CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

Applicant:	Phoenix Programs, Inc. ("Phoenix") 1875 Willlow Pass Road, #300 Concord, California Contra Costa County	**Amount Requested**: **Requested Loan Term**: **Date Requested**: **Resolution Number**:	$400,000 15 years October 30, 2003 HII-155
Project Site:	4776 Pacheco Blvd., Martinez, Contra Costa County, California		
Facility Type:	Rehabilitation Facility		

Policy Issue: Under the HELP II Loan Program guidelines, a first position lien is generally required on property. Staff recommends approval of an exception to this guideline. Please refer to page 2 of the Staff Summary and Recommendation for more detailed information.

Use of Loan Proceeds: Loan proceeds will be used to purchase a residential property to be set up as a treatment facility and to build on the same property an additional six bedrooms. Phoenix will save approximately $13,760 per year in loan payments in comparison to a commercial rate loan.

Type of Issue: HELP II Loan
Prior HELP II Borrower: No, however Phoenix participated in a Pooled Loan Program in 1990.
Payments Status: Paid

Financial Overview: Phoenix is a financially stable organization, as shown by the positive growth in revenue and continues to operate with positive results. The balance sheet shows strong liquidity and growth in net assets.

Sources of Revenue: (FYE 6-30-02)

	Amount	Percent
Government support	$13,396,017	73%
Contract services	3,663,727	20%
Client fees	779,480	4%
Other	329,036	3%
Total Revenue	$18,168,260	100%

Estimated Sources of Funds:		**Estimated Uses of Funds**:	
HELP II loan	$400,000	Real property purchase	$650,000
HealthCAP loan with NCBDC*	358,800	Construction remodeling	148,700
Bank of the West	87,300	Development fees	28,800
Borrower's contribution	36,300	Equipment purchase	37,500
		Financing costs	17,400
Total Sources	$882,400	Total Uses	$882,400

* Subject to approval by the underwriting department of the National Cooperative Bank Development Corporation.

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 Phoenix Programs, Inc., subject to final approval of the HealthCAP loan, Bank of the West loan or other acceptable lender to the Authority, submission of the 2003 audited financial statements to be materially consistent with the unaudited 2003 financials presented in this summary and the standard HELP II loan provisions.

(LJ)

STAFF SUMMARY AND RECOMMENDATION

Phoenix Programs, Inc. ("Phoenix")
October 30, 2003
Resolution Number: HII-155

POLICY ISSUE: Under the HELP II Loan Program guidelines, the Authority requires a first position lien on the secured property and a gross revenue pledge. Phoenix is financing the project using a HELP II loan, a HealthCAP loan and a Bank of the West line of credit. Since the loan to value ratio meets the Authority's guidelines at 95% and given Phoenix's solid financial position and successful operating history, staff recommends the Authority accept a second position lien on the property behind the HealthCAP loan.

I. PURPOSE OF FINANCING: Phoenix intends to purchase a home located in Martinez and add another six bedrooms for purposes of establishing another residential treatment facility similar to other facilities it operates in various counties. This project of 16 adult beds with support services 24 hours a day will allow Phoenix to meet the demand for cases involving both mental disability and substance abuse. Management has determined it would be more cost effective to purchase a permanent facility versus leasing. This dual-diagnosis residential facility will be the third of its kind in Contra Costa County, with Phoenix owning and operating the other two facilities. The project will expand and improve existing services. The loan for this project will save approximately $13,760 per year in loan payments in comparison to a commercial rate loan.

The total cost of the project is expected to be $882,400, and will be financed by the proposed HELP II loan of $400,000, a HealthCap loan of $358,800, a Bank of the West loan of $87,300 and Phoenix's internal funds of $36,300. An appraisal letter dated February 21, 2003, determined the purchased property's value at $615,000. The estimated value of $650,000 based on the purchase price, together with the proposed construction remodeling cost of $148,700 lead to a combined loan (HealthCAP and HELP II) to value ratio of 95%. However, the loans used to finance this project will be secured by the purchased property and improvements, which will have an estimated value of $798,700. Phoenix is in the process of having the property and remodeling appraised and its value must be satisfactory to the Authority's policies regarding the combined loan to value ratio no greater than 95% of the "as improved appraisal". The Bank of the West line of credit loan is unsecured.

