

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

Applicant: Escuela del Rio (EdR) 5940 Rosario Ave. Atascadero, CA 93422 San Luis Obispo County		Amount Requested: \$137,000 Requested Loan Term: 15 years Date Requested: February 26, 2003 Resolution Number: HII-162	
Project Site: 1205 El Camino Real and 5940 Rosario Ave., Atascadero, CA 93422 Facility Type: Adult Day Care Facilities			
Policy Issue: Under the HELP II Loan Program guidelines, loans in the amount of \$300,000 or less are generally a maximum of ten years and the existing interest rate should be 10% or more. Staff recommends approval of exceptions to these guidelines.			
Use of Loan Proceeds: Loan proceeds will be used to refinance the STARTS 1992A series bonds to obtain a lower interest rate under the HELP II loan program resulting in a net present value savings of approximately \$72,000.			
Type of Issue:		HELP II Loan	
Prior HELP II Borrower:		Yes	
Payment Status:		Current	
Financial Overview: EdR's income statement exhibits near break-even operations during our review period. Consistent with many other non-profit health facilities in the industry, EdR has recently seen a moderate decline in its revenues, while operating expenses have increased significantly. Interim numbers, six months ending December 31, 2003, show a positive trend for the current fiscal year. EdR's balance sheet has remained steady over our review period.			
Sources of Revenue: (FYE 6-30-03)		<u>Amount</u>	<u>Percent</u>
Tuition		\$849,472	94%
Other Income		29,849	3%
Work Program		<u>26,708</u>	<u>3%</u>
Total revenue		<u>\$906,029</u>	<u>100%</u>
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II loan	\$137,000	Refinance real property	\$134,000
Borrower's contribution	*0	Financing costs	<u>3,000</u>
Total Sources	<u>\$137,000</u>	Total Uses	<u>\$137,000</u>
* Standard HELP loan provisions require a 5% borrower contribution, however this requirement is being waived by staff since the proposed loan purpose is to refinance a loan that is highly secured (LTV of 16%).			
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 a HELP II Loan in an amount not to exceed \$137,000 for a term not to exceed 15 years for Escuela del Rio, subject to the standard HELP II loan provisions.			

STAFF SUMMARY AND RECOMMENDATION

**Escuela del Rio
(EdR)**

February 26, 2004

Resolution Number: HII-162

Policy Issue: Under the HELP II Loan Program guidelines loans in the amount of \$300,000 or less are generally a maximum of ten years and the existing interest rate should be 10% or more. EdR is requesting a 15-year loan schedule to match the original term of the STARTS 1992 Series A bonds. Staff recommends an exception to this policy.

I. PURPOSE OF FINANCING: Loan proceeds would be used to refinance the STARTS 1992 Series A bonds. EdR seeks to obtain a lower interest rate through the HELP II loan program and save approximately \$400 per month or \$72,000 in interest expense over the life of the loan. Original STARTS proceeds were used to finance refinance two properties that had 11% and 12% bank loans.

<i>Refinancing</i>	<i>*\$134,000</i>
<i>Financing Costs</i>	<u><i>3,000</i></u>
Authority Fee	\$1,675
Title/Escrow/Other	1,325
<i>Total</i>	<u><i>\$137,000</i></u>

* Includes the Debt Service Reserve deficit for the STARTS 1992 Series A Program.

Financing structure:

- 15-year fully amortized loan in the amount of \$137,000.
- 180 equal monthly payments of approximately \$948 (total annual payments of \$11,376).
- Total interest payments of approximately \$33,350.
- 1st lien position on 5940 Rosario Avenue, Atascadero, CA
- 1st lien position on corporate gross revenues.
- LTV of 16% based on appraised value of \$856,000

II. FINANCIAL STATEMENTS AND ANALYSIS:

ESCUELA DEL RIO Statement of Activities (Unrestricted)

	Six months	Year End June 30,		
	ending			
	Dec. 31			
	2003	2003	2002	2001
	(Unaudited)			
Income and support:				
Tuition	\$ 435,869	\$ 849,472	\$ 882,104	\$ 946,581
Transportation	3,639	7,954	8,583	9,244
Work programs	13,160	26,708	25,685	28,014
Memberships	7,370	7,198	8,002	7,720
United Way	346	2,886	2,263	3,271
Grant income	-	2,257	42,236	47,637
Donations	2,427	3,321	2,556	3,361
Interest	1,009	3,723	7,582	12,702
Other income	669	2,510	3,305	881
Total income and support	464,489	906,029	982,316	1,059,411
Expenses:				
Program services	380,012	779,362	808,665	814,335
Management and general	74,495	153,164	140,414	131,561
Total Expenses	454,507	932,526	949,079	945,896
Change in unrestricted net assets	9,982	(26,497)	33,237	113,515
Unrestricted net assets, beginning of year	671,116	697,613	664,376	550,861
Unrestricted net assets, end of year	\$ 681,098	\$ 671,116	\$ 697,613	\$ 664,376

