

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

Applicant: Henry Ohlhoff House ("HOH") 601 Steiner Street San Francisco, CA 94117 San Francisco County	Amount Requested: \$400,000 Requested Loan Term: 15 years Date Requested: February 26, 2004 Resolution Number: HII-164		
Project Site: Henry Ohlhoff North 5394 Nave Drive, Navato, California (Marin County)			
Facility Type: Alcohol and Drug Recovery/Treatment Facility			
Use of Loan Proceeds: To lower the borrowers interest costs by refinancing the Authority's 1992 STARTS Bonds, which have a 6.75% interest rate. This refinancing will result in a savings of approximately \$11,000 per year in debt service payments or a total of \$165,000 over the life of the loan.			
Type of Issue: HELP II Loan			
Prior HELP II Borrower: No, however, HOH is a borrower under the STARTS program.			
Payment Status: Current			
Financial Overview: HOH has improved its recent operating results over the past two fiscal years, even though its operating environment has remained challenging. HOH maintains substantial long-term debt and is highly leveraged. However, its proforma debt service coverage is adequate, indicating that HOH should be able to comfortably repay the proposed loan.			
Sources of Revenue: (FYE 12-31-02)	<u>Amount</u>	<u>Percent</u>	
Program service fees	\$2,030,825	61.5%	
Contracts	863,126	26.2%	
Contribution	202,131	6.1%	
Interest	699	0.1%	
Net assets released from restriction	<u>204,398</u>	<u>6.1%</u>	
Total revenue	<u>\$3,301,179</u>	<u>100.0%</u>	
<u>Estimated Sources of Funds:</u>	<u>Estimated Uses of Funds:</u>		
HealthCAP*	\$425,000	Refinance 1992 STARTS bonds	\$818,000
HELP II Loan	400,000	Financing costs	<u>12,500</u>
Borrower's funds	<u>5,500</u>		
Total Sources	<u>\$830,500</u>	Total Uses	<u>\$830,500</u>
* Subject to HealthCAP loan underwriting and approval.			
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 Henry Ohlhoff House, subject to receipt of HealthCAP funds or another acceptable funding source, plus to the standard HELP II loan provisions.			

STAFF SUMMARY AND RECOMMENDATION

**Henry Ohlhoff House
("HOH")**

February 26, 2004

Resolution Number: HII-164

I. PURPOSE OF FINANCING: Loan proceeds will be used to refinance Authority's 1992 Series A STARTS bonds, which will reduce its debt service payments and improve its operating cash flow.

Refinance Authority 1992 Series A Bonds.....***\$818,000**

HOH seeks to refinance the Henry Ohlhoff North facility. This residential substance abuse treatment facility has a 30-bed capacity to serve men suffering from drug and alcohol addiction. Management estimates the current value at \$1.1 million, leading to an acceptable combined loan to value ratio of 75%.

Financing Costs **12,500**

Authority Fee5,000

NCB Fees7,500

Total.....**\$830,500**

Financing structure:

- 15-year fully amortized loan in the amount of \$400,000 @ 3% for the HELP II loan
- 15-year loan in the amount of \$425,000 @ approximately 6.25% for the HealthCAP loan.
- 180 equal monthly payments of \$2,762 (annual payments of \$33,144), for the HELP II loan
- 180 equal monthly payments of \$3,646 (annual payments of \$43,752), for the HealthCAP loan.
- Total interest payments of approximately \$97,219.
- Second position lien on property located at 5394 Nave Drive, Novato, California.
- Loan to close concurrently with the NCBDC loan, which shall be in the first lien position.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Henry Ohlhoff House
Statement of Activities
Unrestricted

