

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**

**The HELP II Program**

**EXECUTIVE SUMMARY**

<p><b>Applicant:</b> Canyon Acres Children and Family Services (“Canyon”) 160 S. Fairmont Blvd. Anaheim Hills, California Orange County</p> <p><b>Project Site:</b> 233 S. Quintana Drive, Anaheim Hills, Orange County, California</p> <p><b>Facility Type:</b> Group Home Facility</p>	<p><b>Amount Requested:</b> \$400,000</p> <p><b>Requested Loan Term:</b> 15 years</p> <p><b>Date Requested:</b> February 26, 2004</p> <p><b>Resolution Number:</b> HII-160</p>																					
<p><b>Use of Loan Proceeds:</b> Loan proceeds will be used to refinance part of the STARTS 1992 Series A bond loan. This refinancing will save approximately \$140,000 in interest expense over the life of the loan due to the low interest rate on the HELP II loan.</p>																						
<p><b>Type of Issue:</b> HELP II Loan</p> <p><b>Prior HELP II Borrower:</b> No, however, Canyon is a borrower under the STARTS 1992 A bonds.</p> <p><b>Payments Status:</b> Current</p>																						
<p><b>Financial Overview:</b> Canyon is a financially stable organization, as shown by the positive growth in revenue and increasing demand for services. The balance sheet shows strong liquidity and growth in net assets.</p>																						
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<p><b>Legal Review:</b> No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																						
<p><b>Staff Recommendation:</b> Staff recommends the Authority approve a resolution for a HELP II Loan to Canyon Acres Children and Family Services in an amount not to exceed \$400,000 for a term of 15 years, subject to the standard HELP II loan provisions.</p>																						

**STAFF SUMMARY AND RECOMMENDATION**

**CANYON ACRES CHILDREN AND FAMILY SERVICES (“CANYON”)**

February 26, 2004

Resolution Number: HII-160

**I. PURPOSE OF FINANCING:** Canyon proposes to refinance \$800,500 of existing debt under the Authority’s STARTS 1992 Series A bond loan and financing costs of \$7,000 through a combination of a \$400,000 HELP II loan and \$407,500 from two loans with Union Bank of California. The proposed refinancing will take advantage of lower interest rates that will improve cash flow. The HELP II loan on its own will save approximately \$9,300 per year in loan payments or \$140,000 in interest over the life of the loan due to the lower interest rate of 3%. As a result, additional funds will be available to provide the level of care that the community needs.

***Refinancing Authority’s STARTS 1992 Series A Bond Loan ..... \$800,500***

Canyon’s STARTS 1992 Series A bond was issued by the Authority and insured through Cal-Mortgage in April 1992 in the amount of \$975,000 to refinance previous loans secured on properties located at 233 S. Quintana Dr. and 7556 Calle Durango in Anaheim. The interest rate is 6.75% with a final maturity date of March 1, 2020.

The HELP II loan of \$400,000 will only refinance a portion of Canyon’s STARTS 1992 Series A bond loan. The HELP II loan will be secured as a first lien on the property located at 233 S. Quintana Drive in Anaheim, which has an estimated value of \$1,512,000. With the lower “loan to value ratio” on 233 S. Quintana Drive property, it was not a requirement to secure an additional lien on 7556 Calle Durango property.

The following chart shows details of refinancing secured on various properties of Canyon:

<b>Secured Properties</b>	<b>HELP II Loan</b>	<b>Union Bank of California I</b>	<b>Union Bank of California II</b>	<b>Total</b>
233 S. Quintana Drive Anaheim.	\$400,000			\$400,000
6254 Via Ribazo, Anaheim		\$230,000		\$230,000
6178 Palo Alto, Anaheim			\$177,500	\$177,500
<b>Total</b>	<b>\$400,000</b>	<b>\$230,000</b>	<b>\$177,500</b>	<b>\$807,500</b>

**Financing Costs** ..... 7,000

1. Authority Closing Fee..... \$5,000

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

**Total**..... \$807,500

**Financing Structure:**

The HELP II loan for Canyon will be structured as follows:

- 15-year loan term with fixed interest rate of 3% per year.
- 180 equal monthly payments of approximately \$2,760 (yearly payments of \$33,150).
- Total interest payments of approximately \$97,200.
- Maximum loan to value ratio of 95%. Expected 26% loan to “as is value” ratio (based on estimated value of \$1,512,000).
- First deed of trust on the property located at 233 S. Quintana Drive, Anaheim, CA.
- First lien on corporate gross revenue pledge.

