

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
(CHFFA)
THE HELP II PROGRAM
Executive Summary**

Applicant:	Yolo Family Service Agency ("YFSA") 455 First Street Woodland, CA 95695 Yolo County	Amount Requested:	\$320,000
		Date Requested:	October 27, 2005
		Loan Term:	15 years
		Resolution Number:	HII-177
Project Site:	Woodland, California		
Facility Type:	Community Mental Health Center		
Policy Issue: YFSA is requesting to consolidate and refinance its two original HELP II loans through a new HELP II loan and a new security lien. Although consolidations are typically not allowed under HELP II guidelines, staff recommends approval for the reasons outlined on the following page.			
Uses of Loan Proceeds: YFSA is requesting to restructure its two existing HELP II loans and finance a roof replacement with a new HELP II loan.			
	Type of Issue:	HELP II Loan.	
	Prior HELP II Borrower:	Yes.	
	Payments Status:	Current.	
Financial Overview: YFSA has experienced declining revenue over our review period, leading to a loss in 2005 and a reduction in its fund balance. The balance sheet has weakened and there is a cash flow problem. Although YFSA has encountered recent operating difficulties, its management is committed to returning to financial stability.			
Sources of Revenues: (FYE 6/30/05)			
		<u>Amount</u>	<u>Percent</u>
	Client fees	\$66,987	8.7%
	Grants, awards and donations	66,776	8.7%
	Rental revenue	25,420	3.3%
	Special events	7,014	1.1%
	Interest income	874	0.0%
	Miscellaneous fees	762	0.0%
	Assets released from restrictions	<u>599,678</u>	<u>78.2%</u>
	Total unrestricted support and revenue	<u>\$767,511</u>	<u>100.0%</u>
Estimated Sources of Funds:			
	HELP II loan	\$320,000	
	Total Sources	<u>\$320,000</u>	
Estimated Uses of Funds:			
	Restructure existing loan		\$299,300
	Replace roof		15,000
	Financing costs		<u>5,700</u>
	Total Uses		<u>\$320,000</u>
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 \$320,000 for a term not to exceed 15 years for Yolo Family Service Agency, subject to the standard HELP II loan provisions.			

STAFF SUMMARY AND RECOMMENDATION

THE HELP II PROGRAM

Yolo Family Service Agency (“YFSA”)

October 27, 2005

Resolution Number: HII-177

POLICY ISSUE:

Under the HELP II Loan Program guidelines, refinancing existing debt is allowed only when there is a significant interest savings or when a balloon payment is due within twelve months. In this case, the refinancing of YFSA’s two existing HELP II Loans will result in an annual loan payment reduction of approximately \$8,000, even with the additional \$15,000 needed for a roof replacement added to the principal balance. Although the new loan term will extend the final payoff by four years, staff recommends refinancing the existing two HELP II loans given YFSA’s solid repayment history, an estimated loan to value ratio of 24%, and YFSA’s commitment to obtaining financial stability.

I. PURPOSE OF FINANCING:

YFSA proposes to refinance its two existing HELP II loans and to finance roof replacements on two of three buildings at its Woodland facility with a new HELP II loan. The new payment will ease their cash flow concerns and eliminate a 2009 balloon payment.

***Restructure existing HELP II loans.* \$299,300**

Due to its cash flow and other financial difficulties, YFSA requests that its two existing HELP II loans be restructured into one loan maturing in 15 years. The first loan, originating in 1999, has a balance of \$114,680, is a 10-year loan with a 15-year amortization (balloon payment of \$76,636 is due in 2009), and is secured by the Davis property. The second loan, originating in 2001, has a balance of \$184,620, is a 15-year loan that matures in 2016, and is secured by the Woodland property.

The restructured loan would be collateralized by both the Woodland and Davis properties, which have a combined estimated value of \$1,296,800.

