

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY (CHFFA)

BOND FINANCING PROGRAM

EXECUTIVE SUMMARY

<p>Applicant: The Help Group (“THG”) 13130 Burbank Boulevard Sherman Oaks, CA 91401 Los Angeles County</p>	<p>Amount Requested: \$6,000,000 Date Requested: June 25, 2009 Requested Loan Term: 30 years Resolution Number: 345</p>																								
<p>Project Site: Sherman Oaks Campus 13130 Burbank Blvd, Sherman Oaks, CA 91401</p>																									
<p>Facility Type: Mental Health/Developmentally Disabled Community Care License</p>																									
<p>Background: THG is composed of seven affiliated non profit campuses that assist children and families with special needs by providing a wide range of mental health therapy. THG currently provides services in the Los Angeles area with seven specialized programs, while also providing therapy and residential programs.</p>																									
<p>Use of Proceeds: Bond proceeds will be used to renovate and equip a building that will provide a wide array of interdisciplinary services to children diagnosed with autism spectrum disorder.</p>																									
<p>Type of Issue: Negotiated public offering with fixed rate securities Credit Enhancement: Cal-Mortgage Insurance Underlying Credit Rating: A/A2/A (Fitch/Moody’s/S&P) with Cal-Mortgage Insurance Senior Underwriter: Wulff, Hansen, & Co. Bond Counsel: Quint and Thimmig LLP</p>																									
<p>Financial Overview: THG’s income statement appears to exhibit strong operating results with positive net income over the review period, coupled with seemingly healthy revenue growth. THG’s balance sheet also appears solid with a solid debt service coverage ratio and growing net assets.</p>																									
<table border="0" style="width: 100%;"> <tr> <td colspan="2"><u>Estimated Sources of Funds:</u></td> <td colspan="2"><u>Estimated Uses of Funds :</u></td> </tr> <tr> <td>Par amount of bonds</td> <td align="right"><u>\$6,000,000</u></td> <td>Remodeling</td> <td align="right">\$5,000,500</td> </tr> <tr> <td></td> <td></td> <td>Debt service reserve</td> <td align="right">416,000</td> </tr> <tr> <td></td> <td></td> <td>Bond insurance</td> <td align="right">310,000</td> </tr> <tr> <td></td> <td></td> <td>Financing costs</td> <td align="right"><u>273,500</u></td> </tr> <tr> <td> Total Sources</td> <td align="right"> <u>\$6,000,000</u></td> <td> Total Uses</td> <td align="right"> <u>\$6,000,000</u></td> </tr> </table>		<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds :</u>		Par amount of bonds	<u>\$6,000,000</u>	Remodeling	\$5,000,500			Debt service reserve	416,000			Bond insurance	310,000			Financing costs	<u>273,500</u>	 Total Sources	 <u>\$6,000,000</u>	 Total Uses	 <u>\$6,000,000</u>
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<p>Legal Review: No information was disclosed to question the financial viability or legal integrity of this applicant.</p>																									
<p>Staff Recommendation: Staff recommends the Authority approve a Resolution in an amount not to exceed \$6,000,000 for The Help Group, subject to a bond rating of at least an “A” category rating by a nationally recognized rating agency and final Cal-Mortgage Commitment.</p>																									

STAFF SUMMARY AND RECOMMENDATION

The Help Group (“THG”)

June 25, 2009

Resolution Number: 345

I. PURPOSE OF FINANCING:

THG seeks this innovative project design to provide a lifeline of help, hope, and opportunity for the ever growing number of children diagnosed with autism spectrum disorders (ASD). The creation of this center will provide the additional facility infrastructure needed for THG to offer a comprehensive and seamless system of ASD services.