	Period Ended November 30,	For the Year Ended December 31,		
	2003	2002	2001	2000
	(unaudited)			
Revenue and support				
Program service fees	\$2,199,274	\$ 2,030,825	\$ 2,095,705	\$ 2,128,547
Contracts	741,749	863,126	768,157	767,387
Contributions	187,793	202,131	234,111	143,276
Interest	372	699	756	3,858
Grants	107,833	96,789	-	80,000
Special events	-		30,396	39,085
Net assets released from restrictions	183,369	204,398	198,561	398,059
Total revenue and support	<u>3,420,390</u>	<u>3,397,968</u>	<u>3,327,686</u>	<u>3,560,212</u>
Expenses				
Salaries and benefits	2,033,790	2,116,185	2,236,540	1,921,538
Food	196,031	188,255	186,706	176,848
Utilities	90,601	81,119	90,939	77,074
Supplies	59,990	56,350	71,755	61,872
Auditing	13,500	12,000	19,200	9,200
Maintenance and repairs	47,351	27,451	38,120	35,230
Travel and conference	17,900	31,273	29,931	38,550
Uncollectible accounts expense	156,246	148,866	199,581	148,627
Telephone	56,034	63,438	52,574	50,149
Insurance	73,766	76,668	65,397	65,699
Laboratory fees	58,685	55,504	55,197	45,501
Acupuncture services		18,750	24,850	3,006
Vending machine and pay phones	3,412	10,718	14,229	11,182
Postage and delivery	11,421	15,928	17,760	8,775
Printing and duplicating		234	2,331	186
Resource materials	5,865	5,108	6,629	11,539
Taxes and licenses	2,700	2,175	2,435	1,536
Promotion	51,489	42,034	50,411	43,410
Interest and bank charges	83,998	85,275	70,605	66,248
Rent	236,884	265,953	263,549	249,939
Professional services		2,635	60,465	26,773
Research expense		2,102	2,846	246,838
Collection expense, net		4,006	-	-
Special events			30,174	24,211
Depreciation and amortization	144,000	149,221	152,107	132,769
Other	43,660	9,427	27,005	21,938
Total expenses	<u>3,387,323</u>	<u>3,470,675</u>	<u>3,771,336</u>	<u>3,478,638</u>
Increased (decrease) in unrestricted net assets	33,067	(72,707)	(443,650)	81,574
Unrestricted net assets, beginning of year	<u>320,662</u>	<u>393,369</u>	<u>837,019</u>	<u>755,445</u>
Unrestricted net assets, end of year	<u>\$ 353,729</u>	<u>\$ 320,662</u>	<u>\$ 393,369</u>	<u>\$ 837,019</u>

Henry Ohlhoff House
Balance Sheet

	<u>As of November 30,</u>	<u>As of December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
	<u>(unaudited)</u>			
Assets				
Current assets:				
Cash	\$ 177,439	\$ 48,580	\$ 29,974	\$ 13,841
Marketable securities at fair value	-	2,000	64,544	5,589
Accounts receivable, net	236,543	367,070	345,289	209,418
Contracts receivable	64,400	38,595	61,847	156,703
Other receivable	-	25,000	78,234	29,325
Prepaid expenses	5,516	8,615	8,334	11,850
Inventory	7,847	7,742	7,742	7,742
Total current assets	<u>491,745</u>	<u>497,602</u>	<u>595,964</u>	<u>434,468</u>
Property and equipment, net	1,493,918	1,517,138	1,446,615	1,560,587
Other assets	33,783	37,040	45,215	44,880
Total assets	<u>\$ 2,019,446</u>	<u>\$ 2,051,780</u>	<u>\$ 2,087,794</u>	<u>\$ 2,039,935</u>
Liabilities and net assets				
Current liabilities:				
Current portion of long-term debt	\$ 25,000	\$ 25,000	\$ 20,000	\$ 20,000
Notes payable	200,000	200,000	100,000	
Accounts payable and accrued liabilities	441,044	512,475	472,033	231,382
Accrued vacation	48,068	51,397	49,703	48,767
Accounts receivable credit balances		27,736	77,279	36,113
Total current liabilities	<u>714,112</u>	<u>816,608</u>	<u>719,015</u>	<u>336,262</u>
Long-term debt, net	767,917	792,917	822,083	842,083
Total liabilities	<u>1,482,029</u>	<u>1,609,525</u>	<u>1,541,098</u>	<u>1,178,345</u>
Net assets:				
Unrestricted	354,232	320,665	393,372	837,019
Temporarily restricted	183,186	121,590	153,324	24,571
Total net assets	<u>537,418</u>	<u>442,255</u>	<u>546,696</u>	<u>861,590</u>
Total liabilities and net assets	<u>\$ 2,019,447</u>	<u>\$ 2,051,780</u>	<u>\$ 2,087,794</u>	<u>\$ 2,039,935</u>

Financial Ratios:

	Proforma ⁽¹⁾			
	<u>FYE 2002</u>			
Debt Service Coverage (x)	1.65	1.47	(2.44)	2.33
Debt/Unrestricted Net Assets (x)	2.57	2.47	2.15	1.03
Margin (%)		-5.13%	-13.33%	0.05%
Current Ratio (x)		0.61	0.83	1.29

(1) Recalculates December 2002 audited results to include the impact of the HELP II and HealthCAP loan financings.

