

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

Applicant: The Arc of Amador and Calaveras (“Arc”) 75 Academy Drive Sutter Creek, California Amador County		Amount Requested: \$255,000 Requested Loan Term: 10 years Date Requested: Feb. 23, 2006 Resolution Number: HII-181	
Project Sites: 75 Academy Drive, Sutter Creek, California – Amador County 127 and 153 Bellview, San Andreas, California – Calaveras County			
Facility Type: Adult day care and employment services for the developmentally disabled.			
Use of Loan Proceeds: Loan proceeds will be used to refinance an existing loan with a balloon payment due in March 2006 on its San Andreas property. In addition, Arc will use loan funds to renovate and remodel its Sutter Creek and San Andreas properties.			
Type of Issue:		HELP II Loan	
Prior HELP II Borrower:		Yes. (Currently have 3 outstanding HELP II loans.)	
Payments up to date:		Yes. (Combined balance as of February 2006 is \$244,763.)	
Financial Overview: Although largely dependent on government reimbursement, Arc’s financial position is stable with consistent profitability. Further aiding stability is Arc’s strong market presence in both Amador and Calaveras counties. Arc’s balance sheet remains solid with good liquidity and a satisfactory projected debt service coverage ratio.			
Sources of Revenue: (FYE 6-30-05)			
	<u>Amount</u>	<u>Percent</u>	
Program service fees	\$1,652,054	97.4%	
Support	23,747	1.4%	
Other revenue	<u>20,397</u>	<u>1.2%</u>	
Total operating revenue	<u>\$1,696,198</u>	<u>100.0%</u>	
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II Loan	\$255,000	Renovation/Remodeling	\$192,312
Borrower’s Funds	15,000	Balloon payment	72,500
		Financing Costs	<u>5,188</u>
Total Uses	<u>\$270,000</u>	Total Sources	<u>\$270,000</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 \$255,000 for a term not to exceed 10 years for the Arc of Amador and Calaveras, subject to a final appraised value on the Sutter Creek property satisfactory to the Authority and the standard HELP II loan provisions.			

STAFF SUMMARY AND RECOMMENDATION

The Arc of Amador and Calaveras (“Arc”)

February 23, 2006

Resolution Number: HII-181

- I. PURPOSE OF FINANCING:** Arc proposes to refinance a balloon payment due in March 2006 and redirect the savings towards improvement of services. In addition, Arc plans to complete several renovation projects at its facilities in San Andreas and Sutter Creek.

Remodel and renovate the San Andreas properties and Sutter Creek property..\$192,312

Loan proceeds will be used to remodel and renovate the properties located at 153 and 127 Bellview in San Andreas as well as 75 Academy Drive in Sutter Creek. The project includes completing asphalt and building repairs, installing ramps, fencing and landscaping between the two San Andreas properties. In addition, Arc plans to renovate and remodel the Sutter Creek property, which includes installing carpeting, adding fencing and completing asphalt repairs to the parking lot.

Refinance construction loan72,500

Loan proceeds will be used to refinance an existing construction loan with a balloon payment due in March 2006 on its San Andreas property located at 127 Bellview. The current interest rate on this note is 8.5% and the estimated loan balance as of March 2006 will be \$72,500. The HELP II loan will be secured by the Sutter Creek property. This property was purchased in February 1998 for \$395,000 and is used by Arc to operate a 6,000 square foot adult day care facility. Arc is in the process of having the property appraised by a state certified general licensed appraiser. Management estimates its value at approximately \$600,000.

Financing Costs 5,188

Authority Fee3,188
Title/escrow fees2,000

Total.....\$270,000

Financing structure:

- 10-year fully amortized loan term in the amount of \$255,000.
- 120 equal monthly payments of approximately \$2,462 (total annual payments of \$29,544).
- Total interest payments of approximately \$40,476.
- A lien in the amount of \$255,000 on the property located at 75 Academy Drive in Sutter Creek, California.
- Corporate gross revenue pledge.
- Maximum loan to value ratio of 95%.
- Estimated loan closing date: March 2006.

Currently, the Authority holds first position liens on the three properties as security from prior HELP II loans. With the proposed loan, the combined loan to value ratio on the Sutter Creek property is 83%.

