

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**  
**The HELP II Program**  
**EXECUTIVE SUMMARY**

<p><b>Applicant:</b> Innovative Health Care Services, Inc. (“IHCS”)  dba Peg Taylor Center for Adult Day Health Care  124 Parmac Road  Chico, CA 95926  Butte County</p> <p><b>Project Site:</b> 124 Parmac Road, Chico, California  <b>Facility Type:</b> Adult Day Health Center</p>	<p><b>Amount Requested:</b> \$400,000  <b>Requested Loan Term:</b> 15 years  <b>Date Requested:</b> February 26, 2004  <b>Resolution Number:</b> HII-161</p>																																							
<p><b>Use of Loan Proceeds:</b> Loan proceeds will be used to refinance the Authority’s 1992, Series A STARTS bonds. The proposed refunding will result in annual debt service savings of approximately \$9,000 for the next 15 years or a total savings of \$135,000.</p>																																								
<p><b>Type of Issue:</b> HELP II Loan  <b>Prior HELP II Borrower:</b> No, however is a prior borrower under the STARTS program.  <b>Payment Status:</b> Current</p>																																								
<p><b>Financial Overview:</b> IHCS’ income statement has improved each of the past three audited fiscal years. Management has made significant efforts to further strengthen IHCS’ financial condition by recently increasing grant revenues through improved collaboration with other government entities and containment of operational expenditures. IHCS’ interim operations continue to show improvement and positive operating results. IHCS has good liquidity, minimal long-term debt, and adequate proforma debt service coverage. IHCS’ projected debt service coverage indicates adequate cash flow to repay this loan.</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 in an amount not to exceed \$400,000 for a term not to exceed 15 years for Innovative Health Care Services, Inc., subject to the standard HELP II loan provisions.</p>																																								

**STAFF SUMMARY AND RECOMMENDATION**

**Innovative Health Care Services, Inc. (“IHCS”)  
dba Peg Taylor Center for Adult Day Health Care**

**February 26, 2004**

**Resolution Number: HII-161**

- I. PURPOSE OF FINANCING:** Loan proceeds will be used to refund the Authority’s 1992, Series A STARTS bonds, which will result in an overall savings in operating cash flow.

***Refinance real property* ..... \*\$428,000**

The HELP II loan will be used to refinance a 6,258 square foot facility that was funded through the STARTS program in 1992. The facility serves the frail elderly and severely disabled adults in Butte, Glenn and Tehama County. Management indicates that the estimated value of facility is \$678,000 leading to a loan to value of 59%.

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

Authority fee .....5,000

Title costs.....2,000

***Total*.....\$435,000**

\* Amount includes the borrowers proportionate share of the debt service reserve deficit on the 92 STARTS bonds

**Financing structure:**

- 15-year fully amortized loan in the amount of \$400,000.
- 180 equal monthly payments of approximately \$2,762 (total annual payments of \$33,144).
- Total interest payments of approximately \$97,219.
- First position lien on property located at 124 Parmac Road, Chico, California.
- Loan to value of 59%.

## II. FINANCIAL STATEMENTS AND ANALYSIS:

**Innovative Health Care Services, Inc.**  
**dba Peg Taylor Center for Adult Day Health Care**  
**Statement of Activities**  
**Unrestricted**