<i>Renovation and equipping building</i>	<i>\$5,000,500</i>
THG plans to renovate and equip an approximate 28,000 square foot building located on 2.25 acres adjacent to THG’s existing Sherman Oaks Campus. This center will house a state of the art autism facility serving children, adolescents and young adults with autism spectrum disorders that will include housing; a special education and therapy center; an autism research center; a training center for professionals and parents; a multipurpose room, and space for general administrative, therapy, mental health, psychiatric and counseling services. The building will contain 11 classrooms, 18 therapy and general administrative offices, 4 multi-purpose rooms, and a well maintained campus with open play areas and landscaping.	
<i>Debt Reserve Fund</i>	<i>416,000</i>
<i>Bond Insurance</i>	<i>310,000</i>
<i>Financing Costs</i>	<u><i>273,500</i></u>
<i>Cost of issuance</i>	<i>\$213,500</i>
<i>Underwriter expense</i>	<i>60,000</i>
<i>Total Uses of Funds</i>	<u><i>\$6,000,000</i></u>

II. FINANCIAL STATEMENTS AND ANALYSIS:

The Help Group
Statement of Activities
(Unrestricted)

	For the Year Ended June 30,		
	2008	2007	2006
Revenue and public support:			
Revenue			
Program fees	\$ 58,148,296	\$ 54,738,473	\$ 48,630,773
Rental income	378,970	363,313	476,798
Interest income and other	1,012,215	732,308	483,429
Total revenue	<u>59,539,481</u>	<u>55,834,094</u>	<u>49,591,000</u>
Public Support			
Special events	1,172,385	1,152,824	1,534,970
Philanthropic support	1,476,772	1,094,705	949,914
Total public support	<u>2,649,157</u>	<u>2,247,529</u>	<u>2,484,884</u>
Total revenue and public support	<u>62,188,638</u>	<u>58,081,623</u>	<u>52,075,884</u>
Expenses:			
Program expenses			
School	33,347,649	32,362,217	28,574,260
Mental health	16,766,896	15,608,939	12,992,179
Residential	2,766,596	3,206,249	2,957,383
Foster care	-	-	146,672
Total program expenses	<u>52,881,141</u>	<u>51,177,405</u>	<u>44,670,494</u>
Functional expenses			
Supporting services	4,990,499	5,257,951	5,661,042
Fundraising	289,783	255,813	285,032
Total functional expenses	<u>58,161,423</u>	<u>56,691,169</u>	<u>50,616,568</u>
Change in unrestricted net assets	4,027,215	1,390,454	1,459,316
Unrestricted net assets, beginning of year	22,681,099	21,290,545	19,831,229
Unrestricted net assets, end of year	<u>\$ 26,708,314</u>	<u>\$ 22,681,099</u>	<u>\$ 21,290,545</u>

The Help Group
Financial Position

	As of June 30,		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 5,053,906	\$ 3,559,176	\$ 1,403,556
Short-term investments	4,223,158	4,156,634	3,866,646
Accounts receivable	12,418,248	11,333,687	12,680,954
Current portion of assets limited as to use	2,046,293	2,346,943	2,318,915
Current portion of pledges receivable	135,000	145,000	157,918
Prepaid and other assets	808,767	584,686	522,724
Total current assets	<u>24,685,372</u>	<u>22,126,126</u>	<u>20,950,713</u>
Assets limited as to use, less current portion	4,278,402	4,031,154	3,837,232
Pledges receivable, less current portion	17,195	118,494	210,441
Property and equipment, net	36,753,273	36,775,176	35,822,942
Deferred financing costs, net	733,429	779,472	825,517
Other long-term assets	3,030,436	33,236	33,787
Total assets	<u>\$ 69,498,107</u>	<u>\$ 63,863,658</u>	<u>\$ 61,680,632</u>
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable and other current liabilities	\$ 2,528,789	\$ 3,281,863	\$ 3,930,450
Accrued payroll and benefits	3,670,396	3,040,027	1,798,239
Current maturities of long-term debt	1,154,244	1,123,184	1,162,369
Line of credit	2,750,000	-	-
Deferred revenue	276,904	390,317	665,833
Total current liabilities	<u>10,380,333</u>	<u>7,835,391</u>	<u>7,556,891</u>
Long-term debt, less current maturities	<u>32,409,460</u>	<u>33,347,168</u>	<u>32,833,196</u>
Total liabilities	<u>42,789,793</u>	<u>41,182,559</u>	<u>40,390,087</u>
NET ASSETS			
Unrestricted	26,556,119	22,417,605	20,922,186
Temporarily restricted	152,195	263,494	368,359
Total net assets	<u>26,708,314</u>	<u>22,681,099</u>	<u>21,290,545</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 69,498,107</u>	<u>\$ 63,863,658</u>	<u>\$ 61,680,632</u>