II. FINANCIAL STATEMENTS AND ANALYSIS:

The Arc of Amador and Calaveras

Statement of Activities

Unrestricted

	Six Month Period Ended <u>December 2005</u> (Unaudited)	For the Year Ended June 30,		
		<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenue, gains and other support				
Support	\$ 15,990	\$ 23,747	\$ 29,545	\$ 23,404
Program service fees	836,658	1,652,054	1,548,764	1,508,078
Other revenue ¹	414,532	20,397	27,760	18,326
Total revenue, gains and other support	<u>1,267,180</u>	<u>1,696,198</u>	<u>1,606,069</u>	<u>1,549,808</u>
Expenses				
Salaries and employee benefits	687,959	1,332,736	1,235,101	1,228,618
Accounting	3,100	6,200	5,800	5,550
Advertising and promotion	-	419	78	182
Bad debts	-	157	8	1,450
Bank charges	-	16	-	3
Benefit management fees	1,636	1,995	1,933	1,742
Communications	5,308	10,001	11,676	13,423
Consultant fees	1,696	4,101	4,003	3,812
Depreciation	14,328	31,157	31,072	35,480
General operating expenses	25,922	41,304	46,509	50,220
Insurance	14,499	29,425	30,035	25,405
Maintenance	18,026	28,377	24,752	22,631
Professional fees	3,806	7,621	4,930	2,847
Supplies	19,875	38,662	47,133	38,327
Rental and leasing	5,265	10,258	10,212	10,232
Training	828	6,400	5,467	2,635
Travel	18,080	33,609	25,685	28,359
Utilities	9,659	16,838	17,871	17,360
Vehicle depreciation	8,385	29,768	31,749	40,282
Meetings	350	2,164	1,063	833
Fundraising and others	1,013	2,091	1,406	1,630
Scholarships/grants/gifts	-	50	100	-
Kitchen class expense	711	1,658	1,971	1,720
Total expenses	<u>840,446</u>	<u>1,635,007</u>	<u>1,538,554</u>	<u>1,532,741</u>
Increase in unrestricted net assets	426,734	61,191	67,515	17,067
Unrestricted net assets, beginning of year	<u>1,112,485</u>	<u>1,051,294</u>	<u>983,779</u>	<u>966,712</u>
Unrestricted net assets, end of year	<u>\$ 1,539,219</u>	<u>\$ 1,112,485</u>	<u>\$ 1,051,294</u>	<u>\$ 983,779</u>

1) As of December 31, 2005, other revenue includes sale of property.

The Arc of Amador and Calaveras
Balance Sheet

	As of December 2005 (Unaudited)	As of June 30,		
		2005	2004	2003
ASSETS				
Current assets:				
Cash	\$ 181,043	\$ 42,684	\$ 123,781	\$ 109,757
Accounts receivable	138,258	156,427	141,251	133,980
Prepaid expenses and deposits	31,413	44,888	45,855	48,302
Total current assets	<u>350,714</u>	<u>243,999</u>	<u>310,887</u>	<u>292,039</u>
Investments	352,387	352,017	431,911	382,647
Loan receivable ¹	250,000	-	-	-
Property and equipment, net	<u>953,407</u>	<u>895,539</u>	<u>750,082</u>	<u>783,121</u>
Total assets	<u>\$ 1,906,508</u>	<u>\$ 1,491,555</u>	<u>\$ 1,492,880</u>	<u>\$ 1,457,807</u>
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable and accrued payroll	\$ 118,821	\$ 108,565	\$ 123,040	\$ 113,807
Long-term debt, current portion	<u>44,921</u>	<u>44,248</u>	<u>42,942</u>	<u>41,675</u>
Total current liabilities	163,742	152,813	165,982	155,482
Long term debt, less current portion	<u>203,547</u>	<u>226,257</u>	<u>275,604</u>	<u>318,546</u>
Total liabilities	367,289	379,070	441,586	474,028
Unrestricted net assets	<u>1,539,219</u>	<u>1,112,485</u>	<u>1,051,294</u>	<u>983,779</u>
Total liabilities and net assets	<u>\$ 1,906,508</u>	<u>\$ 1,491,555</u>	<u>\$ 1,492,880</u>	<u>\$ 1,457,807</u>

Financial Ratios:

	Proforma ⁽²⁾			
	FYE 2005			
Debt Service Coverage (x)	1.47	1.91	2.64	1.85
Debt/Unrestricted Net Assets (x)	.41	.24	.30	.37
Margin (%)		3.61	4.20	1.10
Current Ratio (x)		1.60	1.87	1.88

(1) Seller carried note resulting from sale of vacant land.

(2) Recalculates June 2005 audited results to include the impact of this financing.

Financial Discussion:

Although largely dependent on government reimbursement, Arc's financial position is stable with consistent profitability. Further aiding stability is Arc's strong market presence in both Amador and Calaveras counties.