	Period ending			
	November 30,	For the Year Ended June 30,		
	2003	2003	2002	2001
<b>PROGRAM REVENUE AND OTHER SUPPORT</b>				
<b>PROGRAM REVENUE</b>				
Service fees - Medical	\$ 219,017	\$ 491,999	\$ -	\$ -
Service fees - private	52,017	126,994	-	-
ADCFP - Food program	7,348	17,657	18,471	16,932
Service fees			559,444	608,893
Total program revenue	<u>278,382</u>	<u>636,650</u>	<u>577,915</u>	<u>625,825</u>
<b>OTHER SUPPORT</b>				
Grant revenue	187013	278,334	285,568	168,390
Donations and fundraising	5610	21,616	25,009	29,080
Miscellaneous income	174	3,497		
Interest income		198	3,334	14,427
Dividend income	1546	1,446		
Unrealized gains and losses on investmenets	8485	3,022		
Other			(13,270)	7,623
	<u>202,828</u>	<u>308,113</u>	<u>300,641</u>	<u>219,520</u>
Change in restrictions of net assets		(1,715)		
Total other support	<u>202,828</u>	<u>306,398</u>	<u>300,641</u>	<u>219,520</u>
Total program revenue and other support	<u>481,210</u>	<u>943,048</u>	<u>878,556</u>	<u>845,345</u>
<b>EXPENSES</b>				
Payroll	282,930	619,489	646,083	649,704
Transportation	40,012	87,006	62,599	68,755
Interest	13,023	37,889	29,670	30,304
Meals	13,143	31,561	29,374	32,302
Depreciation	11,288	28,306	35,886	33,774
Repairs and maintenance	7,689	26,258	27,283	26,462
Insurance	4,196	14,779	15,862	18,848
Legal and accounting	4,539	11,926	11,295	10,893
Supplies	8,883	11,564	11,936	12,690
Telephone	2,866	8,054	6,907	7,426
Dues, subscriptions, licenses	679	4,646	2,904	3,749
Advertising	4,242	3,730	1,519	1,074
Continuing education	684	2,604	1,360	794
Printing	987	2,352	4,099	8,412
Contract services	1,335	2,144	13,299	2,887
Automobile	158	2,119	1,146	1,003
Postage	617	1,814	3,313	2,844
Safety program	847	961	301	889
Amortization		720	720	720
Small equipment and tools	587	425	342	161
Publications	341	189	265	75
Fundraising expenses	461	118	2,031	2,351
Automobile - mileage	980		3,161	3,904
Bad debts	574		779	7,819
Utilities	2,917	12,272	13,375	10,582
Other	34,971	23,982	8,057	7,004
Total expenses	<u>438,949</u>	<u>934,908</u>	<u>933,566</u>	<u>945,426</u>
<b>Increased (decrease) in unrestricted net assets</b>	42,261	8,140	(55,010)	(100,081)
Unrestricted net assets, beginning of year	<u>453,813</u>	<u>445,673</u>	<u>500,683</u>	<u>600,764</u>
Unrestricted net assets, end of year	<u>\$ 496,074</u>	<u>\$ 453,813</u>	<u>\$ 445,673</u>	<u>\$ 500,683</u>

**Innovative Health Care Services, Inc.**  
**dba Peg Taylor Center for Adult Day Health Care**  
**Balance Sheet**

	<b>For period ended</b>		<b>As of June 30,</b>	
	<b><u>November 30,</u></b>		<b><u>2002</u></b>	<b><u>2001</u></b>
	<b><u>2003</u></b>	<b><u>2003</u></b>		
<b>Assets</b>				
Current assets:				
Cash and cash equivalent	\$ 344,138	\$ 529,540	\$ 171,943	\$ 300,139
Accounts receivable, net	140,106	131,237	186,385	110,391
Prepaid expenses and deposits	13,634	22,819	18,090	17,430
Total current assets	<u>497,878</u>	<u>683,596</u>	<u>376,418</u>	<u>427,960</u>
Property and equipment, net	650,452	627,290	607,600	588,559
Loan fees, net	12,560	12,560	13,280	14,000
Endowment	87,926	41,971	6,050	6,050
Other assets	36,385	28,839	21,074	
Total assets	<u>\$ 1,285,201</u>	<u>\$ 1,394,256</u>	<u>\$ 1,024,422</u>	<u>\$ 1,036,569</u>
<b>Liabilities and net assets</b>				
Current liabilities:				
Accounts payable	\$ 60,544	\$ 78,622	\$ 45,001	\$ 23,024
Payroll liabilities	71,374	69,798	69,391	60,557
Accrued liabilities	14,062	12,885	-	-
Current maturities of long-term debt	15,000	15,000	10,000	10,000
Other			21,200	20,222
Total current liabilities	<u>160,980</u>	<u>176,305</u>	<u>145,592</u>	<u>113,803</u>
Long term debt, net	393,750	400,000	412,083	422,083
Total liabilities	<u>554,730</u>	<u>576,305</u>	<u>557,675</u>	<u>535,886</u>
Net assets:				
Unrestricted	496,074	453,813	445,673	500,683
Temporarily restricted	234,397	364,138	21,074	-
Total net assets	<u>730,471</u>	<u>817,951</u>	<u>466,747</u>	<u>500,683</u>
<b>Total liabilities and net assets</b>	<b><u>\$ 1,285,201</u></b>	<b><u>\$ 1,394,256</u></b>	<b><u>\$ 1,024,422</u></b>	<b><u>\$ 1,036,569</u></b>

