

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

Applicant: Horizon Services, Inc. ("Horizon") 2595 Depot Road Hayward, CA 94545 Alameda County	Amount Requested: \$925,000 Requested Loan Term: 15 years Date Requested: July 26, 2007 Resolution Number: HII-199																
Project Sites: 2595 Depot Road, Hayward, California, Alameda County 3839 and 3845 Telegraph Avenue, Oakland, California. Alameda County																	
Facility Type: Adult residential alcohol and drug treatment facility																	
Background: Horizon has been providing alcohol and drug recovery and prevention programs to the Bay Area for over 30 years, and currently serves over 400 clients per year. Horizon has programs in four San Francisco Bay Area counties. Horizon offers recovery and prevention programs to reduce alcohol and drug related problems for individuals, families, and communities.																	
Use of Loan Proceeds: HELP II Loan proceeds will be used to refund the 1994 STARTS Series B bonds, the implementation of which has historically imposed on the borrower an ongoing shortfall in the debt service reserve fund. This financing also has the beneficial effect of reducing the borrower's debt service payments providing an annual debt service savings of approximately \$45,000.																	
Type of Issue:	HELP II Loan																
Prior HELP II Borrower:	No																
Payments up to date:	N/A																
Financial Overview: Horizon has maintained stable operations for the last three fiscal years, while increasing the services it provides to the community. Demand for services is steady. Horizon's balance sheet remains solid with good liquidity and a satisfactory projected debt service coverage ratio.																	
<table border="1"><thead><tr><th colspan="2"><u>Estimated Sources of Funds:</u></th><th colspan="2"><u>Estimated Uses of Funds:</u></th></tr></thead><tbody><tr><td>HELP II Loan</td><td>\$925,000</td><td>Refund STARTS</td><td>\$925,000</td></tr><tr><td>Borrower's Funds</td><td><u>14,340</u></td><td>Financing Cost</td><td><u>14,340</u></td></tr><tr><td>Total Sources</td><td><u>\$939,340</u></td><td>Total Uses</td><td><u>\$939,340</u></td></tr></tbody></table>		<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>		HELP II Loan	\$925,000	Refund STARTS	\$925,000	Borrower's Funds	<u>14,340</u>	Financing Cost	<u>14,340</u>	Total Sources	<u>\$939,340</u>	Total Uses	<u>\$939,340</u>
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HELP II Loan	\$925,000	Refund STARTS	\$925,000														
Borrower's Funds	<u>14,340</u>	Financing Cost	<u>14,340</u>														
Total Sources	<u>\$939,340</u>	Total Uses	<u>\$939,340</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 for Horizon Services, Inc. in an amount not to exceed \$925,000 for a term of 15 years and financing terms acceptable to the Authority.																	

STAFF SUMMARY

**Horizon Services, Inc.
("Horizon")**

July 26, 2007

Resolution Number: HII-199

I. PURPOSE OF FINANCING: HELP II Loan proceeds will be used to refund the 1994 STARTS Series B bonds, the implementation of which has historically imposed on the borrower an ongoing shortfall in the debt service reserve fund. This financing also has the beneficial effect of reducing the borrower's debt service payments providing an annual debt service savings of approximately \$45,000.

***Refund Authority 1994 STARTS Series B Bonds* \$925,000**

Horizon seeks to refund the 1994 STARTS Series B Bonds that were previously used to purchase two properties. The Depot property houses Horizon's administrative offices, a 40-bed alcohol and drug recovery facility, as well as non-residential programs. The Telegraph properties include a 26-bed alcohol and drug recovery programs for women and non-residential programs. Management estimates the current combined value of these properties at \$2.0 million, leading to a loan to value ratio of 46%.