ESCUELA DEL RIO
Statements of Financial Position

	As of	June 30,		
	Dec. 31, 2003 (Unaudited)	2003	2002	2001
Assets:				
Current Assets:				
Cash and cash equivalents	\$ 237,556	\$ 252,135	\$ 260,890	\$ 281,957
Accounts receivable	64,070	62,027	62,223	68,978
Accrued interest receivable	-	-	385	605
Prepaid expenses	5,880	2,209	9,232	7,466
Total current assets	<u>307,506</u>	<u>316,371</u>	<u>332,730</u>	<u>359,006</u>
Property and equipment:				
Property and equipment, net of depreciation	739,223	739,061	791,851	756,412
Other non-current assets:				
Deposits	2,301	2,301	1,667	1,252
Loan fees, net	4,204	4,204	4,559	4,915
Total assets	<u>\$ 1,053,234</u>	<u>\$ 1,061,937</u>	<u>\$ 1,130,807</u>	<u>\$ 1,121,585</u>
Liabilities and net assets:				
Current Liabilities:				
Accounts payable	\$ -	\$ 5,987	\$ 11,172	\$ 4,073
Accrued expenses	48,528	51,179	57,083	57,690
Notes payable - current portion	36,232	32,083	31,283	30,508
Total current liabilities	<u>84,760</u>	<u>89,249</u>	<u>99,538</u>	<u>92,271</u>
Long-term liabilities:				
Notes payable - net current portion	<u>287,376</u>	<u>301,572</u>	<u>333,656</u>	<u>364,938</u>
Total liabilities	372,136	390,821	433,194	457,209
Net assets:				
Unrestricted	<u>681,098</u>	<u>671,116</u>	<u>697,613</u>	<u>664,376</u>
Total liabilities and net assets	<u>\$ 1,053,234</u>	<u>\$ 1,061,937</u>	<u>\$ 1,130,807</u>	<u>\$ 1,121,585</u>
	Proforma (a)			
	2003	2003	2002	2001
Debt Service Coverage Ratios (x)	1.60	0.92	2.17	3.78
Debt/Unrestricted Net Assets (x)	0.51	0.50	0.52	0.60
Margin (%)		-2.92%	3.38%	10.71%
Current Ratio (x)		3.54	3.34	3.89

(a) Based on adding projected new debt to the 2003 financial results.

Financial Discussion:

EdR income statement exhibits near break-even operations during our review period. Consistent with many other non-profit health facilities in the industry, EdR has recently seen a moderate decline in its revenues. Interim numbers, six months ending December 31, 2003, show a positive trend for the current fiscal year.

EdR's revenues have declined over our review period, mostly due to EdR's inability to fill key vacant positions as a result of inadequate salaries and high staff turnover. EdR's inability to fill these positions has resulted in EdR not being able to operate at full capacity, thus revenues are down slightly. In addition, EdR receives reimbursement from the Department of Developmental Services and those rates have remained frozen at the 1996-97 levels, except for a pass-through salary/benefit increase of 10% in 2000.

Although EdR's overall expenses have decreased slightly due to staff vacancies, certain operating expenses have increased due to increased costs for commercial/worker compensation insurance, utilities, and health benefits. Similar to other health facilities, EdR has experienced a 75% increase in employee benefits including health insurance, workers compensation insurance, even though salaries only increased 4%.

During the interim period ending December 31, 2003, EdR has improved its operations, with an increase in unrestricted net assets of \$9,000. This improvement is a result of EdR implementing a strategic business plan to improve operating efficiency, as follows:

EdR has implemented several cost saving measures and will continue to review other measures throughout the year including reduced health care benefits for employees for a savings of approximately \$4,200 and eliminated holiday pay for employees who have not been employed for at least six months.

EdR's balance sheet has remained steady over our review period.

EdR has adequate liquidity with cash and cash equivalents of \$252,000. EdR has also managed to maintain relatively consistent financial resources, with unrestricted net assets of \$671,000. Comparing EdR's outstanding long-term debt to unrestricted net assets indicates that EdR is only moderately leveraged. EdR's current debt service coverage is at 0.92x, but improves to 1.60x with this refinancing. This indicates that EdR should be able to handle the new debt comfortably.

III. UTILIZATION STATISTICS:

Adult Day Care	Number of Clients Served			
	FY 2003-04 6 months	FY 2003-03	FY 2001-02	FY 2000-01
EdR – Core DTAC	51	50	50	53
EdR – TIP DTAC	21	24	26	25
EdR – START ADC	17	16	18	17
EdR – Seniors ADC	12	13	17	17
Totals	101	103	111	112

IV. ORGANIZATION:

Background: First organized in 1974, EdR is a non -profit organization that began as a small day-training activity center for developmentally disabled adults. EdR consists of 4 separate sites that provide a different continuum of services that promote independent and integrated lifestyles for the different levels of disabilities.

Licenses: EdR is licensed by the Department of Social Services.

Contracts: EdR contracts with the Department of Developmental Services via the Regional Centers set up by Developmental Services.

Service Area and Competition: EdR’s service area is northern San Luis Obispo County. EdR has 79% of the market share. Although there are several other licensed adult day care facilities within 5 miles, each facility serves a different type of clientele.

V. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 6/30/03	Estimated Amount Outstanding After Proposed Financing
Existing:			
CHFFA STARTS 1992, Series A	\$185,000	\$128,333	\$0
HELP II loan, due May 2005	131,000	28,238	28,238
HELP II loan, due May 2015	213,500	177,084	177,084
Proposed:			
CHFFA HELP II Loan, 2004		N/A	137,000
TOTAL DEBT		\$333,655*	\$342,322

*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.

EdR 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".

EdR has executed this certification and has provided the required information. 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 \$137,000 for a term not to exceed 15 years for Escuela del Rio subject to standard HELP II loan provisions.