**Financial Ratios:**

	<b>Proforma <sup>(1)</sup></b>			
	<b><u>FYE 2003</u></b>			
Debt Service Coverage (x)	1.72	1.41	.27	(.89)
Debt/Unrestricted Net Assets (x)	.88	.88	.92	.84
Margin (%)		.86%	(6.26%)	(11.84%)
Current Ratio (x)		3.88	2.59	3.76

(1) Recalculates June 2003 audited results to include the impact of the HELP II loan financing.

## **Financial Discussion:**

**IHCS' income statement has improved each of the past three audited fiscal years. Management has made significant efforts to further strengthen IHCS' financial condition by recently increasing grant revenues through improved collaboration with other government entities and containment of operational expenditures. IHCS' interim operations continue to show improvement and positive operating results.**

IHCS has improved operating results from audited FY 2001 to FY 2003, with operating income of (\$100k), (\$50k), and \$8k.

In fiscal year 2003, program revenues were approximately 11% over the previous year. Grant income continued to be significantly higher than FY 2001 and equivalent to the much-improved FY 2002. This was due to the award of a startup grant of approximately \$740,000 from the California Endowment to establish a second adult day health care site in Oroville. Coupled with two other grants, this project will assist with transportation and administrative costs and ensure that the new site will have adequate funding without imposing on the existing resources of the Peg Taylor Center. The project will receive a below market rental rate for the new facility and there will be no indebtedness associated with operating this new site.

In fiscal year 2002, IHCS' program revenue declined by almost \$50k or 8%. This was a result of the reduced client load and new enrollments, which could not keep pace with disenrollments, while the less-profitable private clients increased as well. To counteract the decline in revenues, management implemented an expenditure cost containment plan that reduced salaries/benefits by eliminating an assistant administrator position and reducing staff times. In addition, to address the lack of referrals and boost grant revenues, IHCS management partnered with the County of Butte to request funding for the development of the Butte County Elder Services Coordinating Council. This resulted in a grant award to IHCS in the amount of \$100k, thus grant revenues FY 2002 were \$117k higher. The higher grant revenues did improve operating results over the previous FY, however higher transportation costs more than offset these revenues and consequently IHCS experienced a moderate operating deficit.

In fiscal year 2001, IHCS experienced a deficit of approximately \$100,000. This deficit was caused by several problems. First, IHCS experienced a reduction in attendance due to a bad flu season. The attendance declined from FY 2000 by 1,401 days resulting in loss revenues of approximately \$77,000. Due to the lower attendance, management reduced staffing and other expenses to help offset the revenue declines. However, IHCS also experienced an increase in transportation fees of \$23k as a result of higher fuel costs. Further contributing to the deficit was the reconciliation for Medi-Cal and private billing as the program's accounting was converted to Quickbooks and brought in-house.

In the interim unaudited FY 2004 statements, IHCS posted an increase in unrestricted net assets of approximately \$42,000.

Overall, management’s efforts in recent years have focused on positioning IHCS for the future, localizing and expanding service while reducing transportation costs. Butte County continues to have a need for adult day health care and IHCS has helped to reorganize the local network of referral sources and acquire better support for basic costs. This will assist the organization to weather out other challenges that may be presented. Significant improvements were made over the past two years.

**IHCS has good liquidity, minimal long-term debt, and adequate proforma debt service coverage. IHCS’ projected debt service coverage indicates adequate cash flow to repay this loan.**

IHCS’ current balance sheet is solid with adequate liquidity and minimal debt. Liquidity has improved, with cash and cash equivalent of \$529k. IHCS’ long-term debt to unrestricted net assets ratio is .88, indicating significant leverage. However, IHCS’ proforma debt services coverage remains 1.72, indicating its ability to manage loan repayment.

