

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
(CHFFA)
THE HELP II PROGRAM**

Executive Summary

Applicant:	Orange County ARC ("OCARC") 225 West Carl Karcher Way Anaheim, California 92801 Orange County	Amount Requested:	\$400,000	
		Date Requested:	April 25, 2002	
		Loan Term:	15 years	
		Resolution Number:	HII-118	
Project Site:	1530 South Lewis Street, Anaheim, California			
Facility Type:	Adult Day Care for the Developmentally Disabled			
Uses of Loan Proceeds: Loan proceeds will be used to purchase a 7,900 square foot industrial building. Annual savings are estimated to be approximately \$11,000 due to the lower interest rate.				
Type of Issue: HELP II Loan				
Prior HELP II Borrower: Yes, current loan balance as of April 1, 2002 is \$254,038.				
Payments up-to-date: Yes, current HELP II loan to be paid in full prior to closing.				
Financial Overview: OCARC's income statement exhibits solid revenue growth and profitability over the past three fiscal years along with continued revenue growth from newly developed programs. OCARC's balance sheet is solid with good liquidity, strong current ratio, significant net assets and good debt service coverage for existing operations. In addition, proforma debt service coverage including the proposed debt service is adequate, indicating a positive ability to manage the increased loan obligation.				
Sources of Revenues: (FYE 12/31/01 unaudited)		<u>Amount</u>	<u>Percent</u>	
	Contract Income	\$2,413,621	36.7%	
	Habilitation Fee	1,551,592	23.6%	
	Service – DAP Fees	792,569	12.0%	
	Supported Employment Fees	596,533	9.0%	
	Family Connections Income	565,786	8.6%	
	Contributions	167,359	2.5%	
	Other	497,556	7.6%	
		<u>\$6,585,016</u>	<u>100.0%</u>	
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>		
	HELP II loan	\$400,000	Purchase building	\$762,000
	HealthCAP loan (NCBDC)	323,900	Financing costs	<u>14,500</u>
	Borrower funds	<u>52,600</u>		
	Total Sources	<u>\$776,500</u>	Total Uses	<u>\$776,500</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 \$400,000 for a term not to exceed 15 years for Orange County ARC, subject to submission of 2001 audited financial statements consistent with the unaudited 2001 financials presented in this summary, final approval of the HealthCAP loan and the standard HELP II loan provisions.				

STAFF SUMMARY AND RECOMMENDATION

THE HELP II PROGRAM

Orange County ARC (“OCARC”)

April 25, 2002

Resolution Number: HII-118

- I. PURPOSE OF FINANCING:** OCARC’s overall strategic plan is to expand its operations and open a second adult day service site in order to meet the ongoing demand for its services. The current location is at full capacity and cannot accommodate additional clients. OCARC maintains a waiting list for individuals unable to participate in its programs.

Using internal funds, OCARC plans to pay off its existing HELP II loan that was used to purchase 10 HVAC systems for its existing building. This will enable OCARC to improve its operating cash flow. Once the existing HELP II loan is paid, the debt service reserve, which was required for this loan in the amount of approximately \$50,000, will be released to OCARC.

Acquisition of industrial building ***\$762,000***
OCARC plans to acquire a 7,900 square foot building with 2,100 square feet of constructed office space that is suitable for training rooms. Training rooms will be utilized to provide training and social and recreational opportunities to an additional 24 developmentally disabled adults, both ambulatory and non-ambulatory. The warehouse portion of the building will be used as a work training center for approximately 20-30 additional disabled adults. Program participants will receive paid work training in the area of packaging and assembly.

A property appraisal dated April 12, 2002 indicates an estimated value of \$765,000, leading to a combined loan to value ratio of 94.6%. The loan shall consist of a HELP II loan of \$400,000 and a HealthCAP loan of \$323,900, with the remaining balance coming from borrower’s internal funds.

Financing Costs ***14,500***

HealthCAP fees.....	8,000
Authority closing fee	5,000
Title/Escrow fees	1,500

Total Uses of Funds ***\$776,500***

Structure of Financing:

- 15 year term with 180 monthly payments of approximately \$2,762 (yearly payments of approximately \$33,144).
- Total interest payments of approximately \$97,219.
- Combined loan to value ratio of 94.6%.
- Second lien on property located at 1530 South Lewis Street, Anaheim, California (subordinate to NCBDC 1st lien on the property).
- Corporate gross revenue pledge (subordinate to Cal- Mortgage blanket gross revenue pledge and NCBDC's second position on gross revenue pledge).

