

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY  
THE HELP II PROGRAM  
EXECUTIVE SUMMARY**

<p><b>Applicant:</b> Futures Explored, Inc. (FE) 3547 Wilkinson Lane Lafayette, CA 94549 Alameda County</p> <p><b>Projects Sites:</b> 676 North L Street, Livermore, California 94551, Alameda County; and 690 North L Street, Livermore, California 94551, Alameda County.</p> <p><b>Facilities Type:</b> Adult Day Program/Developmental Disability</p>	<p><b>Amount Requested:</b> \$750,000</p> <p><b>Requested Loan Term:</b> 15 years</p> <p><b>Date Requested:</b> October 25, 2007</p> <p><b>Resolution Number:</b> HII-207</p>																
<p><b>Background:</b> FE was incorporated in 1964 for the purpose of providing life skills and work related training to adults with developmental disabilities. The purpose of FE is to help support these individuals to reach their optimal level of individual potential by delivering a broad range of service programs. FE currently offers six service programs, serving approximately 375 clients annually.</p>																	
<p><b>Uses of Loan Proceeds:</b> Loan proceeds will be used to purchase real property located at 690 North L Street in Livermore. In addition loan proceeds will be used to refinance two existing loans for an adjacent property located at 676 North L Street. With the proposed refinancing, FE will save approximately \$274,000 in debt service payments over the life of the loan during the next 15 years. This estimated is based on the new HELP II loan rate of 3% compared to the projected interest rate of 8.11% (given today's current interest rate environment, FE's variable rate loan would likely adjust to this level in 2011).</p>																	
<p><b>Type of Issue:</b> HELP II Loan</p> <p><b>Prior HELP II Borrower:</b> No</p> <p><b>Payments Status:</b> N/A</p>																	
<p><b>Financial Overview:</b> FE has continued to improve its financial operations during our review period and in fiscal year 2007 posted operating profits of \$75,000. FE's balance sheet strength is sound with \$1.1 million in total net assets.</p>																	
<p><b><u>Sources of Funds</u></b></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">HELP II Loan</td> <td style="text-align: right;">\$750,000</td> </tr> <tr> <td>Borrower Funds</td> <td style="text-align: right;"><u>87,000</u></td> </tr> <tr> <td>Total Sources</td> <td style="text-align: right;"><u>\$837,000</u></td> </tr> </table>	HELP II Loan	\$750,000	Borrower Funds	<u>87,000</u>	Total Sources	<u>\$837,000</u>	<p><b><u>Uses of Funds</u></b></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Purchase Real Property</td> <td style="text-align: right;">\$478,000</td> </tr> <tr> <td>Refinance Existing Loan</td> <td style="text-align: right;">297,000</td> </tr> <tr> <td>Refinance Existing Loan</td> <td style="text-align: right;">50,000</td> </tr> <tr> <td>Loan/Title Fees</td> <td style="text-align: right;"><u>12,000</u></td> </tr> <tr> <td>Total Uses</td> <td style="text-align: right;"><u>\$837,000</u></td> </tr> </table>	Purchase Real Property	\$478,000	Refinance Existing Loan	297,000	Refinance Existing Loan	50,000	Loan/Title Fees	<u>12,000</u>	Total Uses	<u>\$837,000</u>
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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 for Futures Explored Inc. in an amount not to exceed \$750,000 for a term not to exceed 15 years. This loan is contingent upon financing terms acceptable to the Authority.</p>																	

## STAFF SUMMARY AND RECOMMENDATION

October 25, 2007

Futures Explored, Inc. (FE)

Resolution Number: HII-207

### I. PURPOSE OF FINANCING

Loan proceeds will be used to purchase real property and refinance an adjacent property. As a result of the proposed HELP II loan, FE expects to realize savings of nearly \$274,000 over the 15-year life of the loan.