## II. FINANCIAL STATEMENTS AND ANALYSIS:

### Canyon Acres Children and Family Services Statement of Activities (Unrestricted)

	<b>For eleven months ended November 30</b>	<b>For the year ended December 31</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
	<b>(Unaudited)</b>			
<b><u>REVENUE</u></b>				
Fees from Orange County	\$ 3,280,266	\$ 3,604,324	\$ 3,432,784	\$ 2,965,992
Other government support	1,358,858	1,413,128	1,116,546	890,967
Contributions	584,555	757,256	743,076	642,678
Other sources	30,881	39,905	33,987	27,929
Net assets released from restrictions	61,773	36,008	150,548	238,257
Total revenues	<u>5,316,333</u>	<u>5,850,621</u>	<u>5,476,941</u>	<u>4,765,823</u>
<b><u>EXPENSES</u></b>				
Salaries and related expenses	3,822,731	4,069,604	3,837,037	3,334,342
Professional services	310,037	297,675	328,329	313,234
Food	86,482	87,840	85,863	80,240
Clothing and personal incidentals	59,755	57,400	40,569	42,109
Utilities	84,519	82,436	89,739	81,283
Recreation	58,502	51,413	55,770	48,644
FFA home payments	198,440	220,605	224,451	147,098
Facility rental	79,977	87,517	87,526	85,919
Repairs and maintenance	79,475	82,439	88,800	118,304
Other operating expenses	311,771	264,992	261,298	282,697
Interest	64,427	73,120	73,460	74,881
Depreciation	172,444	185,083	177,070	169,253
Total expenses	<u>5,328,560</u>	<u>5,560,124</u>	<u>5,349,912</u>	<u>4,778,004</u>
<b>Change in unrestricted net assets</b>	<b>(12,227)</b>	<b>290,497</b>	<b>127,029</b>	<b>(12,181)</b>
Unrestricted net assets at beginning of year	2,013,984	1,723,487	1,596,458	1,608,639
Unrestricted net assets end of year	<u>\$ 2,001,757</u>	<u>\$ 2,013,984</u>	<u>\$ 1,723,487</u>	<u>\$ 1,596,458</u>

**Canyon Acres Children and Family Services  
Statement of Financial Position**

	<u>As of November 30</u>	<u>As of December 31</u>		
	<u>2003</u> <u>(Unaudited)</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
<b><u>Assets</u></b>				
Cash	\$ 725,257	\$ 716,159	\$ 380,658	\$ 317,072
Accounts receivable	470,681	411,691	501,807	391,651
Prepaid expenses	117,760	112,626	46,058	58,027
Total Current Assets	<u>1,313,698</u>	<u>1,240,476</u>	<u>928,523</u>	<u>766,750</u>
Land, buildings and equipment, net	2,165,811	2,270,196	2,366,223	2,480,131
Total Assets	<u>\$ 3,479,509</u>	<u>\$ 3,510,672</u>	<u>\$ 3,294,746</u>	<u>\$ 3,246,881</u>
<b><u>Liabilities</u></b>				
Accounts payable	\$ 197,164	\$ 153,305	\$ 149,399	\$ 120,130
Accrued expenses	241,919	245,409	293,433	282,242
Current portion-notes payable	24,757	24,757	24,403	24,076
Total Current Liabilities	<u>463,840</u>	<u>423,471</u>	<u>467,235</u>	<u>426,448</u>
Notes payable, less current portion	946,133	972,588	997,727	1,022,130
Total Liabilities	<u>1,409,973</u>	<u>1,396,059</u>	<u>1,464,962</u>	<u>1,448,578</u>
<b><u>Net Assets</u></b>				
Unrestricted net assets	2,001,757	2,013,984	1,723,487	1,596,458
Temporarily restricted net assets	67,779	100,629	106,297	201,845
Total Net Assets	<u>2,069,536</u>	<u>2,114,613</u>	<u>1,829,784</u>	<u>1,798,303</u>
Total Liabilities & Net Assets	<u>\$ 3,479,509</u>	<u>\$ 3,510,672</u>	<u>\$ 3,294,746</u>	<u>\$ 3,246,881</u>
<b>Financial Ratios:</b>				
	<b>Proforma (a)</b>			
	<b>12/31/2002</b>			
Debt Service Coverage (x)	<u>5.00</u>	<b>5.63</b>	<b>3.87</b>	<b>2.48</b>
Debt/Unrestricted Net Assets (x)	<u>0.51</u>	<b>0.50</b>	<b>0.59</b>	<b>0.66</b>
Margin (%)		<b>4.97</b>	<b>2.32</b>	<b>(0.26)</b>
Current Ratio (x)		<b>2.93</b>	<b>1.99</b>	<b>1.80</b>