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II. FINANCIAL STATEMENTS AND ANALYSIS:

Orange County ARC STATEMENT OF ACTIVITIES (Unrestricted)

	<u>Two Month</u> <u>Period Ended</u>	<u>For the Year Ended December 31</u>		
	<u>February 2002</u> (Unaudited)	<u>2001</u> (Unaudited)	<u>2000</u>	<u>1999</u>
<u>Support and revenue</u>				
Contract income	\$ 273,911	\$ 2,413,621	\$ 4,756,340	\$ 2,019,196
Habilitation fee	268,351	1,551,592	1,376,225	1,294,519
Supported employment fees	107,437	596,933	516,854	467,191
Service - DAP fee	136,029	792,569	493,280	402,256
Contributions	52,230	167,349	413,025	168,975
Family Connections income	141,475	565,786	267,884	88,837
Hab Client Support	13,098	52,391	-	-
CA Support	76,131	216,947	-	-
Janitorial - NISH	-	7,500	218,931	261,289
Community based employment fees	-	-	132,305	159,169
United Way allocations	12,636	52,887	54,932	53,766
Transportation income	17,872	74,772	42,365	25,274
Net assets released from restriction	-	-	389	-
Other	17,708	92,669	94,956	17,467
Total unrestricted support and revenue	<u>1,116,878</u>	<u>6,585,016</u>	<u>8,367,486</u>	<u>4,957,939</u>
<u>Expenses</u>				
Contract materials	82,671	1,087,335	2,268,559	737,057
Staff salaries	341,257	1,899,979	1,794,893	1,595,993
Temporary help - production	80,285	389,972	901,203	510,383
Client wages	76,122	424,989	453,053	381,607
Temporary help - agency	93,954	551,301	324,806	348,986
Interest expense	44,596	242,095	266,031	31,988
Sales commissions	18,839	132,756	152,824	95,024
Payroll taxes	28,262	149,157	148,713	134,460
Insurance	30,063	193,431	147,865	95,111
Depreciation	27,340	159,600	153,992	51,109
Workers' compensation	16,520	177,525	138,968	93,701
Home care provider	73,437	271,789	129,544	24,155
Building and equipment maintenance	16,310	109,658	124,506	112,753
Bad Debts	-	142,969	-	-
Utilities	9,511	42,704	50,450	41,679
Occupancy	2,762	47,723	37,554	248,896
Office and printing	3,682	34,301	36,067	28,517
Other	35,930	219,393	193,362	194,869
Total expenses	<u>981,541</u>	<u>6,276,677</u>	<u>7,322,390</u>	<u>4,726,288</u>
Increase in unrestricted net assets	135,337	308,339	1,045,096	231,651
Unrestricted net assets, beginning of year	<u>2,998,069</u>	<u>2,689,730</u>	<u>1,644,634</u>	<u>1,412,983</u>
Unrestricted net assets, end of year	<u>\$ 3,133,406</u>	<u>\$ 2,998,069</u>	<u>\$ 2,689,730</u>	<u>\$ 1,644,634</u>

Orange County ARC
Balance Sheet

	As of February	As of December 31		
	2002 (Unaudited)	2001 (Unaudited)	2000	1999
ASSETS				
Current assets:				
Cash and equivalents	\$ 1,289,462	\$ 1,149,993	\$ 421,115	\$ 151,960
Accounts receivable	935,441	1,035,175	1,424,760	948,822
Prepaid expenses	33,323	39,367	30,037	57,307
Supplies and inventory	72,552	105,499	366,338	102,375
Total current assets	<u>2,330,778</u>	<u>2,330,034</u>	<u>2,242,250</u>	<u>1,260,464</u>
Property and equipment, net	5,093,725	5,116,647	4,940,491	4,410,647
Other assets	634,689	635,044	568,465	1,013,411
Total Assets	<u>\$ 8,059,192</u>	<u>\$ 8,081,725</u>	<u>\$ 7,751,206</u>	<u>\$ 6,684,522</u>
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable	\$ 129,200	\$ 278,848	\$ 465,602	\$ 342,988
Accrued bond interest	42,501	42,501	43,101	43,632
Accrued expenses	28,878	53,447	34,084	37,637
Accrued salaries and vacation pay	141,032	100,896	84,899	80,774
Bonds payable	79,953	95,000	90,000	85,000
Help II Loan	24,219	24,219	-	-
Notes payable	9,807	10,983	6,951	8,574
Total current liabilities	<u>455,590</u>	<u>605,894</u>	<u>724,637</u>	<u>598,605</u>
Long-term liabilities:				
Bonds payable	4,230,000	4,230,000	4,325,000	4,415,000
Help II Loan	229,951	236,390	-	-
Notes payable	10,245	11,372	11,839	26,283
Total long-term liabilities	<u>4,470,196</u>	<u>4,477,762</u>	<u>4,336,839</u>	<u>4,441,283</u>
Total liabilities	<u>4,925,786</u>	<u>5,083,656</u>	<u>5,061,476</u>	<u>5,039,888</u>
Net assets:				
Unrestricted	3,133,406	2,998,069	2,689,730	1,644,634
Total net assets	<u>3,133,406</u>	<u>2,998,069</u>	<u>2,689,730</u>	<u>1,644,634</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,059,192</u>	<u>\$ 8,081,725</u>	<u>\$ 7,751,206</u>	<u>\$ 6,684,522</u>