***Replace roof.* \$15,000**

YFSA seeks to replace the roofs on two of its three buildings located at 455 First Street in Woodland. The roofs of these two buildings were repaired in 2004 at the cost of \$1,500 as a temporary measure. Without two new roofs on the buildings, services at the facilities will be compromised. The third building is a newer building for rental purposes and the roof does not require replacement.

<i>Authority Fee</i>		<u>\$5,700</u>
Authority Fees	\$3,700	
Title/escrow fees	2,000	
<i>Total Uses of Funds</i>		<u>\$320,000</u>

Financing Structure:

- 15-year fully amortized loan in the amount of \$320,000.
- 180 equal monthly payments of approximately \$2,210 (total annual payments of \$26,500).
- Total interest payments of approximately \$77,780.
- Corporate gross revenue pledge.
- First lien position on property located at 455 First Street, Woodland, CA.
- First lien position on property located at 1105 Kennedy Place, Davis, CA. Existing second lien to remain in a subordinate lien position.

II. FINANCIAL STATEMENTS AND ANALYSIS:

**Yolo Family Service Agency
Statement of Activities
(Unrestricted)**

	Three-months ended			
	September 30,	For the fiscal year ended June 30,		
	2005	2005	2004	2003
	(unaudited)			
Revenue:				
Client fees	\$ 146,701	\$ 66,987	\$ 129,817	\$ 67,111
Grants, awards and donations	71,854	66,776	56,523	141,797 *
Fundraising	-	7,014	6,114	750
Rental revenue	4,551	25,420	26,140	26,115
Interest income	3	874	4,602	5,488
Miscellaneous	106	762	4,451	3,665
Net assets released from restrictions	-	599,678	766,122	840,811 *
Total Revenue	223,215	767,511	993,769	1,085,737
Expenses:				
Personnel expense - Program services	157,398	612,079	634,815	598,301
Personnel expense - Mgmt., General & Fundraising	11,570	84,888	112,026	105,582
Contracted services	7,430	5,581	6,932	26,216
Student stipends	-	32,724	50,014	36,316
Depreciation	6,062	26,171	26,993	26,992
Occupancy	5,041	32,180	30,755	40,081
Program expense	-	2,313	17,806	51,184
Program materials and supplies	-	13,351	14,615	10,440
Insurance	4,745	8,853	9,836	9,227
Interest expense	4,677	10,746	12,739	13,202
Other	15,778	46,327	38,424	58,555
Total Expenses	212,701	875,213	954,955	976,096
Change in Unrestricted Net Assets	10,514	(107,702)	38,814	109,641
Unrestricted Net Assets at Beginning of Year	336,010	443,712	404,898	623,416
Prior period adjustment				* (328,159)
Unrestricted Net Assets at End of Year	\$ 346,524	\$ 336,010	\$ 443,712	\$ 404,898

* In 2003, YFSA's auditors recognized prior year earnings as deferred revenue. Also, until 2003, YFSA did not recognize grant funds to be temporarily restricted funds, to be released from restriction within the same year.