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

## **Financial Discussion:**

**Canyon is a financially stable organization, as shown by the positive growth in revenue and increasing demand for services.**

Canyon is a group home facility that provides 24-hour residential care and specialized treatment for abused and emotionally-troubled children, and serves the low income, medically underserved population in Orange and other counties. Its main sources of revenue are fees from counties for residential programs under contract. These contracts are AFDC-FC funding for the RCL 12, RCL 14 and Foster Family programs as pass-through from the State Department of Social Services (DSS). The other government support revenue is the second most important source of revenue, mostly derived from the State Department of Health Services (DHS) Medi-Cal funds under county contract for intensive day treatment and outpatient mental health services. Contributions are mostly donations. Other sources of revenue are mostly interest and rent.

Total revenues have increased approximately 22% over our review period from fiscal year ending (fiscal) 2000 to 2002, primarily due to the increase in government contracts from the Counties of Los Angeles, Riverside, San Bernardino, San Diego and Tulare. The other government support revenue increased by 58% over the review period due to the increases in contracts with the County of Orange for intensive day treatment and outpatient mental health services. The contribution revenue also increased and has been steady for the period. Management expects that the revenues for fiscal 2003 and 2004 will each increase by approximately 3%.

Operating expenses increased approximately 16% over our review period. The increases were significant for salaries and related expenses, which increased by 22% due to the increases in new employees to work on new contracts. The foster family agency expense increased by 49% over the review period due to the growth in the number of children placed with foster families. With new contracts for residential programs, clothing and personal incidentals expense also increased by 35%. However, these increases were partially offset by the 40% decrease in repairs and maintenance expense.

Canyon continues to operate with positive results. However, positive revenue growth has been reduced by the increases in operating expenses. For fiscal 2001 and 2002, Canyon had strong operating margins of over 2%. Management anticipates maintaining an operating margin of approximately 1% for fiscal 2003. Canyon has had positive growth in unrestricted net assets and anticipates a modest growth in unrestricted net assets for fiscal 2003.

**The balance sheet shows strong liquidity and growth in net assets.**

Canyon had a substantial increase in accounts receivable in fiscal 2001 due to the increases in contracts with various counties to provide residential programs. However, Canyon maintained its receivables at 80% current on the average, thereby improving its cash flow in fiscal 2002. Canyon paid its current debts when due resulting in no significant change in its current liabilities at the end of November 2003. Canyon has maintained positive cash flows with strong liquidity as demonstrated by a current ratio ranging from 1.80x to 2.93x for the review period. With continued positive operating results, net assets have grown 17% from

fiscal 2000 to fiscal 2002. Canyon's proforma debt-to-unrestricted net assets ratio of .51x is satisfactory. With this proposed loan, management anticipates meeting all of its debt obligations, as evidenced by a strong proforma debt service coverage ratio of 5.00x.

### III. UTILIZATION STATISTICS:

#### Days of Care Provided

Program	Eleven Months Ended November 2003	Fiscal Year Ended December 31		
		2002	2001	2000
RCL 14	9,543	10,563	10,089	10,253
RCL 12	3,924	4,195	4,092	4,071
Foster Family Agency	7,675	8,176	8,283	5,837
<b>Total Days of Care Provided</b>	<b>21,142</b>	<b>22,934</b>	<b>22,464</b>	<b>20,161</b>

#### Clients Served

Program	Eleven Months Ended November 2003	Fiscal Year Ended December 31		
		2002	2001	2000
RCL 14	49	56	51	41
RCL 12	18	22	25	19
Foster Family Agency	47	51	53	34
<b>Total Clients Served</b>	<b>114</b>	<b>129</b>	<b>129</b>	<b>94</b>

## **IV. ORGANIZATION:**

### **Background:**

Canyon was incorporated as a non-profit corporation on July 9, 1980 under the name of Canyon Acres Residential Center Inc. for the purpose of providing 24-hour residential care and specialized treatment for abused and emotionally troubled children who are no longer able to live in their parental homes. Prior to December 18, 2003, Canyon had operated under the name, Canyon Acres Children's Services. Today, it provides recovery programs to children between the ages of 6-12, who have been removed from their parental homes by the Social Services Agency and Juvenile Court and placed in out-of-home care. Canyon's children (clients) are cared for in one or more of the following facilities.