### III. UTILIZATION STATISTICS:

**Innovative Health Care Services, Inc.  
dba Peg Taylor Center for Adult Day Health Care  
Period ending  
November 30,**

<u>Clients Served</u>	<u>2003</u>	<u>Fiscal year ending June 30,</u>		
	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Assessed clients	40	91	80	65
Med-cal	69	94	78	82
Self pay/private insurance	<u>34</u>	<u>64</u>	<u>48</u>	<u>45</u>
<b>Totals</b>	<b><u>143</u></b>	<b><u>249</u></b>	<b><u>206</u></b>	<b><u>207</u></b>

### IV. ORGANIZATION:

**Background:** The Peg Taylor Center for Adult Day Health Care offers personalized care and support for older adults with on-going serious health problems, as well as younger adults who need active help due to severely disabling conditions. The services are designed to encourage independence and increase well-being by providing care within a lively supportive community setting. The program is available to clients who receive Medi-Cal as well as for those who have private insurance. There is a sliding fee scale for clients who have neither means of support. The daily charge is all-inclusive and there is no additional charge for any service provided.

The clients who attend the Peg Taylor Center have a wide range of health needs and diagnoses include stroke, diabetes, Parkinson's and Alzheimer's disease. The center's team of health care professionals provide each client with individualized care. This includes health assessments, nursing and social services, physical, occupational and speech therapies, and dietary counseling. A registered nurse is on the premises at all times and assistance is provided throughout the day to ensure each client's safety and well-being. The high staff to client ratio of 1:5 ensures that help is available at all times.

In addition to these personalized health care services, recreational activities designed for a wide range of interests and abilities take place throughout the day. A full dinner is served at noon and door-to-door transportation is arranged when needed.

The primary program offered at the Peg Taylor Center is adult day health care. It is a comprehensive day of individualized care intended to strengthen, maintain, and/or rehabilitate adults whose health problems are serious enough to threaten their independence and well-being.

Each adult day health care client is individually assessed to determine need. A personal care plan is designed to guide the client's day at the center. Clients attend the program from 1 to 5 days per week depending on their needs. During the course of their day, they will enjoy visiting with others, be invigorated by lively activities and have the opportunity to share and address their concerns.

The care that they receive includes nursing treatments, physical, occupational and speech therapies, social services and dietary counseling and education. All the services provided are coordinated with the client's personal physician, who also approves the client's participation in the adult day health care program.

Peg's Place is the special program offered within the Peg Taylor Center for Adult Day Health Care to better meet the unique needs of those clients who are experiencing memory loss or other cognitive changes. The services and activities provided through Peg's Place are intended to help clients maintain their functional abilities and self-esteem, as well as to support and assist their caregivers. The Caregiver Support Group is held on the first Tuesday of every month and is open to the public.

IHCS' staff provides presentations on a range of topics related to elder care including avidity programming for the elderly, special topics in health care and dementia care and other aspects of long-term care. In addition, internships and student placements are a component of each school year.

**Licenses:** IHCS is licensed as an Adult Day Health Center by the Department of Health Services.

**Service Area and Competition:** IHCS operates the only adult day health care program serving the three counties of Butte, Glenn and Tehama.

**V. OUTSTANDING DEBT:**

Description	Original Amount	Amount Outstanding As of 6/30/03 (audited)*	Estimated Amount Outstanding After Proposed Financing
<b>Existing:</b>			
CHFFA STARTS 1992 A	\$510,000	\$415,000	-0-
<b>Proposed:</b>			
CHFFA HELP II Loan, 2004		N/A	400,000
<b>TOTAL DEBT</b>		<b>\$415,000</b>	<b>\$400,000</b>

\*Includes current portion.

**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.

IHCS 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, and (b) 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".

IHCS has executed this certification and whether Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as 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 in an amount not to exceed \$400,000 for a term not to exceed 15 years for Innovative Health Center Services, Inc. subject to the standard HELP II loan provisions.