***Acquire a real property located at 690 North L Street, Livermore* ..... \$ 478,000**

FE currently leases a building and has an excellent opportunity to purchase it from the owner for \$478,000. This purchase will give FE the chance to acquire the building for a monthly payment slightly less than its current \$3,200 monthly lease payment. The proposed loan will be secured by a first-position lien on the real property. An appraisal completed in April 2007 indicates the current market value of this Livermore property to be \$478,000, corresponding to an 84% loan to value ratio. The proposed portion of the loan devoted to this purchase is \$403,000.

***Refinance existing adjustable loan for a property at 676 North L Street*..... 297,000**

FE obtained an adjustable rate mortgage in 2006 to purchase this building for their Day Service Program. The current interest rate on this loan is 6.6%, which is likely to be adjusted to approximately 8.11% in 2011 given current interest rates. Refinancing will substantially improve the FE's cash flow (saving approximately \$274,000 over the life of the loan). The proposed loan will be secured by a first-position lien on the real property located at 676 North L Street, Livermore. An appraisal completed in April 2007 indicates the current market value of this property to be approximately \$466,000.

***Refinance existing loan for the property at 676 North L Street*..... 50,000**

FE borrowed \$50,000 from private parties (Synthia & James Engstrom) to finance the purchase of the 676 North L Street property. The monthly payment on this loan is \$400 and has an 8% fixed interest rate. The proposed refinance will allow FE to avoid a balloon payment due in December 2007. This loan will be secured, along with the aforementioned \$297,000 refinance, by a first-position lien on the real property located at 676 North L Street, Livermore. The combined amount of these two refinance loans is only 74% of the \$466,000 property appraised value.

***Financing Costs* ..... 12,000**

Authority Closing Fee .....	\$9,375
Title & Escrow .....	<u>2,625</u>

***Total Uses of Funds* ..... \$ 837,000**

## **Financing Structure**

- 15-year fully amortized loan in the amount of \$750,000
- 180 equal monthly payments of approximately \$5,179 (annual payments of approximately \$62,148)
- Total interest payments of approximately \$182,285
- First position lien on gross revenues
- First position liens on the properties located at:
  - 676 North L Street, Livermore, California 94551, Alameda County (refinance in the amount of \$347,000); and
  - 690 North L Street, Livermore, California 94551, Alameda County (acquisition in the amount of \$403,000)
- Borrower funds in the amount of \$87,000 to be paid at closing
- A combined estimated loan to value ratio of 79%
- Satisfactory appraisals on the aforementioned properties

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## II. FINANCIAL STATEMENTS AND ANALYSIS

**Futures Explored, Inc.**  
**Statement of Activities**  
(Unrestricted)

	For the Year Ended June 30,		
	2007	2006	2005
<b>Revenues:</b>			
Regional Center income	\$ 4,679,999	\$ 3,635,063	\$ 3,258,123
Community revenue	566,941	513,435	503,878
Contribution income	78,599	46,170	35,746
Department of Rehabilitation	50,197	35,911	45,585
Miscellaneous income	29,835	19,107	58,940
Investment income	17,155	10,819	-
Net assets released from restrictions	84,574	-	18,000
<b>Total revenue</b>	<b>5,507,300</b>	<b>4,260,505</b>	<b>3,920,272</b>
<b>Expenses</b>			
Program services			
Personnel expenses	3,444,835	2,765,488	2,588,181
Occupancy expenses	804,011	610,476	511,365
Community contract expenses	371,793	296,092	253,354
Communications	84,286	76,311	68,574
Program expenses	64,789	62,818	51,179
Travel, conferences and training	61,074	44,959	32,193
Outside services	36,767	14,196	9,525
Administration	543,183	446,211	474,075
Fund development	21,149	-	-
<b>Total expenses</b>	<b>5,431,887</b>	<b>4,316,551</b>	<b>3,988,446</b>
<b>Changes in unrestricted net assets</b>	<b>75,413</b>	<b>(56,046)</b>	<b>(68,174)</b>
Unrestricted net assets, beginning of the period	831,525	887,571	955,745
Unrestricted net assets, end of period	<u>\$ 906,938</u>	<u>\$ 831,525</u>	<u>\$ 887,571</u>