Real Property Purchase ***$650,000***

Phoenix has signed a contract to purchase a 1,946 square foot wood frame building situated on a one-acre hillside lot, located at 4776 Pacheco Blvd., in Martinez for $650,000. The one-story single-family residence consists of 3 bedrooms and 2 bathrooms, living area, kitchen and includes a basement office area at the lower level. The parking consists of a gravel area with a 25 foot wide driveway. The property is north of State Highway 4 and west of Interstate 680. Phoenix anticipates having a license in place upon the close of escrow.

Construction Remodeling* *$148,700

Phoenix intends to expand the existing home by adding approximately 1,000 square feet for six bedrooms and one bathroom. The remodeling includes earthwork, foundation, paving, steel work, roofing, insulation, plumbing, electrical, HVAC, doors and windows, flooring, drywall and painting. Phoenix anticipates a signed and approved contract before loan closing, and beginning construction-remodeling on the existing building in January 2004 and estimates completion by March 2004.

Development Fees* *28,800

Fees include permit fees, architectural fees, feasibility studies costs and site tests costs.

Purchase Equipment*... *37,500

Equipment purchases include office equipment and other home furnishings.

Financing Costs* *17,400

HealthCAP Fees.................................... $1,000
Authority Fees....................................... 10,400
Title/escrow fees 6,000

Total ***$882,400***

Financing Structure:

The HELP II loan for Phoenix will be structured as follows:

- 15-year fully amortized loan in the amount of $400,000.
- 180 equal monthly payments of approximately $2,762 (total annual payments of $33,148).
- Total interest payments of approximately $97,219.
- Second position lien on the property located at 4776 Pacheco Blvd., Martinez, California (subordinate to HealthCAP loan).
- First position lien on gross revenues.
- Estimated value of collateral securing this loan is $798,700 leading to a combined loan to value ratio of 95%.
- Estimated interest rate for the HealthCAP loan of 6.50%, over a term of 15 years, with a monthly payment of approximately $3,125.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Phoenix Programs, Inc.
Consolidated Statement of Activities
(Unrestricted)

	For the year ended June 30			
	2003	**2002**	**2001**	**2000**
	(Unaudited)			
REVENUE				
Government support	$ 15,849,212	$13,396,017	$ 10,309,746	$ 7,028,932
Contract services	3,453,345	3,663,727	2,894,525	2,390,060
Client fees	675,886	779,480	1,025,705	764,223
Other	161,935	329,036	386,928	122,676
Total revenues	20,140,378	18,168,260	14,616,904	10,305,891
EXPENSES				
Residential treatment	8,557,023	7,823,905	6,514,064	4,469,255
Vocational	1,705,896	2,191,366	2,825,948	1,442,279
Community living	585,711	1,097,696	615,290	352,862
Homeless	2,010,368	2,049,504	1,345,273	1,717,997
Day treatment	5,306,516	3,161,322	2,065,779	969,890
Management and general	1,819,365	1,475,986	1,054,279	775,162
Fund raising	26,453	24,737	34,671	23,478
Total expenses	20,011,332	17,824,516	14,455,304	9,750,923
Change in unrestricted net assets	**129,046**	**343,744**	**161,600**	**554,968**
Unrestricted net assets at beginning of year	1,906,390	1,689,184	1,481,939	926,971
Prior year adjustments	-	(126,538)	45,645	-
Unrestricted net assets end of year	$ 2,035,436	$ 1,906,390	$ 1,689,184	$ 1,481,939

