

**CHFFA HELP II PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: VTC Enterprises (“VTC”) 2445 A Street Santa Maria, California, 93455 Santa Barbara County</p> <p>Project Site: 2445 A Street, Santa Maria, California 93455 (Santa Barbara County)</p> <p>Facility Type: Community Mental Health and Work-Activity, Developmental Disability and Rehabilitation</p> <p>Prior HELP II Borrower: No</p>	<p>Amount Requested: \$750,000</p> <p>Requested Loan Term: 15 year fixed</p> <p>Authority Meeting Date: Sept. 30, 2010</p> <p>Resolution Number: HII-254</p>
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Background: VTC is a private, non-profit organization started in 1961 by a local group of parents in the Santa Maria Valley seeking services for their adult children with disabilities. For over 28 years, VTC has been accredited by the Commission on Accreditation of Rehabilitation Facilities (CARF) and has received their highest award three separate years. In 2006, VTC was presented with State Assemblyman Sam Blakeslee’s “Small Business of the Year” award. VTC’s programs take place both at the facility and in the community, addressing the needs related to independent living skills and employment development for the disabled. There are currently 130 staff members serving 350 individuals on and off the facility.

Uses of Loan Proceeds: Loan proceeds will be used for the construction of a new building on VTC’s property that will be used by individuals with severe physical and mental disabilities. The new facility has been specifically designed to meet the needs of these individuals. The existing buildings are in various stages of decay and disrepair due to age, pests and moisture damage. Also, the City of Santa Maria plans to extend A Street through the north end of VTC’s existing property, necessitating the demolition of buildings currently housing the Quality Life Services department.

Financing Structure:

- 180 equal monthly payments of approximately \$5,180 (yearly payments of approximately \$62,160).
- First (1st) lien position on the property located at 2445 A Street, Santa Maria, California 93455.
- Loan to value ratio not to exceed 95% (estimated loan to value ratio of 19%).
- Corporate gross revenue pledge.

Financial Overview: VTC’s income statement appears to exhibit an improvement in operating results during CHFFA’s review period. The proforma debt service coverage ratio is a sound 4.84x, indicating VTC should be able to repay the proposed HELP II loan.

Estimated Sources of Funds:

Borrowers Funds	\$2,700,000
HELP II Loan (1 st)	750,000
Grants *	470,000
 Total Sources	 <u>\$3,920,000</u>

Estimated Uses of Funds:

Construction costs	\$3,140,000
Landscape, architect, demo	395,000
Parking, permits, engineering	373,000
Financing Costs	<u>12,000</u>
 Total Uses	 <u>\$3,920,000</u>

*Community Block Development Grant funds are approved, but not yet received

Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through and Community Service Requirement documentation. All documentation satisfies the Authority’s requirements.

Parties of Interest: *(Included for the purpose of discerning conflicts of interest)*
City of Santa Maria

Staff Recommendation: Staff recommends approval of Resolution Number HII-254 for VTC Enterprises in an amount not to exceed \$750,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority. Macias Gini & O’Connell, LLP, the Authority’s financial analyst, concurs with the Authority’s staff recommendations.

I. PURPOSE OF FINANCING: Loan proceeds will be used for the construction of a new building that began construction in April 2010. The project costs approximately \$3.9 million, which consists of an 18,600 square foot state-of-the-art facility, located on 4.69 acres. The new facility will be used by individuals with severe physical and mental disabilities and the building has been specifically designed to meet the needs of these individuals.

<i>Construction Costs</i>	\$3,140,000
<i>Landscaped, architect & demolition fees</i>	395,000
<i>Parking, permits & engineering fees</i>	373,000

The new building will allow VTC to provide high quality services more efficiently and to more people in need, increasing their ability to reach optimal independence and achieve their life goals.

VTC has provided CHFFA staff with an executed construction contract for approximately \$3.9 million, which results in an estimated loan to value ratio of only 19%, well below the maximum loan to value ratio of 95%.