Financial Ratios:

Proforma (a)
FYE 2001

Debt Service Coverage (x)	1.93	2.23	4.07	6.56
Debt/Unrestricted Net Assets (x)	1.73	1.49	1.59	.06
Margin (%)		4.68%	12.45%	4.67%
Current Ratio (x)		3.85	3.09	2.11

(a) Recalculates 2001 unaudited results to include the impact of this proposed financing.

Financial Discussion:

OCARC's income statement exhibits solid profitability with positive net income over the past three fiscal years along with continued revenue growth from newly developed programs.

OCARC's income statement exhibits solid profitability over our review period with net income ranging from \$231,000 to \$1.05 million. Operating margins are also solid, ranging from 5% to 12%. OCARC primary funding source is with the State Department of Rehabilitation, which accounts for approximately 60% of total revenues. Remaining revenues are mainly generated from contracted services with private corporations and contributions.

OCARC's net income in 2000 was significantly higher as a result of a large contract in the amount of \$2.3 million with Polaroid Corporation. In addition, OCARC launched a capital fundraising campaign that generated over \$400,000 in contributions.

During fiscal year 2001, the Polaroid contract was eliminated, as Polaroid filed Chapter 11 bankruptcy, resulting in a charge-off of \$143,000 in bad debt expense. Contributions declined by \$247,000, as the capital campaign program originated in fiscal year 2000 was concluded. Consequently, OCARC net income for fiscal year 2001 declined by approximately \$700,000.

However, fiscal year 2001 also experienced strong program growth with the Family Connections and Consumer Choice Day Programs that experienced an increase in revenues of 111% and 60% respectively. Also, the start of a new behavior modification program (CASS) increased revenue by \$217,000. Finally, a new program providing aide for non-ambulatory clients grossed an additional \$52,000.

The interim income statement for the period ending in February 2002 continues to post positive operations. The three-year budget forecast for OCARC's new building indicates a projected net income of approximately \$187,000 and the projected combined net income for the new and existing building is approximately \$325,000.

OCARC's balance sheet is solid with good liquidity, strong current ratio, significant net assets and good debt service coverage for existing operations. In addition, proforma debt service coverage including the proposed debt service is adequate, indicating a positive ability to manage the increased loan obligation.

OCARC's current balance sheet is strong with good liquidity of over \$1.1 million in cash and cash equivalents, a strong current ratio of 3.85x, and net assets of over \$2.9 million. In addition, the proforma debt service coverage is a solid 1.93. While fiscal year 2001 operating results were significantly lower than previous the fiscal year, fiscal year 2000 was not typical for the organization.

BACKGROUND:

OCARC is a community based, not-for-profit organization located in Anaheim, California. It provides adult day care, developmental programs and training and other related services to developmentally disabled residents of Orange County. OCARC was founded in 1951 by a group of parents who wished to promote education and other developmental services for their children. The organization was formally incorporated in 1955 and has been in continuous operation since then. OCARC consolidated and relocated its existing facility to Anaheim and currently serves approximately 600 developmentally disabled adults per year. OCARC has added several new program and increased the number of clients served by 17%. A list of programs being provided is as follows:

Work Service Program provides vocational training and paid work opportunities in a packaging and assembly environment. Clients also receive case management services, assessments and behavior modification reinforcement.

Community Employment Service provides case management, vocational assessments, job development and job coaching which includes support at the work site.

Consumer Choice Day Activity Program (CC-DAP) is a predominantly site based program for severe and profoundly mentally challenged adults.

CASS Program is an intensive behavior modification program conducted both in the community and at the site.

Family Connections is a residential program for developmentally disabled adults providing an alternative to institutional and group home living.

Independent Living Skills Program is a one to one program providing support to clients living independently in the community.

Dual Development Program is a specialized program of the dual diagnosed (mentally ill and mentally retarded).

OCARC's Board of Directors is comprised of 16 members, (i.e. business managers, education, finance, health care, and parents of clients) who represent and live in Orange County. The members can serve for up to six years consecutively, but must take at least a one-year sabbatical before being reappointed.