Phoenix Programs, Inc.
Consolidated Statement of Financial Position

	As of June 30			
	2003	**2002**	**2001**	**2000**
Assets	**(Unaudited)**			
Cash	$ 645,194	$ 208,971	$ 444,764	$ 509,259
Accounts receivable	2,092,739	2,990,937	1,866,507	1,333,825
Intangibles	367,660	393,588	423,873	454,824
Deposits	155,062	175,130	217,905	139,848
Other assets	71,305	21,633	122,617	236,506
Property and equipment, net	3,916,044	3,797,972	3,249,779	2,878,075
Total Assets	$ 7,248,004	$ 7,588,231	$ 6,325,445	$ 5,552,337
Liabilities				
Accounts payable	$ 500,781	$ 843,445	$ 370,570	$ 296,390
Accrued liabilities	999,481	958,544	889,930	689,691
Credit line - current	-	250,000	243,819	-
Notes payable	3,712,306	3,629,852	3,003,919	2,956,294
Total Liabilities	5,212,568	5,681,841	4,508,238	3,942,375
Net Assets				
Unrestricted net assets	2,035,436	1,906,390	1,689,184	1,481,939
Restricted net assets	-	-	128,023	128,023
Total Net Assets	2,035,436	1,906,390	1,817,207	1,609,962
Total Liablities & Net Assets	$ 7,248,004	$ 7,588,231	$ 6,325,445	$ 5,552,337

Financial Ratios:	**Proforma (a) 6/30/03**				
Debt Service Coverage (x)	**1.14**	**1.32**	**1.52**	**1.29**	**1.57**
Debt/Unrestricted Net Assets (x)	**2.24**	**1.82**	**1.90**	**1.78**	**1.99**
Margin (%)		**0.64**	**1.89**	**1.11**	**5.38**
Current Ratio (x)		**1.85**	**1.40**	**1.25**	**1.57**

(a) Recalculates June 2003 unaudited results to include the impact of the HELP II, HealthCAP and Bank of the West loan financings.

Financial Discussion:

Phoenix is a financially stable organization, as shown by the positive growth in revenue and continues to operate with positive results.

Phoenix provides a system of behavioral care facilities that assist economically disadvantaged people, who are disabled due to mental, physical and substance abuse causes, to live meaningful and productive lives in the community by promoting self-reliance and independence. Its main sources of revenue are government support grant contracts with the various counties, such as Contra Costa, Riverside, Sacramento, San Joaquin and Solano. These grants are pass-through for the U.S. Department of Housing and Urban Development, U.S. Department of Health and Human Services and State Programs. The second source of revenue are contract services with Kaiser Permanente to provide psychiatric services through its crisis treatment program, and with DMV and CHP to provide grounds and landscaping services through its vocational program using disabled staff. Client fees are mostly self-pay from residents for independent living services. Other revenue is derived from interest, contributions and other miscellaneous revenues.

Total revenues have increased approximately 95% over our review period from fiscal 2000 to 2003, primarily due to significant increases in government support grant contracts funding for both residential and outpatient crisis treatment, community living and homeless programs. The increase in funding was made possible through an effective strategic planning on the part of Phoenix's expanding programs at the current facilities or at the newly acquired and leased properties in different locations. Other sources of revenue did not have a significant impact on the total revenue, and contracted services continue to maintain its services through Kaiser Permanente, DMV and CHP. Phoenix's management expects that revenues for fiscal 2004 will be consistent even with the addition of new residential beds and expansion of other programs, which in the future is anticipated to generate additional income.

Operating expenses increased approximately 105% over our review period. The increases were significant for each fiscal year as payroll and related operating costs increased due to new employees and program activities for new government support grant contracts. The increases in program expenses were reflected by the increases in the corresponding program revenue. Residential treatment, the major cost center, jumped 91%, followed by day treatment 447%, community living 65% and homeless 16%. Day treatment includes a new outpatient program, which was established in fiscal 2003 to serve clients in homeless program. Management and general expenses increased 134% due to additional staff required for new program activities. Management implemented various cost cutting measures for some programs and overheads in January 2003 against the California budget crisis. These measures had a positive impact on total operating expenses.