<i>Financing Costs</i>	<u>12,000</u>
Authority Fees.....	\$9,375
Escrow fees	\$2,635
<i>Estimated Uses of Funds</i>	<u>\$3,920,000</u>

II. FINANCIAL STATEMENTS AND ANALYSIS

VTC Enterprises Statement of Activities (Unrestricted)

	For the Year Ended June 30,		
	2009	2008	2007
Revenue and Support:			
Service Contracts *	\$ 4,509,643	\$ 5,419,556	\$ 5,915,026
Fees	3,943,741	3,956,644	3,947,847
Sales	1,277,933	988,725	929,271
Investment income	73,970	78,463	209,229
Contributions	68,221	44,184	25,943
Administrative service fees	12,000	24,000	24,000
Assets released from restrictions	7,531	77,481	49,637
Gain on disposal of fixed assets	1,210	350	1,339,752
Other	-	29	645
Total revenue and support	<u>9,894,249</u>	<u>10,589,432</u>	<u>12,441,350</u>
Operating Expenses:			
Salaries and Benefits	7,051,162	7,076,974	6,905,658
Office Expenses/Cost of Goods Sold/Transportation	906,836	818,860	871,519
Consulting fee	15,584	52,130	35,993
Depreciation	248,932	286,058	287,330
Occupancy	247,753	200,505	191,080
Management Fees	35,686	52,552	41,137
Pension	107,583	135,044	117,044
Insurance	100,318	125,119	123,764
Travel	53,506	55,621	59,674
Accounting fees	17,515	10,045	11,664
Legal fees	15,371	10,811	17,107
Bad debt expense	-	33,464	-
Fundraising activities	35,432	26,679	28,500
NISH	137,856	148,037	132,766
Other	17,158	73,039	11,229
Public relations	69,909	58,063	75,270
Subcontractors	219,829	989,224	1,636,180
Interest Expense	-	-	1,063
Total operating expenses	<u>9,280,430</u>	<u>10,152,225</u>	<u>10,546,978</u>
Change in unrestricted net assets	613,819	437,207	1,894,372
Unrestricted Net Assets:			
Beginning of Year	<u>6,901,969</u>	<u>6,464,762</u>	<u>4,570,390</u>
End of Year	<u>\$ 7,515,788</u>	<u>\$ 6,901,969</u>	<u>\$ 6,464,762</u>

*Service Contracts for FYE June 30, 2009

<u>Payor Source</u>	<u>Amount</u>
NBVC	\$ 2,557,182
Vanderburg Commissary	875,128
VAFB	773,276
landscaping/janitorial	303,971
	<u>4,509,557</u>

VTC Enterprises
Financial Position

	As of June 30,		
	2009	2008	2007
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 5,949,688	\$ 5,038,612	\$ 3,269,616
Other receivables	200	600	800,000
Accounts receivable, net	931,359	1,035,684	992,239
Unbilled services	216,004	132,952	240,150
Prepaid Expenses and other assets	173,996	181,205	179,285
Inventory	26,577	47,956	36,317
Total current assets	<u>7,297,824</u>	<u>6,437,009</u>	<u>5,517,607</u>
Investments	505,381	567,029	735,406
Property and equipment, net	950,404	898,980	1,020,107
Total assets	<u>\$ 8,753,609</u>	<u>\$ 7,903,018</u>	<u>\$ 7,273,120</u>
LIABILITIES AND NET ASSETS:			
Current liabilities:			
Accounts payable	\$ 237,222	\$ 204,591	\$ 285,676
Accrued expenses	784,163	675,625	435,508
Deferred revenue	18,750	-	-
Current portion of loans payable	17,304	17,304	23,204
Total current liabilities	<u>1,057,439</u>	<u>897,520</u>	<u>744,388</u>
Less current portion of loans payable	<u>115,976</u>	<u>103,529</u>	<u>63,970</u>
Total liabilities	<u>1,173,415</u>	<u>1,001,049</u>	<u>808,358</u>
Net assets:			
Unrestricted - undesignated	<u>7,580,194</u>	<u>6,901,969</u>	<u>6,464,762</u>
Total net assets	<u>7,580,194</u>	<u>6,901,969</u>	<u>6,464,762</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,753,609</u>	<u>\$ 7,903,018</u>	<u>\$ 7,273,120</u>

Financial Ratios:	Proforma (a) <u>FYE June 30, 2009</u>			
		2009	2008	2007
Debt service coverage (x)	4.84	8.33	11.43	
Debt/Unrestricted Net Assets (x)	0.01	0.00	0.00	0.00
Margin (%)		6.13	3.42	14.89
Current Ratio (x)		6.22	7.17	7.41

(a) Recalculates FY 2009 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

VTC's income statement appears to exhibit positive operating results during the review period.