**Future Explored, Inc.**  
**Financial Position**

	As of June 30,		
	2007	2006	2005
<b>Assets:</b>			
<b>Current Assets:</b>			
Cash	\$ 66,148	\$ 36,964	\$ 76,286
Account receivables	449,398	368,855	338,143
Unconditional promises to give	-	120,000	-
Prepays	14,699	42,357	8,530
Total current assets:	<u>530,245</u>	<u>568,176</u>	<u>422,959</u>
Land and building	1,094,779	1,094,779	639,779
Furniture and equipment	275,114	246,536	230,679
Vehicles	322,212	72,290	70,265
Building and leasehold improvements	651,387	452,435	379,906
Construction in progress	106,985	-	-
	<u>2,450,477</u>	<u>1,866,040</u>	<u>1,320,629</u>
Less accumulated depreciation	<u>(800,350)</u>	<u>(647,808)</u>	<u>(546,987)</u>
	1,650,127	1,218,232	773,642
<b>Other Assets:</b>			
Investments	171,293	152,684	280,413
Other	73,011	50,797	32,025
Total other assets	<u>244,304</u>	<u>203,481</u>	<u>312,438</u>
Total Assets	<u>2,424,676</u>	<u>1,989,889</u>	<u>1,509,039</u>
<b>Liabilities and Net Assets:</b>			
<b>Current Liabilities:</b>			
Line of credit, equipment	\$ 60,000	\$ -	\$ 11,777
Accounts payable	27,225	29,303	122,898
Accrued expenses	196,461	172,805	-
Deferred revenue	6,553	11,846	18,762
Current portion of long-term debt	97,346	26,504	-
Total current liabilities	<u>387,585</u>	<u>240,458</u>	<u>153,437</u>
Long-term debt, less current portion	936,827	708,371	392,331
<b>Net Assets:</b>			
Unrestricted	906,938	831,525	887,571
Temporarily restricted	106,926	123,135	-
Permanently restricted	86,400	86,400	75,700
Total net assets	<u>1,100,264</u>	<u>1,041,060</u>	<u>963,271</u>
Total liabilities and net assets	<u>\$ 2,424,676</u>	<u>\$ 1,989,889</u>	<u>\$ 1,509,039</u>

**Financial Ratios:**

	<b>Proforma (a)</b>			
	<b>FYE June, 2007</b>			
Debt service coverage (x)	1.86	2.01	0.98	1.46
Debt/Unrestricted Net Assets (x)	1.58	1.14	0.88	0.44
Margin (%)		1.37	(1.32)	(1.74)
Current Ratio (x)		1.37	2.36	2.76

(a) Recalculates 2007 audited results to include the impact of this proposed financing.

## **Financial Discussion**

**FE has continued to improve its financial operations during our review period and in fiscal year 2007 posted \$75,000 operating profits.**

FE has continued to operate its operations over the last three years and in FY 2006-07 showed a surplus for the first time during the review period. The moderate losses have been primarily attributed to the growth of FE, which has expanded its services to meet the growing demands of adults with developmental disabilities in Contra Costa and Alameda Counties. FE's primary funding source is the State of California through its Regional Center services, accounting for 84% of revenues. In FY 2006-07 the State (after five years of rate freezes) increased the Regional Center rate, resulting in a revenue increase of almost \$700,000, with the remaining \$400,000 in additional revenue coming from continued increase in services.

During FY 2006-07, FE began providing services to individuals transitioning out of Agnews State Development Center, thus incurring more expenses than usual. The increased costs have been primarily due to the higher level of health and medical care required by the individuals served by FE, who require a 2:1 client-to-staff ratio, rather than the traditional 3:1 or 6:1 client-to-staff ratios. The personnel expense increase was attributed to a 4.3% increase in the staff wages and benefits to reduce FE turnover (turnover dropped from 35% to 19% between FY 2005-06 and FY 2006-07) and employees' health insurance costs increased by 20%. Occupancy expense increased due to a full-year occupancy of the 676 North L Street facility versus their only four-month occupancy in FY 2005-06, and the addition of a new space at the Brentwood facility.