Licenses and Contracts:

OCARC's facilities are licensed by the California Department of Social Services for its community care programs. OCARC has been awarded the highest accreditation by the Commission of Accreditation for Rehabilitation Facilities (CARF).

The largest percentage of OCARC's revenue has historically been derived from the State Department of Rehabilitation and Department of Developmental Services. OCARC's habilitation

and supported employment programs are funded by the Department of Rehabilitation and account for approximately 37% of OCARC’s revenues. OCARC’s CC-DAP, Project ABLE, and Family Connections programs are funded by the Department of Developmental Services and account for approximately 23% of OCARC’s revenues. OCARC’s production workshop derives its revenues from contracts with private firms and account for approximately 30% of OCARC’s revenues.

Service Area and Competition:

OCARC receives its client referrals from the Regional Center of Orange County. OCARC’s current service area is generally within a 10-mile radius, which includes the cities of Orange, Anaheim, Fullerton, Santa Ana and Buena Park.

<u>Health Facility</u>	<u>Clients</u>	<u>Market Share (%)</u>	<u>Estimated Distance Away</u>
Orange County ARC	600	27%	N/A
Goodwill Industries	700	32%	15 miles
Westview Vocational Services	700	32%	3 miles

In general, OCARC does not compete with other organizations in its service area, as the Regional Center of Orange County often refers clients to providers near their residence. There are approximately five organizations that complement one another providing work activity day programs in Orange County. In addition to work activity, there are approximately 25 other organizations providing services similar to OCARC’s CC-DAP, Project ABLE, and supported employment programs. The primary non-profit agencies that provide similar comprehensive programs to OCARC are the following:

Goodwill Industries is located in Santa Ana. It serves approximately 700 clients in Central Orange County, of which about 200 are developmentally disabled and attend their workshop program. This program serves a large portion of the Vietnamese population living in Orange County. Their program services focus on job readiness and community employment. Goodwill is the leading agency in Orange County for testing and evaluating a person’s ability to utilize technology devices. Goodwill also is involved in Welfare to Work for the non-disabled. Goodwill does not have a site based day activity like the CC-DAP program, but serves approximately 100 clients in its community based program like Project ABLE. Its program services both Central and South Orange County.

Westview Vocational Services is the largest provider of community employment services for the developmentally disabled in the State. Westview has aggressively expanded throughout California and is now pursuing opportunities in other states. Westview’s headquarters is located in Anaheim with a site-based program similar to CC-DAP located in Garden Grove, which serves mostly developmentally disabled seniors. Fewer than 60 clients are served at that location. Westview’s main focus is community-based enclaves providing work opportunities as well as recreational and

living skill training in the community. Westview also owns and operates several group homes. It serves about 700 clients per year in Orange County.

IV. UTILIZATION STATISTICS:

Average Number of Clients Served

Type of Service	Two Months Ended			
	February	Year Ended December 31		
	2002	2001	2000	1999
Work Service Program	296	335	312	317
Community Employment	172	157	146	120
Adult Day Care AAC-DD	84	102	97	73
Residential Care	15	26	6	5
Community Activity Support Services	17	16	-	-
Independent Living Services	8	-	-	-
Total	623	636	561	515

V. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 12/31/01 (Unaudited)	Estimated Amount Outstanding After Proposed Financing
Existing:			
CHFFA, Series 1999	\$4,500,000	\$4,325,000 *	\$4,325,000 *
Note, Ford Credit 1999	22,395	4,727	4,727
Note, Ford Credit 2001	23,700	17,819	17,819
HELP II Loan, 2001	274,000	260,609 *	-0-
Proposed:			
HELP II Loan, 2002			400,000
HealthCAP Loan, 2002			323,900
TOTAL DEBT		\$4,608,155	\$5,071,446

*Includes current portion of long-term debt.

VI. SECTION 15438.5 OF THE ACT:

Annual savings are estimated to be approximately \$11,000 due to the lower interest rate. Services are available to all persons with developmental and other disabilities residing primarily in North and Central Orange County who are referred by the Regional Center of Orange County and the Department of Rehabilitation. All referrals who meet the agency's program entrance criteria and who are residents of the State of California are accepted for Adult Day Care Program services depending on space availability. OCARC programs are free to families with developmentally disabled children. Program rates paid to OCARC are based on historical costs. This low cost financing will enable OCARC to maintain its program rates and free services to family with developmentally disabled children

VII. 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.

VIII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II loan in an amount not to exceed \$400,000 for a term not to exceed 15 years for Orange County ARC, subject to submission of 2001 audited financial statements consistent with the unaudited 2001 financials presented in this summary, final approval of the HealthCAP loan and the standard HELP II loan provisions.