VTC has posted positive operating income of \$613,000, \$437,000 and \$1.89 million for FY 09 through FY 07 respectively.

Particular Facts to Note:

- Sales and Contributions have increased from FY 07 to FY 09 and kept VTC's bottom line healthy. Sales have increased approximately 37% over the review period, while Contributions have increased by 163%. Sales are made up of a custom catering business, packaging and duplicating business and two thrift stores.
- VTC receives its service contracts primarily from the State Department of Rehabilitation, Tri-Counties Regional Center, a Grounds Maintenance Contract with the U.S. Air Force, and a Grounds Maintenance contract with a U.S. Naval Base.
- Service contracts have seen an approximate 24% decline during the review period, due to contract reductions with VTC's larger income generating business contracts, Vandenberg Air Force Base (VAFB) and Naval Base of Ventura County (NBVC). According to VTC, these reductions came as a result of large cutbacks by the defense departments and not due to performance levels on the contracts or an election to transfer services to different contractors. VTC anticipates a full restoration of these cuts at some point in the future when the defense department has sufficient funds.
- Even though service contracts have declined, salaries have remained virtually unchanged due to usage of more subcontractors in the past to perform work on the service contracts. There is a significant decline in subcontractor costs from FY07 to FY08 and then to FY09. Combining "salaries" and "subcontractors" line items provides the total labor costs incurred.

Financial Discussion – Statement of Financial Position (Balance Sheet)

VTC's financial strength appears sound with a proforma debt service coverage ratio of 4.48x.

- VTC's cash position has increased from approximately \$3.26 million in FY 2007 to \$5.95 million in FY 2009, an 82% increase; however, \$2.7 million is needed for the proposed project, which will leave VTC with \$2.25 million in cash after project completion. According to management, the cash position increased due to higher volumes of accounts receivable being collected in a more timely fashion. VTC maintains very solid liquidity, with a current ratio of 6.22x. The existing debt service coverage ratio is 8.33x and the proforma debt service coverage ratio is a very solid 4.84x, indicating VTC should be able to repay the HELP II loan.

Particular Facts to Note:

- VTC's has no current long-term debt, but VTC has Community Block Development Grants for which the debt on these notes is forgiven at a rate 1/10 of the grant balance per year.
- VTC also has a line of credit available for up to \$500,000 as a precautionary measure, with a \$0 current balance.

EXHIBIT 1

UTILIZATION STATISTICS

Patient Served/Referred for Fiscal Year Ended June 30,

	2009	2008	2007
Totals	138/171	161/205	164/217

EXHIBIT 2
OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding* As of 30-Jun-09</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
Existing Long-Term Debt:			
Community Block Development Grant, City of Santa Maria 2000	\$41,700	\$ 4,170	\$ 4,170
Community Block Development Grant, City of Santa Maria 2004	81,342	40,671	40,671
Community Block Development Grant, City of Santa Maria 2007	50,000	37,500	37,500
Community Block Development Grant, City of Santa Maria 2008	100,000	80,000	80,000
Proposed:			
CHFFA HELP II Loan, 2010		N/A	750,000
TOTAL DEBT		\$ 162,341	\$ 912,341

*Includes current portion of long-term debt.

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

VTC is a private non-profit organization started in 1961 by a local group of parents in the Santa Maria Valley seeking services for their adult children with disabilities. For over 28 years, VTC's programs take place both on the facility and in the community, addressing the needs related to independent living skills and employment. These skills, for example, can range anywhere from hygiene and banking skills to job assessment, development and training. There are currently 130 staff members serving 350 persons who have disabilities or other barriers to employment and independent living who reside in Southern San Luis Obispo County and Santa Barbara and Ventura Counties. Included are persons who are blind or have low vision, deaf/hard of hearing, intellectual disabilities, developmental disabilities, autism spectrum disorder, mental illness, learning disabilities, neurological disabilities, physical disabilities, traumatic brain injury, and Welfare to Work recipients. Of the 350 persons served by VTC, more than 200 are employed in integrated work sites in the community. Services are funded by various private, public and governmental funding agencies as well as through VTC's own business services.

Licensure, Certification and Accreditation

VTC Enterprises is licensed by the State of California Department of Social Services to operate and maintain an Adult Day Program, which is located at 2445 A Street, Santa Maria, CA 93456.