***Financing Costs* 14,340**

Authority Closing Fee \$11,840

Title/Escrow/Other Fees 2,500

***Total* \$939,340**

Financing Structure and Terms:

- 15-year fully amortized loan term in the amount of \$925,000.
- 180 equal monthly payments of approximately \$6,388 (total annual payments of \$76,656).
- Total interest payments of approximately \$224,819.
- First position liens on properties located at 2595 Depot Road, Hayward, California and 3839 and 3845 Telegraph Avenue, Oakland, California.
- A first position lien on corporate gross revenue pledge.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Horizon Services, Inc.
Statement of Activities
(Unrestricted)

	For the year ended June 30,		
	2006	2005	2004
REVENUES			
Fees and grants	\$ 5,072,292	\$ 4,714,222	\$ 4,477,027
Client Fees	332,592	370,501	433,993
Contracts	115,805	86,812	63,385
Gain on sale of property	45,890	-	-
Rental Income	30,975	-	-
Interest Income	24,673	-	-
School district	9,604	9,429	9,632
Miscellaneous	2,900	47,387	14,000
Fundraising and contributions	933	5,906	68,866
Net assets released from restrictions	27,283	82,325	88,835
Abandoned project	-	(82,801)	-
Total revenues	<u>5,662,947</u>	<u>5,233,781</u>	<u>5,155,738</u>
EXPENSES			
Salaries and wages	3,062,918	2,881,685	2,810,734
Employee benefits	674,808	649,428	577,914
Payroll taxes	251,026	235,611	247,526
Advertising	-	6,430	-
Recruitment	13,813	6,814	12,565
Transportation	48,847	40,065	32,172
Bank charges	1,420	3,437	4,568
Membership dues	6,543	3,399	3,535
Subscriptions	3,071	3,940	2,988
Education materials	7,573	6,442	6,834
Equipment rental	11,376	33,762	51,233
Vehicle rental	7,870	8,900	13,743
Food	264,650	267,374	274,498
Gifts and awards	212	782	819
Household	118,018	98,907	99,999
Insurance	65,114	54,980	54,210
Interest	86,055	86,333	110,624
Medical	17,936	13,251	12,713
Office supplies	127,759	136,335	121,190
Professional services	77,981	73,344	91,624
Printing	8,678	7,658	6,616
Rent	213,505	204,668	198,640
Equipment maintenance	19,213	27,598	24,009
Facility maintenance	62,544	102,536	33,982
Resident supplies	3,826	4,840	6,109
Recreation activities	11,215	11,409	12,408
Vehicle maintenance	2,293	3,261	1,260
Taxes and licenses	7,742	7,940	7,190
Training	28,361	18,203	22,301
Travel	14,786	8,119	13,272
Communications	104,333	101,124	96,238
Utilities	89,820	90,240	87,618
Miscellaneous	2,387	1,081	3,848
Depreciation	90,638	90,822	86,568
Amorization	1,224	1,224	1,224
Total expenses	<u>5,507,555</u>	<u>5,291,942</u>	<u>5,130,772</u>
Change in unrestricted net assets	155,392	(58,161)	24,966
Unrestricted net assets at beginning of year	551,757	609,918	584,952
Unrestricted net assets end of year	<u>\$ 707,149</u>	<u>\$ 551,757</u>	<u>\$ 609,918</u>

Horizon Services, Inc.
Statement of Financial Position

	As of June 30		
	2006	2005	2004
<u>Assets</u>			
Current assets:			
Cash (unrestricted and restricted)	\$ 744,423	\$ 876,734	\$ 767,589
Accounts receivable	484,432	208,601	255,337
Prepaid and deposits	84,857	88,848	64,165
Bond issuance costs, net	19,578	20,803	22,026
Restricted investment in stock	12,620	12,620	12,620
Employee advances	1,433	-	1,629
Total current assets	1,347,343	1,207,606	1,123,366
Property and equipment, net	1,112,258	1,177,093	1,217,626
Construction in progress	-	-	82,801
Total assets	\$ 2,459,601	\$ 2,384,699	\$ 2,423,793
<u>Liabilities & Net Assets</u>			
Current liabilities:			
Accounts payable	\$ 82,257	\$ 87,330	\$ 84,146
Accrued payroll and payroll taxes	135,011	133,655	120,683
Accrued vacation	129,893	117,975	89,086
Accrued retirement	152,803	152,082	163,000
Cost report settlement payable	-	61,870	26,432
Deferred revenue	16,199	14,481	15,790
Accrued mortgage insurance	-	-	5,099
Accrued interest	34,455	39,492	40,765
Total current liabilities	550,618	606,885	545,001
Capital leases payable	77,958	72,406	65,315
Mortgage payable	905,000	935,000	960,000
Total long-term liabilities	982,958	1,007,406	1,025,315
Total liabilities	1,533,576	1,614,291	1,570,316
Unrestricted net assets	707,149	551,757	609,918
Temporarily restricted	218,876	218,651	243,559
Total liabilities & net assets	\$ 2,459,601	\$ 2,384,699	\$ 2,423,793