**FE's financial strength is sound with \$1.1 million in total net assets.**

Total assets increased from \$1.5M to \$2.4M over the three-year review period. This growth is attributed to the acquisition of property (primarily the 676 North L Street facility) and several wheelchair capable vans. Simultaneously, the FE's long-term liabilities increased as a result of this property acquisition.

Cash improved during FY 2006-07, and accounts receivable increased as a result of additional services offered at the new facility (which typically have a 60-90 day payment lag.)

The balance sheet remains solid as FE maintains nearly \$1.1 million in total net assets. Although the proforma debt to unrestricted assets ratio will be relatively high at 1.58x after the proposed financing, the debt service coverage ratio increased significantly in the current year to 2.01x. The proforma debt service ratio coverage remains strong at 1.86x.

As a result of the proposed refinancing, FE expects to realize savings of nearly \$274, 000 over the 15-year life of the loan.

### III. UTILIZATION STATISTICS

**Clients Served/(Hours of Care)  
Fiscal Year Ended June 30**

	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Totals</b>	303 / (51,183)	318 / (56,486)	375 / (64,372)

### IV. ORGANIZATION

#### Background

FE was incorporated in 1964 for the purpose of providing life skills and work related training to adults with developmental disabilities. The purpose of FE is to support these individuals to reach their optimal level of individual potential by delivering a broad range of resources and ongoing guidance.

FE currently offers six service programs to meet its mission of “Dignity through work and community participation,” as follows:

*Futures Explored Day Program (Lafayette):* Offers a variety of services and opportunities for individuals to be active in their community such as small work groups, community outings, art and social activities, as well as educational and other opportunities.

*Supported Employment Services:* Offers employment support to individuals who have chosen employment as their primary goal. These services include but are not limited to job placement, training and support on both an individual and group basis.

*ALIVE Program (Actively Living and Involved in a Variety of Endeavors):* Offers supports to encourage individuals to be active in their community, to develop skills for more independence and to be able to self-direct their own activities. One aspect is the Community College Transition Program which supports individuals wanting to pursue additional academic endeavors after leaving high school.

*Garden:* Offers supports and activities for individuals with significant personal care, cognitive and physical disabilities, who often have some long-term medical condition requiring additional support. The service focuses on developing choices, sensory stimulation and involvement with others.

*Futures & Friendships (Social Recreation):* This is a service that works with individuals to support their desire to develop social networks and to enhance independence to access their social and recreational needs outside of work and or day activities.

*Vocational Training & Education (VTE)*: This service supports employment and community activities in Yolo and Sacramento Counties.

**Licenses**

FE’s adult day program is licensed through California Department of Social Services.

**V. OUTSTANDING DEBT**

<u>Date Issue:</u>	<u>Original Amount</u>	<u>Amount Outstanding as of 6/30/2007*</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
<b>Existing:</b>			
WESTAMERICA BANK, 2004	\$ 296,000	\$ 287,375	\$ -
Mt Diablo Bank, 2006	600,000	595,217	595,217
Loan from Private Party, 2006 Synthia & James Engstrom	50,000	50,000	-
Mt Diablo Bank #1, 2006	40,000	34,975	34,975
Mt Diablo Bank #2, 2007	60,000	57,500	57,500
Ford Motor Company, 2004	14,919	7,491	7,491
<b>Proposed:</b>			
CHFFA HELP II, 2007			750,000
Total		<u>\$ 1,032,558</u>	<u>\$ 1,445,183</u>

\* Includes current portion of long-term debt.

**VI. DUE DILIGENCE:**

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

- Section 15438.5 of the Act (Savings Pass Through): FE has provided a description of its pass through in **Exhibit A**.
- Section 15459.1 of the Act (Community Service Requirement): FE has 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 Futures Explored, Inc. in an amount not to exceed \$750,000 for a term not to exceed 15 years. This loan is contingent upon financing terms acceptable to the Authority.