Financial Discussion:

HOH has improved its operating results during the past two fiscal years, even though its operating environment remains challenging.

Unaudited interim 2003 operating results exhibit an overall improvement over 2002, with an operating gain of \$33,000 compared to a decline of \$72,000. HOH has improved its operating results due to the implementation of a cost savings program, including outsourcing the CFO position and elimination of one supervisory position. However, insurance and benefit costs continue to rise in 2003, off-setting some of these cost savings. Program service revenues increased, which also assisted HOH in posting an operating gain.

In 2002, HOH was able to sharply improve operating results from 2001. HOH reduced its operating loss from \$443,000 to \$72,000. HOH managed to improve its bottom line operating results by aggressively reducing expenditures. HOH took effective steps to cut \$120,000 from salaries and benefits, while upgrading the CFO position. HOH improved the bad debt expense by hiring a full time collection agent. In addition, it outsourced insurance billing to improve collection. However, HOH did experience an increase in insurance premiums and interest expense. HOH was able to increase total revenues by 2%, reversing the previous fiscal years decline in total revenues. Fee for service revenues and contributions declined, while government contracts and grant revenues increased.

In 2001, HOH experienced a large operating loss of \$443,000. This loss was lead by a decline of fees for service revenues as a result of the difficult economic environment, government contract revenues were stable, while grant income increased. The total expenditures during this fiscal year jumped by 8.5% or \$292,000, lead by higher salaries/benefits, higher rents, higher uncollectible accounts expense, along with miscellaneous other higher cost. Due to these losses in 2001, HOH began to take the necessary steps to restructure the organization and improve operating efficiency moving forward.

In 2000, HOH experienced an \$81,000 operating income. Its revenues grew 32% while expenses increased 31%. Revenue increases were partially due to an increase in service fees and the opening of a new program with government contract and other new government contract for a research grant. The expense increased salaries and benefits because of an increase in medical insurance, worker's compensation insurance and the need to review salaries in order to retain staff. HOH lost its entire program administrative staff due to the dot.com bubble. Other areas impacted significantly were insurance cost that increased by 436% and rent. Bad debt was impacted by two factors, the loss of trained administrative staff who pursue collections, while clients were in treatment and clients who had no health insurance.

HOH maintains substantial long-term debt and is highly leveraged. However, its proforma debt service coverage is adequate, indicating that HOH should be able to comfortably repay the proposed loan.

HOH has improved its liquidity during 2003, with higher cash and marketable securities. HOH only long-term debt is the Authority's 1992 STARTS bonds, however given HOH's limited unrestricted net assets, this leaves HOH significantly leveraged, with a debt to unrestricted net assets ratio of 2.47x. The proforma debt service ratio improves to 1.65x, indicating that HOH should be able to repay the proposed loan.

III. UTILIZATION STATISTICS:

**Henry Ohlhoff House
(Clients Served)**

<u>Types of Services</u>	<u>11 Months</u>			
	<u>Ending Nov. 30</u>	<u>Fiscal Year Ending December 31,</u>		
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Long-term residential	268	333	271	283
Primary residential treatment	109	122	119	129
Primary day treatment	10	10	16	15
Outpatient client sessions	<u>12,016</u>	<u>11,961</u>	<u>11,532</u>	<u>15,523</u>
TOTAL	<u>12,403</u>	<u>12,426</u>	<u>11,938</u>	<u>15,950</u>

IV. ORGANIZATION:

Background: Ohlhoff Recovery Programs was founded in 1958 as a non-profit agency for working men desiring recovery from alcoholism. The agency began at Henry Ohlhoff House, a turn-of-the-century Victorian located at 601 Steiner Street in San Francisco. The building can house 42 men and thousands have resided there while confronting their addictions. The long-term, social model, chemical dependency program is based on the 12-step principles combined with a clinical family model of counseling.