The Residential Treatment Center (Ranch) is the largest and has the most intensive program. The Ranch consists of three homes and is set on a 4.6-acre parcel, located at 233 S. Quintana Drive in Anaheim Hills. The children at this center live and play in child-friendly, professionally staffed homes. In fiscal 2001, Canyon opened a Therapeutic Horse Riding Program for children, facilitated by therapeutic horse riding instructors. The children are also involved in a clinically based Mental Health Day Treatment Program, conducted by mental health staff, three hours each day after school and on weekends.

When the children at Canyon's Residential Treatment Center do begin to heal, they are able to transition to one of Canyon's community-based six –bed homes. The boys group home is located at 6178 Palo Alto in Anaheim Hills, and the girls group home is located at 7556 Calle Durango in Anaheim Hills. These homes still provide children with exceptional care and mental health services, and children experience more normal lives at school, at home and in the community.

Children who have improved even more are able to leave group residential care and move into true family settings in one of Canyon's foster homes. The foster families in the area are trained and supported by Canyon to accept these children in their homes. Some of the children could be adopted by foster families, if sanctioned by the juvenile court. Through a unique partnership with Wraparound Orange County program, Canyon provides a process for all families to help stabilize and build on its strengths in order to provide a safe, healthy and loving home for their children. The Foster Family Agency & Wraparound Office is located at 1520 Brookhollow Drive in Santa Ana.

Canyon receives fees from counties for foster care support AFDC-FC funding through DSS and other government funding is from DHS Medi-Cal program for outpatient mental health services and from the California Department of Education (DE) for nutrition programs. Other funding comes from various contributions and grants.

### **Licenses:**

Canyon is licensed as a group home by the DSS. Canyon's outpatient services is certified as Short Doyle/Medical provider by the County of Orange Health Care Agency/Behavioral Health Services.

### **Competition:**



Canyon is one of many group homes that provide residential care and treatment for children in California. Although there are many RCL 12 or RCL 14 providers in California, there are no other RCL 14 providers in Orange County dedicated to 6-12 year old boys and girls.

Canyon's main office on 160 S. Fairmont Blvd. is strategically placed to address the growing need for homes and mental health services for emotionally disturbed children between the ages of 6-12 in the Orange and other counties.

**V. OUTSTANDING DEBT:**

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 12/31/02 (b)</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
<b>Existing:</b>			
CHFFA STARTS 1992 Series A Bond, 233 S. Quintana Dr., Anaheim,.7556 Calle Durango, Anaheim	\$975,000	\$807,189	\$-0-
Union Bank of California Note, 8/20/1991, 6178 E. Palo Alto Dr., Anaheim.	224,000	190,156	-0-
Union Bank of California Note, 1/1/04, 6178 E. Palo Alto Dr., Anaheim (a)	390,000		390,000
Union Bank of California Note, 1/1/04, 6254 Via Ribazo, Anaheim. (a)	230,000		230,000
<b>Proposed:</b>			
CHFFA HELP II Loan, 233 S. Quintana Dr., Anaheim, 2004	400,000		400,000
<b>TOTAL DEBT</b>		<b><u>\$997,345</u></b>	<b><u>\$1,020,000</u></b>

(a) Loan funded in January 2004.

(b) Includes current portion of long-term debt.

**VI. SECTION 15438.5 OF THE ACT (Savings Pass Through):**

It is the intent of the Legislature in enacting this part to provide financing only to health facilities that can demonstrate the financial feasibility of their projects. It is further the intent of the Legislature that all or part of any savings experienced by a participating health institution, as a result of that tax-exempt revenue bond funding, be passed on to the consuming public through lower charges or containment of the rate of increase in hospital rates.

Canyon has provided a description of its savings pass through in Exhibit A.

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

As a condition of the issuance of revenue bonds, whether by the Authority or any local agency, each borrower shall give reasonable assurance to the Authority that the services of the health facility will be made available to all persons residing or employed in the area served by the facility. As part of this assurance, borrowers shall agree to a number of actions, including (a) To advise each person seeking services at the borrower's facility as to the person's potential eligibility for Medi-Cal and Medicare benefits or benefits from other governmental third-party payers, (b) To make available to the authority and to any interested person a list of physicians with staff privileges at the borrower's facility, and (c) To post notices in appropriate areas within the facility regarding services being available to all in the service area. This agreement is a standard "Certification and Agreement Regarding Community Service Obligation".

A copy of this executed certification is provided in Exhibit B.

**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 viability or legal integrity of this applicant.

**IX. STAFF RECOMMENDATION:**

Staff recommends the Authority approve a resolution for a HELP II Loan to Canyon Acres Children and Family Services in an amount not to exceed \$400,000 for a term of 15 years, subject to the standard HELP II loan provisions.