Phoenix continues to post positive operating results through the current fiscal period providing strong operating margins ranging from 1% to 5% during the past four fiscal years. Management anticipates maintaining an operating margin of approximately 1% for fiscal 2004. Phoenix has had a positive growth in unrestricted net assets and anticipates an estimated $200,000 increase in unrestricted net assets for fiscal 2004.

The balance sheet shows strong liquidity and growth in net assets.

Phoenix improved its billing and collection procedures in fiscal 2003, resulting in a substantial reduction of accounts receivable. As a result of these and other cost cutting measures, Phoenix improved its cash position and reduced its current liabilities, including paying off its current line of credit. Phoenix has maintained positive cash flows with strong liquidity as demonstrated by a current ratio ranging from 1.25x to 1.85x for the review period. With continued positive operating results, net assets have grown 37% from fiscal 2000 to fiscal 2003. This positive trend is the result of Phoenix's strategic plan of leasing and acquiring properties and expanding programs with debt financing. With this proposed loan, Phoenix will be slightly leveraged, with a proforma debt-to-unrestricted net assets ratio of 2.24. However, management anticipates meeting all of its debt obligations, as evidenced by a proforma debt service coverage ratio of 1.14x.

III. UTILIZATION STATISTICS:

Clients Served

Type of Services	June 30, 2003	June 30, 2002	June 30, 2001	June 30, 2000
Crisis Residential	1,743	1,664	1,562	1,431
Homeless	2,011	1,901	1,883	1,776
Vocational	922	910	899	890
Affordable Housing	2,732	2,577	2,351	1,954
Total	**7,408**	**7,052**	**6,695**	**6,051**

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IV. ORGANIZATION:

<u>Background</u>:

Phoenix was founded in 1973 and incorporated as a non-profit corporation to provide comprehensive rehabilitation services to disabled persons in Contra Costa County, primarily those with severe and persistent mental illness. A range of quality social rehabilitation treatment services are now provided to people whose ability to work and live in the community is limited by a history of singular or multiple disabilities: a mental, physical and /or substance abuse disability or as a result of being economically disadvantaged. Over the years, Phoenix has expanded its programs in different counties by purchasing properties in cities such as Concord, Stockton, Antioch, Hemet, Pomona and Citrus Heights. Phoenix and its affiliate, Phoenix Apartments, Inc., are registered as not-for–profit corporations and are exempt from taxes under IRS code section 501(c)(3), but CES Associates and Carefilled Homes, Inc. are for-profit corporations as Phoenix's investments, which are part of the consolidated financial statements. These for-profit corporations are in the process of liquidation and their respective programs will be transferred to Phoenix during fiscal 2004. Both current and deferred income tax expenses for these entities are insignificant and are reflected in management and general expense.

The residential program includes everything from 24 hour supervised crisis treatment facilities to transitional living facilities. Vocational programs are for job assessments, development and placement. Day treatment programs cater to outpatient crisis treatment. Community living programs provide shared housing based in the community with minimal case management. The homeless program is for individuals who lack a fixed, regular, and adequate nighttime residence or who need a supervised shelter designed to provide temporary living accommodations and who may be institutionalized later. For many homeless who are mentally ill, an array of services are offered such as food and shelter, helping them access much needed health care, dental care, psychiatric evaluation, medications, money management, case management and social services. Phoenix charges fees based on the ability to pay and no one is denied service due to lack of funds.

<u>Licenses:</u>

Phoenix is certified by the State Department of Alcohol and Drug Programs for both outpatient and residential alcoholism or drug abuse treatment. Phoenix's transitional residential treatment and short term crisis residential treatment programs are also certified by the State Department of Mental Health. The State Department of Social Services has licensed one facility in Concord as short term crisis treatment center. Phoenix has been awarded a three-year accreditation by Commission on Accreditation of Rehabilitation Facilities for employment services relating to job development, job-site training and job supports.