After completing their stay at HOH, the men can move to the Phoenix House, a clean and sober affordable residence with a capacity for 10 graduates. There they prepare for independent living in a supportive, sober environment and attend outpatient aftercare. The Phoenix House is located across from HOH on Fell Street.

In 1985, HOH expanded services to San Rafael. The outpatient program serves men, women, adolescents and families suffering from the addictions of chemical dependency and eating disorders.

In 1991, Ohlhoff Recovery Programs opened a 30-bed recovery home for men in Novato. The program is ADA accessible. In 1996, Phoenix House opened in Novato, which provides clean and sober housing for 10 men.

In 1995, Skip Byron Primary Program opened in San Francisco with the help of a private foundation and other friends. It is adjacent to the HOH. The program provides intensive inpatient treatment for up to 30 days for San Francisco men and women. Full day treatment is available 7 days per week with a capacity for approximately 20 clients. When clients graduate, the men may take up residence at HOH and the women can enter the Ohlhoff Women's Program, which is located in the Twin Peaks area.

In 1999, Ohlhoff Recovery Programs engaged in a strategic planning process where by board and staff articulated the agency in terms of its present and future clientele, program evaluation, marketing strategies and engaging potential and current funders. Through the group process, members identified key elements that define the agency's thrust and values. The first outcomes include developing the mission state and changing the agency name from Henry Ohlhoff House to Ohlhoff Recovery Programs. The second was to launch the longtime dream of a residential program for women and to make all the programs physically and financially accessible.

In 2000, the Ohlhoff Women's Program began and it offers comprehensive, long-term residential substance abuse treatment for homeless, addicted women. The program services 9 women and its program goals are to provide substance abuse treatment; transitional, clean and sober house; family counseling; pre-vocational assessment, vocational training job placement and GED assistance. In addition, there is HIV education, money management, relapse prevention, parenting programs and life skills workshops that break the cycle of use and reunify families.

Ohlhoff Recovery Programs is a nationally recognized organization within the substance abuse treatment community and is used as an example of excellence in training on the Master's level. The programs offer a strong, structured model of accountability and support, which empowers clients and their families to take control of their lives. Each year HOH serves over 800 clients.

Program Directors at Ohlhoff Recovery Programs are master's level, licensed and license eligible. The counselors are professionally trained and clinically supervised. Education, training and ongoing clinical supervision is provided to treatment staff. There are in-house trainings at the level approved by the Board of Behavioral Sciences and CADAAC, weekly clinical supervision and reimbursement for continuing education. HOH offers training programs in substance abuse and eating disorders to professionals outside the immediate agency.

Licenses: Henry Ohlhoff House is licensed as an Alcohol and Drug Recovery/Treatment Facility by the Department of Alcohol and Drug Programs.

Service Area and Competition: Henry Ohlhoff North provides beds in Marin County not contracted by criminal justice. Although both Henry Ohlhoff North and Centerpoint provide services to Marin County, it gives 60% of its Alcohol and Drug program contract beds to Henry Ohlhoff North. Most of Centerpoint's beds are reserved for Criminal Justice contracts. When the client is not a career criminal, HOH is the preferred program because it is social model and gender specific treatment. Turning Point is in the secondary market of Sonoma and is the only long-term residential facility. Because of HOH's excellent reputation and high standards, HOH programs are also preferred by non-government entities and individuals seeking recovery.

Health Facility Location	Number of Beds	Market Share (%)	Estimated Distance Away
Centerpoint, San Rafael	28	40%	5 miles
Turning Point Secondary Market	65	84%	45 miles

V. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 12/31/02 (audited)	Estimated Amount Outstanding After Proposed Financing
Existing:			
STARTS Series A, 1992	\$850,000	*\$817,917	-0-
Proposed:			
CHFFA HELP II Loan, 2004		N/A	400,000
National Cooperative Bank 2004			425,000
TOTAL DEBT		\$817,917	\$825,000

- Includes current portion of long-term debt.

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.

HOH 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, and (b) 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".

HOH has executed this certification and whether Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **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 Henry Ohlhoff House, subject to receipt of HealthCAP funds or another acceptable funding source, plus the standard HELP II loan provisions.