**Yolo Family Service Agency
Statement of Financial Position**

	<u>As of Sept. 30</u>	<u>As of June 30,</u>		
	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
	<u>(Unaudited)</u>			
ASSETS				
Current Assets:				
Cash	\$ 8,637	\$ 30,341	\$ 290,549	\$ 342,435
Grants and fees receivable, less allowance	183,727	107,875	69,734	30,914
Total Current Assets	<u>192,364</u>	<u>138,216</u>	<u>360,283</u>	<u>373,349</u>
Property and equipment, less depreciation	555,128	561,190	587,563	614,556
Other assets	19,212	19,212	9,963	9,963
TOTAL ASSETS	<u>\$ 766,704</u>	<u>\$ 718,618</u>	<u>\$ 957,809</u>	<u>\$ 997,868</u>
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accrued payroll and vacation expense	\$ 13,640	\$ 12,191	\$ 7,434	\$ 20,205
Line of credit	20,000	50,000	10,308	27,000
Accounts payable	29,869	4,509	370	446
Current portion of long-term debt	25,608	25,608	25,005	24,119
Total Current Liabilities	<u>89,117</u>	<u>92,308</u>	<u>43,117</u>	<u>71,770</u>
Long-Term Liabilities:				
Long term debt, less current portion	270,706	279,979	303,360	328,390
Deferred revenue	7,857	9,321	166,620	191,810
Other long-term debt	52,500	1,000	1,000	1,000
TOTAL LIABILITIES	<u>420,180</u>	<u>382,608</u>	<u>514,097</u>	<u>592,970</u>
Unrestricted Net Assets	346,524	336,010	443,712	404,898
TOTAL NET ASSETS	<u>346,524</u>	<u>336,010</u>	<u>443,712</u>	<u>404,898</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 766,704</u>	<u>\$ 718,618</u>	<u>\$ 957,809</u>	<u>\$ 997,868</u>

Financial Ratios:

	Proforma ^(a)				
	<u>September 2005</u>				
Debt Service Coverage (x)	2.20	1.95	(2.41)	2.28	4.36
Debt/Unrestricted Net Assets (x)	1.05	1.04	0.91	0.74	0.87
Margin (%)		4.71%	-14.03%	3.91%	10.10%
Current Ratio (x)		2.16	1.50	8.36	5.20

(a) Recalculates September 2005 interim results to include the impact of this proposed HELP II loan.

Financial Discussion:

YFSA has experienced declining revenue over our review period, leading to a loss in 2005 and a reduction in its fund balance.

YFSA, as a community mental health clinic, provides mental healthcare to low and moderate-income patients. YFSA generates only 8% of its revenue from client fees, even though its operations are mental health client-based. It generates 86% of its revenues from grants, awards and donations, and unrestricted net assets.

Total revenues decreased 30% from fiscal 2003 to fiscal 2005, primarily as a result of a 17% decrease in patient visits. Although client fee revenue has remained steady over our review period, the bulk of YFSA's revenue sources have dropped by 33%. The California Endowment grant, the largest source of grant income, has declined over the review period, and management has not been able to locate replacement sources of funding. Also, grants funding student stipends that provide outreach and services to the Latino community ended on June 30, 2005.

Although total revenues have decreased 30% over the past three fiscal years, operating expenses declined by only 11% during the same period. Management and general personnel expenses decreased by 20% over the period, but major program personnel expenses increased. Management attributes the personnel expense increase to a greater caseload for low-income clients, without sufficient government reimbursement. In addition, the Medi-Cal/EPSDT contract obtained in 2003 opened the market for higher-risk clients with additional service costs, but the market did not materialize due to low patient visits. As a result, YFSA experienced operating losses in fiscal 2005 with a negative profit margin of 14% and the unrestricted net assets decreased 18% for the review period. YFSA's interim results indicate a positive margin of 5% as a result of measures taken to improve operations (see below).

The balance sheet has weakened and there is a cash flow problem.

YFSA's cash balance at the end of the FYE June 30, 2005 was \$30,341, which is approximately enough to fund two weeks of operations. This is due in part to their declining revenues as well as the fact that receivables have more than tripled. Although the decline in cash and recent draws on a credit line point to cash flow problems, YFSA has kept overall debt levels in check.

Although YFSA has encountered recent operating difficulties, its management is committed to returning to financial stability.

YFSA's management is currently implementing a strategy to improve operating results. First, management plans to reduce expenses through staff cutbacks. In fiscal 2005, two clinical positions were eliminated through attrition and the Development Director position was eliminated. YFSA will save approximately \$95,000 annually from these cutbacks and the duties of the Development Director will be absorbed by the Executive Director. Second, management has added new technology to track grant and contract utilization, upgrade the billing software, and install appointment scheduling and tracking software. Third, YFSA launched a donor campaign in

the spring of 2005. To date, donor commitments total \$35,100. Finally, the previously vacant Woodland rental property was leased as of October 1, 2005 and will generate an additional \$1,500 per month.