Arc has been in operations since 1971. Its financial position is stable and has consistently generated positive net income over our review period. Arc is largely dependent on government reimbursement from the California State Department of Rehabilitation and the Valley Mountain Regional Center. These government contracts consistently provide for approximately 97% of Arc's total revenues from year to year. Government program service fees have exhibited steady growth, as Arc has expanded its operations. Currently, Arc provides services to approximately 85 participants per day in which it receives approximately \$67 per day for each participant in the Calaveras Day Program, approximately \$60 per day for each participant in the Amador Day Program and approximately \$38 per hour for each participant in the Supported Living Services Program.

Arc has a strong market presence in both Amador and Calaveras counties with approximately 80% and 70% of the market share, respectively. Arc is in the process of completing its third facility in Calaveras County to meet its on-going demand for its services.

Arc's balance sheet remains solid with good liquidity and a satisfactory projected debt service coverage ratio.

Arc's balance sheet is solid with good liquidity, minimal long-term debt, and significant net assets. Arc's liquidity is exhibited by its \$181,000 cash position due to the sale of property. In addition, Arc has approximately \$352,000 in its investment portfolio. Arc is in the process of expanding its operations with its third facility in San Andreas with minimal increases in its long-term debt. Currently, Arc has approximately \$343,000 in long-term debt compared to approximately \$1.1 million in net assets. With the proposed HELP II loan financing, the debt service coverage ratio will remain strong at 1.47x, indicating Arc's ability to meet future debt service payments.

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III. ORGANIZATION:

Background: The Arc of Amador and Calaveras was founded by a group of parents in 1971 that wanted services for their adult children with developmental disabilities to better live, work and learn after they graduated from Special Education. Facilities include a 2,800 square foot building on one-half acre in San Andreas (Calaveras County), and a 6,000 square foot building on one acre in Sutter Creek (Amador County). Arc is in the process of completing construction on its third facility that is adjacent to the building in San Andreas.

The Arc currently offers three main programs: Day Program, Supported Employment, and Recreation. Day Program services emphasize the development of self-help, self-advocacy, communication, vocational, and social skills.

The Supported Employment program helps developmentally disabled clients get jobs in the community, including job coaching, money management skills, and advocacy designed to help clients be successful in the work world over long periods of time.

The Recreation Program takes place evenings and weekends and is designed to help clients learn how to make healthy leisure choices and develop positive relationships. The Recreation Program provides the transportation and support necessary for people to participate in activities such as camping trips and dinners out.

Licenses: The Arc of Amador and Calaveras is licensed by the Department of Social Services to operate and maintain two Adult Day Care facilities for developmental disabilities. The facility located in Sutter Creek is licensed to provide Adult Day Care services for 45 participants, 43 ambulatory and 2 non-ambulatory. The facility in San Andreas is licensed to provide Adult Day Care services for 40 participants, 35 ambulatory and 5 non-ambulatory.

Contracts: The Arc has multiple contracts with various governmental entities. It contracts with the Valley Mountain Regional Center and California Department of Rehabilitation for adult day care, recreation, and employment services. The Arc also has numerous contracts with local businesses to provide job opportunities for its Supported Employment program.

Competition: In Amador County, Arc is the largest provider of adult day care services with approximately 80% of the market share. In Calaveras County, Arc provides 70% of the market share for adult day care services to people with developmental disabilities. Arc is the sole provider in the Supported Living and Supported Employment Services for Amador and Calaveras.

Health Facility Location	Clients Enrolled	Market Share (%)	Estimated Distance Away
Community Compass (Amador County)	10	20%	3 miles
Arc – Sutter Creek Site	40	80%	N/A
Ventures (Calaveras County)	15	30%	12 miles
Arc – San Andreas Site	45	70%	N/A

IV. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 06/30/05¹	Estimated Amount Outstanding After Proposed Financing
Existing:			
CHFFA HELP II Loan, 1999	\$188,000	\$77,172	\$65,729
CHFFA HELP II Loan, 2002 ²	110,000	74,425	68,245
CHFFA HELP II Loan, 2003 ²	150,000	118,908	110,789
Central Bank of California ³	133,800	72,500	-0-
Proposed:			
CHFFA HELP II Loan, 2006		N/A	255,000
TOTAL DEBT		\$343,005	\$499,763

- 1) Includes current portion of long term debt.
- 2) A \$260,000 HELP II loan was approved at the CHFFA board meeting on March 26, 2002. However, the loan had two separate closing dates for two separate dollar amounts.
- 3) A construction loan was recorded on July 12, 2005.

V. 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.

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

VI. 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".

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

VII. 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.

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 \$255,000 for a term not to exceed 10 years for the Arc of Amador and Calaveras, subject to a final appraised value on the Sutter Creek property satisfactory to the Authority and the standard HELP II loan provisions.