Financial Ratios:	Proforma (a)			
	<u>FYE June, 2008</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Debt service coverage (x)	2.21	2.42	1.49	1.79
Debt/Unrestricted Net Assets (x)	1.45	1.22	1.49	1.57
Margin (%)		6.64	2.57	3.54
Current Ratio (x)		2.38	2.82	2.77

(a) Recalculates 2008 audited results to include the impact of this proposed financing.

Financial Discussion:

THG's income statement appears to exhibit solid operating results with positive net income over the review period along with continued revenue growth.

THG's income statement appears to exhibit strong profitability over our review period with operating income remaining steady from \$49 million in fiscal year 2006 to \$59 million in fiscal year 2008. In addition, THG appears to have shown solid operating margins of 3.54%, 2.57%, and 6.64% for fiscal years ending 2006, 2007 and 2008, respectively. THG's revenues consist primarily of program fees that include various government contracts, accounting for approximately 89% of total revenues. The major government agencies are various school districts with Los Angeles Unified School District (LAUSD), as well as Los Angeles County Department of Mental Health (LACDMH), and Department of Children and Family Services being the largest contributor of revenues. The remainder of revenues are provided by philanthropic support (9%), and interest and other income (1%) in fiscal year ending 2008. Total revenue increased from \$52 million in fiscal year 2006 to \$62 million in fiscal year 2008, an increase of 19%. THG attributes the increase to school program growth and contract with LACDMH growth in addition to community demand for program services. THG has demonstrated a healthy growth of interest income due to higher returns on investments. Approximately \$257,000 of the income given to THG by LAUSD was used to help defray any costs associated with updating a new computer system for data collection and billing, \$56,000 refund from insurance of THG's workers compensation carrier, and \$38,000 from over accrual of estimated expenditures in prior year associated to the collaboration with University of California, Los Angeles.

THG's balance sheet also appears solid with a solid debt service coverage ratio and growing net assets.

THG's balance sheet appears to continue growth with total net assets increasing from \$21 million in fiscal year 2006 to \$26 million in fiscal year 2008, an increase of nearly 24%. THG attributes the increase primarily to the demand for program services. Cash and cash equivalent substantially improved from approximately \$1.4 million in fiscal year 2006 to \$5 million in fiscal year 2008 due to THG's strategic management decision to prepare for the recession. To accomplish this, THG made the decision to not fill vacant positions, increase control of expenditures, and focus on enhancing staff productivity. Long term debt also increased due to the purchase of property (approximately \$2.7 million) financed via a line of credit. Debt service coverage appears to be a solid 2.42x and with the proposed financing, will remain relatively unchanged at 2.21x, indicating that THG can likely manage additional debt.

III. BACKGROUND:

The Help Group comprises seven affiliated California nonprofit public benefit corporations including two non-participating agencies, Pacific Living and New Opportunity for Living. THG provides a broad range of programs and services, including mental health, therapy, counseling, special education and residential programs. The Help Group serves children, adolescents, adults and families with special needs related to autism spectrum disorders, learning disabilities, attention deficit disorder (ADHD), mental retardation, abuse and emotional problems. Programs are provided at one or more of the four major campuses located in Culver City, Sherman Oaks, Valley Glen, and Van Nuys. The individual Help Group corporations participating in the 2009 Series A Bonds are The Help Group Child and Family Center, New School for Child Development, Project Six, Summit View School and The Help Group West.