The current interim period indicates a profit of approximately \$10,000 in unrestricted net assets. The positive trend for the interim period is the result of some increases in client fee revenue while controlling expenses as evidenced by a debt service coverage ratio of 1.95x. Management anticipates maintaining a profit margin of approximately 4% for fiscal 2006. Of note, the structure of financial reporting has been changed as of July 1, 2005 and client fees are classified as earned revenues, which includes contracts for services.

Although the interim period shows a positive trend in cash flow, YFSA intends to improve its cash position further by reducing both its accounts receivable and accounts payable, respectively, and completing the proposed refinancing to improve cash flow by an additional \$8,000 annually. YFSA's management anticipates it will meet all of its debt obligation in the future, which is supported by a proforma debt service coverage ratio of 2.20x.

III BACKGROUND:

YFSA, headquartered in Woodland, has clinics in Woodland, Davis and West Sacramento, was incorporated in 1959 as a non-profit private corporation to provide professional counseling and support services to the Yolo County community. YFSA has been providing counseling services for emotionally disturbed or abused adults and children at various levels of care.

The services offered by YFSA include:

Core Program (counseling services): Professional counseling and psychotherapy, in English and Spanish, for families, couples, and children. YFSA also provides eight-to-twelve week support groups on topics including women's issues, parenting, grief/loss, and care giving.

Families of the Mentally Ill: A free counseling group for families with a chronically mentally ill member.

Employee Assistance Program: Counseling services for employees who are experiencing difficulties pursuant to contract with local businesses.

Family Maintenance & Reunification: Long-term treatment for children or adults who have been sexually or physically abused.

Victims of Crime Program: Individual services for adult and child victims of crime. Witnesses to crimes also receive services in this program.

Licenses and Contracts:

YFSA’s programs are certified by the State of California Department of Mental Health as a community mental health center and contracts with Medi-Cal to provide outpatient mental health services, senior peer counseling, outreach training and group counseling in Yolo County.

Service Area and Competition:

YFSA is the only non-profit provider of brief and long-term mental health services in Yolo County with a special emphasis on children and families. Competition includes private sector providers whose services are generally unavailable to uninsured or underinsured low and moderate-income residents. The Yolo County Drug, Alcohol & Mental Health Services Department also provides counseling services; however, its focus is on crisis situations of the chronically-mentally ill.

IV. UTILIZATION STATISTICS:

	Fiscal Year Ended June 30			
	2005	2004	2003	2002
Clients Served	1,102	1,083	1,018	942
Patient Visits	8,816	9,820	10,346	10,423

V. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 6/30/05 *	Estimated Amount Outstanding After Proposed Financing
Existing:			
CHFFA HELP II, 1999	\$180,000	\$117,527	\$0
CHFFA HELP II, 2001	235,000	188,060	0
Term Loan **	50,000	N/A	50,000
Proposed:			
CHFFA HELP II, 2005			320,000
TOTAL DEBT		\$305,587	\$370,000

*Includes current portion of long-term debt.

**Line of credit for \$50,000 was converted into five-year term loan as of July 1, 2005.

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.

YFSA 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".

YFSA has executed this certification and regarding whether Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **Exhibit B**.

VIII RELIGIOUS AFFILIATION DUE DILIGENCE:

Staff has reviewed the Applicant's responses to the questions contained in the Religious Affiliation portion of the application. No information was disclosed in the questionnaire or discovered by staff to question the Applicant's compliance with the provisions of the Authority's Act relating to religious affiliation.

IX 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.

X STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II loan in an amount not to exceed \$320,000 for a term not to exceed 15 years for Yolo Family Service Agency, subject to the standard HELP II loan provisions.