\$ 1,581,077</u>

Financial Ratios:	Proforma (a)				
	6/30/02				
Debt Service Coverage (x)	<u>1.69</u>	1.61	2.01	16.70	11.64
Debt/Unrestricted Net Assets (x)	0.65	0.45	0.45	0.59	0.20
Margin (%)		14.41	17.07	41.74	36.02
Current Ratio (x)		9.91	7.81	4.14	7.12

(a) Recalculates June 2002 audited results to include the impact of this proposed financing.

Financial Discussion:

Acacia is a financially stable organization, as shown by the positive growth in revenue and continues to operate with positive results through the current fiscal period.

Acacia provides adult day care and adult day health care services to the senior adult population and persons with disabilities in the Orange County. Its main sources of revenue are government grants and public donations. Grant support revenue is a government program primarily from the U.S. Department of Health and Human Services (DHHS), California Department of Aging (DA) and California Department of Health Services (DHS). Public support is donation, which is mostly derived from the community and the United Way.

Total revenues have increased approximately 35% over our review period, primarily due to the substantial increase in public donations. Revenues for fiscal 2000 and fiscal 2001 were significantly higher due to contributions received for this renovation project. While total government revenue for the interim period ending September 30, 2002 is currently low relative to the previous year, this is essentially a timing issue. Management expects that revenues for 2003 will be relatively consistent with those of 2002.

Operating expenses increased approximately 88% over our review period. The increases were significant for fiscal 2001 and fiscal 2002 as salaries and related expenses increased by 28% and 38%, respectively. Apart from interest and depreciation expenses, total operating expenses increased primarily due to the costs associated with increased utilization by senior citizens, marketing efforts to promote both adult day care and adult day health care programs and outreach activities to generate more fundraising. Both interest and depreciation expense increases are due to the construction of buildings (leasehold improvements) and the related long-term financing through a line of credit in fiscal 2002.

Despite the overall increases in expenses, Acacia continues to post positive operating results through the current fiscal period. Positive revenue growth has provided strong operating margins ranging from 17% to 42% during the past three fiscal years. Management anticipates maintaining an operating margin of approximately 10% for fiscal 2003. Acacia has had positive growth in unrestricted net assets from fiscal 2000 through fiscal 2002 and anticipates a \$100,000 increase in unrestricted net assets for fiscal 2003.

The balance sheet shows good liquidity, low debt and significant growth in net assets.

Acacia has maintained positive cash flows with adequate liquidity as demonstrated by a strong current ratio ranging from 4.14x to 9.91x for the review period. With continued positive operating results, net assets have grown 235% from fiscal 2000 to September 30, 2002. Acacia has low debt and a growing net asset balance, providing a proforma debt-to-unrestricted net assets ratio of 0.65x. With this proposed loan, management anticipates meeting all of its debt obligations, as evidenced by a proforma debt service coverage ratio of 1.69x.

III. UTILIZATION STATISTICS:

Participants (unduplicated) per Period and Participants Days

Service	Three Months to 9/30/02	2002	2001	2000
Adult Day Health Care	106	120	135	107
Adult Day Care	16	35	10	22
Medi-Cal Participant Days	3,549	10,642	8,752	8,385
Non Medi-Cal Participant Days	431	1,443	1,157	1,013
Total Participant Days	3,980	12,085	9,909	9,398

IV. ORGANIZATION:

Background:

Acacia Adult Day Care Services has been caring for Orange County's seniors since 1979. A cooperative effort between the city and county governments, local citizens, and the Garden Grove United Methodist Church, Acacia was created as the first public/private partnership for addressing the needs of seniors. In 1985, the program was privatized and transitioned into a nonprofit organization.

Since its inception, Acacia has served over 2,000 participants and their families. Both adult day care and adult day health care services are provided from its Garden Grove facility to frail or functionally impaired senior citizens and disabled adults living primarily in Central and West Orange County. Adult day care has been offered since 1979, with health and rehabilitation services added in 1993.

Licenses:

Acacia is licensed as an Adult Day Health Care facility by DHS. Acacia also has a Medi-Cal Participation Agreement through the DA to provide adult day health care services.

Competition:

Acacia Adult Day Services maintains approximately 5% of the market share by providing services to residents from the Garden Grove facility. With the proposed project at Cypress, Acacia's market share will increase by 2% with the service accessible to the Northwest part of the County. Management anticipates adding 25 participants for fiscal 2003 at the new facility, with the loss of only 4 participants at Garden Grove, which is also growing.

Health Facilities	Participation	Market Share (%)	Distance Away
Acacia Adult Day Services	6 per day	5%	
John Douglas French Center	31 per day	24%	2.17 Miles
Cypress Adult Day Health Care Center	90 per day	71%	1.7 Miles

V. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 6/30/02 (a)	Estimated Amount Outstanding After Proposed Financing
Existing:			
Sun Country Bank Line of Credit 2000	\$900,000	\$889,656	\$889,656
Proposed:			
CHFFA HELP II Loan, 2002	400,000		400,000
TOTAL DEBT		<u>\$889,656</u>	<u>\$1,289,656</u>

(a) Includes current portion.

VI. SECTION 15438.5 OF THE ACT:

With the proposed HELP II Loan, Acacia will save approximately \$9,400 per year in interest expense compared to a conventional rate loan. Acacia provides scholarships to participants who are not Med-Cal eligible for both adult day care and adult day health care services. Acacia will use these savings to offset its costs of uncompensated care for these participants for whom the cost of services are still too much to pay out of pocket. The savings will also allow Acacia to maintain or expand its existing level of services without raising rates.

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 to Acacia Adult Day Services in an amount not to exceed \$400,000 for a term of 10 years, subject to a debt service reserve fund of \$45,000, satisfactory completion of the entitlements required in the ground lease and the standard HELP II loan provisions.