Financial Ratios:

	Proforma (a) 6/30/2006			
Debt service coverage (x)	2.82	2.11	0.91	1.26
Debt/unrestricted net assets (x)	1.42	1.39	1.83	2.06
Margin (%)		2.74	(1.11)	0.48
Current ratio (x)		2.45	1.99	2.06

(a) Recalculates 2006 audited results to include the impact of this proposed financing.

Financial Discussion:

Horizon has maintained stable operations for the last three fiscal years, while increasing the services it provides to the community. Demand for services is steady.

Over our review period, revenues have increased by 10% with expenses kept in check, increasing by 7%. In addition, Horizon has further diversified its revenues with the addition of rental income and interest income.

Approximately 89% of the agency's revenue is derived from cost reimbursement contracts for services provided on behalf of Alameda, Santa Clara, and San Mateo Counties. Additional revenues include but are not limited to client fees, restricted donations, food stamps, general assistance and, state disability programs.

During fiscal year 2006, Horizon posted an operating margin of 2.74x, mainly due to a fee for service contract with operating surplus, favorable cost report settlements, and contributions including a gain from a sale of donated property.

During fiscal year 2005, Horizon recorded a decrease in unrestricted net assets of \$58,000. The loss is primarily attributed to a non-cash write off of an abandoned project to renovate the 100-year old mansion on the Depot Road property. Contract revenue increased 37% due to two new contracts from San Mateo and Solano Counties and one-time Measure A funding from Alameda County.

During fiscal year 2004, Horizon reported a small net profit, partially attributable to a donation of computer equipment from Cisco.

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

Horizon's balance sheet is solid with good liquidity with \$744,000 in cash, low long-term debt balance, and significant net assets. Horizon's financials show an accounts receivable increase in fiscal year 2006, but this doubling of accounts receivable appears to be due to delayed receipt of revenue from two counties. With the proposed HELP II loan financing, the debt service coverage ratio will improve to 2.82x, indicating Horizon's likely ability to meet future debt service payments.

III. UTILIZATION STATISTICS:

Horizon Services, Inc.
Clients Served / (Bed Days)

<u>Fiscal Year Ended June 30,</u>			
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Totals	417 / (13,070)	407 / (12,849)	407 / (13,185)

IV. ORGANIZATION:

Background:

Horizon Services, Inc. (Horizon) is a non-profit, community based organization established in 1974 to reduce alcohol and other drug related problems within the community. Horizon has programs in four San Francisco Bay Area counties.

Clients are required to contribute to their cost of care, but no one is denied services based on inability to pay. Client fees are largely comprised of benefits, general assistance, food stamps, SDI, SSI, etc.

Horizon offers recovery and prevention programs to reduce alcohol and drug related problems for individuals, families, and communities. Horizon’s Cronin House facility, located in Hayward, is a 40 bed residential primary care program that serves men and women. The average stay for participants is 45 days.

Licenses:

Horizon Services, Inc. is licensed as adult residential alcohol and drug treatment facilities with the State of California, Department of Alcohol and Drug Programs.

V. OUTSTANDING DEBT:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 6/30/06*</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
CHFFA STARTS, Series 1994B	\$1,140,000	\$905,000	\$-0-
Proposed:			
HELP II Loan CHFFA, 2007			925,000
TOTAL DEBT		<u>\$905,000</u>	<u>\$925,000</u>

*Does not include current portion.

VI. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- Section 15438.5 of the Act (Savings Pass Through): Horizon provided a description of its savings pass through in Exhibit A.
- Section 15459.1 of the Act (Community Service Requirement): Horizon executed this certification indicating that Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as Exhibit B.
- Religious Due Diligence.
- Legal Review.

VII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan for Horizon Services, Inc. in an amount not to exceed \$925,000 for a term 15 years and financing terms acceptable to the Authority.