<u>Competition</u>:

Phoenix owns and operates two dual-diagnosis residential facilities in Contra Costa County. These dual-diagnosis residential facilities provide clients with services in both mental disability and substance abuse. Phoenix is the only organization in Contra Costa County that provides dual-diagnosis services to clients both for mental disability and substance abuse treatments. With the proposed project, Phoenix will own and operate the third of its kind in Contra Costa County, with 100 % of the market share.

V. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 6/30/03 (Unaudited)	Estimated Amount Outstanding After Proposed Financing
Existing:			
HUD,12/1982, 3720 Clayton Road, Concord, CA 94520	$616,300	$528,925	$528,925
National City Mortgage, 12/2002, 731 N. Harrison St., Stockton, CA 95203	210,000	206,129	206,129
GMAC, 8/2001, 1959 Solano Way, Concord CA 94520	178,000	155,277	155,277
GMAC, 5/2000, 2480 Tahoe Circle, Hermet, CA 92543	117,300	108,171	108,171
Principle Residential Mortgage, 8/2001, 512 E. St., Antioch, CA 94503	228,612	218,819	218,819
Palomar Bank, 12/2002, 2100 S. State St., Hermet, CA 92582	200,000	196,541	196,541
Wells Fargo Home Loan, 2/2001, 3 Cottontail Dr.,Pomona, CA 91766	249,000	226,843	226,843
Wells Fargo Home Loan, 2/2001, 13066 Robin Lane, Chino, CA 91710	232,000	178,103	178,103
Frank Rosenmayr, 12/2002, 350 Brannan St. Ste #200, San Francisco, CA 94107	37,292	32,887	32,887
West American Bank, 4/1999, 1401 4th St., Antioch, CA 94509	225,000	133,053	133,053
Wells Fargo Home Loan,			

10/2001, 1206 Alaska Ave. Fairfield, CA 94533	310,000	301,120	301,120
Wells Fargo Home Loan, 7/2001, 6391 Oakcreek Way, Citrus Heights, CA 95621	229,000	187,822	187,822
CEDLI, 10/2001, Refinance Purchase of CFH, Inc.,	400,000	246,667	246,667
Community Commerce, 6/2003, Refinance Four Properties	714,700	707,664	707,664
Note Payables, Various Properties	289,637	284,285	284,285
Proposed:			
CHFFA HELP II Loan, 2003	400,000	-	400,000
CHFFA HealthCAP, 2003	358,800	-	358,800
Bank of the West, 2003	87,300	-	87,300
TOTAL DEBT		**$3,712,306**	**$4,558,406**

VI. SECTION 15438.5 OF THE ACT (Savings Pass Through):

It is the intent of the Legislature in enacting this part to provide financing only to health facilities that can demonstrate the financial feasibility of their projects. It is further the intent of the Legislature that all or part of any savings experienced by a participating health institution, as a result of that tax-exempt revenue bond funding, be passed on to the consuming public through lower charges or containment of the rate of increase in hospital rates.

Phoenix has provided a description of its savings pass through in Exhibit A.

VII. SECTION 15459.1 (b) OF THE ACT (Community Service Requirement).

As a condition of the issuance of revenue bonds, whether by the Authority or any local agency, each borrower shall give reasonable assurance to the Authority that the services of the health facility will be made available to all persons residing or employed in the area served by the facility. As part of this assurance, borrowers shall agree to a number of actions, including (a) To advise each person seeking services at the borrower's facility as to the person's potential eligibility for Medi-Cal and Medicare benefits or benefits from other governmental third-party payers, (b) To make available to the authority and to any interested person a list of physicians with staff privileges at the borrower's facility, and (c) To post notices in appropriate areas within the facility regarding services being available to all in the service area. This agreement is a standard "Certification and Agreement Regarding Community Service Obligation".

A copy of this executed certification is provided in Exhibit B.

VIII. 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.

IX. 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 Phoenix Programs, Inc., subject to final approval of the HealthCAP loan, Bank of the West loan or other acceptable lender to the Authority, submission of the 2003 audited financial statements to be materially consistent with the unaudited 2003 financials presented in this summary and the standard HELP II loan provisions.

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