The Help Group began as a small speech and hearing center, incorporated in 1953, known as Children's Speech and Hearing Center (now known as The Help Group Child and Family Center). In 1975, Children's Speech and Hearing Center started a special education day school program as a pilot program. The pilot program was separately incorporated in 1978 as New School for Child Development. In 1980, Children's Speech and Hearing Center developed another pilot program to address the residential treatment needs of disabled youth. This pilot program was separately incorporated as Project Six in 1981. In 1995, Summit View School was established to provide special education day school programs for children and adolescents with learning disabilities. In 1999, The Help Group West was established to acquire, develop and operate the facility on the west side of Los Angeles to provide special education and therapy programs and services to young people with special needs and their families.

Licenses and Contracts: The Help Group's facilities are appropriately licensed by the Los Angeles County Department of Mental Health as an out patient clinic and the California Department of Education. THG has a community care license and is also certified to participate in the Medi-Cal program.

Governance

Each of the Agencies is governed by a Board of Directors (the "Board") consisting of 12 voting members and one non-voting member. The terms of the elected directors are for one year and each Agency Board consists of the same directors. Directors may serve successive terms. The Board of Directors is responsible for the governance, policy making and oversight of the affairs of each Agency, and the appointment of the officers of each Agency.

IV. UTILIZATION STATISTICS:

The Help Group

<u>Agency</u>	Fiscal Year Ended June 30,		
	2006	2007	2008
New School	464	530	538
Summit View School	193	194	199
Help Group West	335	368	438
Average Attendance	993	1,092	1,112
HGCFC			
DMH - Day Treatment Days	-	-	2,486
DMH - Day Rehabilitation Days	13,327	10,085	9,319
DMH - Other Service Hours	43,511	48,513	58,294
DCFS - Wraparound Service Days	18,804	25,627	24,909
Project Six Average Census	37.4	40.6	41.5

HGCFC – The Help Group Child and Family Center
 DMH – Los Angeles County Department of Mental Health
 DCFS – Department of Children and Family Services

V. OUTSTANDING DEBT:

The Help Group

<u>Long Term Debt</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding As of 06/30/08*</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
<i>Existing Debt</i>			
CHFFA Revenue Bonds, Series 1998A	\$17,275,000	\$13,020,000	\$13,020,000
CHFFA Revenue Bonds Series 2000A	17,620,000	15,060,000	15,060,000
Pacific Living Alternatives Notes Payable, 1993	241,930	349,088	349,088
New Opportunities for living Notes Payable, 1993	246,944	356,323	356,323
New School for Child Dev. Notes Payable, 2001	3,300,000	3,481,706	3,481,706
Notes Payable, 2007	1,275,000	1,275,000	1,275,000
Various Loans Payable		21,587	21,587
<i>Proposed Authority Debt</i>			
CHFFA Revenue Bonds, Series 2009		N/A	6,000,000
Total Debt		\$33,563,704	\$39,563,704

*Includes current portion.

VI. DUE DILIGENCE:

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

- **Section 15438.5(a) of the Act (Savings Pass Through):** THG properly completed and submitted the “Pass-Through Savings Certification,” in addition to a narrative explaining how it intends to pass through savings.
- **Section 15491.1 of the Act (Community Service Requirement):** THG properly completed and submitted this certification and indicated that Medi-Cal and Medicare patients are accepted.
- **Compliance with Section 15455(b) of the Act (California Environmental Quality Act):** THG properly submitted documentation to the Authority demonstrating the proposed project has either complied with Division 13 (commencing with Section 21000) of the Public Resources Code, or is otherwise not a project under that division.
- **Religious Due Diligence.**
- **Legal Review.**