

**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:	January 27, 2005
		Loan Term:	15 years
		Resolution Number:	HII-173
Project Site:	1147 South Anaheim Boulevard, Anaheim, California		
Facility Type:	Adult Day Care for the Developmentally Disabled		
Policy Issue: Due to insufficient collateralization of real property, this proposed loan falls outside the normal HELP II financing parameters. OCARC has a 15-year lease for the facility with the option to lease for another 15 years. Staff suggested to OCARC that a clause be included in the lease agreement giving OCARC the first opportunity to purchase the property if the owners decide to sell the facility in the future. However, staff recommends approval for the reasons outlined on the following page.			
Uses of Loan Proceeds: Loan proceeds will be used to renovate a newly leased facility, which will be used to begin a new OCARC program.			
Type of Issue:		HELP II Loan.	
Prior HELP II Borrower:		Yes, Loan paid off in July 2003. Also, current CHFFA bond borrower.	
Payments Status:		Current.	
Financial Overview: Oscar's income statement exhibits solid operating results with positive net income over the past three fiscal years along with continued revenue growth from newly developed programs. Oscar's balance sheet is solid with good liquidity, a strong current ratio, and significant net assets. In addition, proforma debt service coverage including the proposed debt service is adequate.			
Sources of Revenues: (FYE 12/31/03)			
	Amount	Percent	
Habilitation Fee	\$1,625,096	22.5%	
Contract Income	1,231,557	17.1%	
Family Connections Income	1,227,897	17.0%	
Service – DAP Fees	915,999	12.7%	
Supported Employment Fees	708,164	9.8%	
CA Support	675,634	9.4%	
Other	<u>827,400</u>	<u>11.5%</u>	
Total unrestricted support and revenue	<u>\$7,211,747</u>	<u>100.0%</u>	
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II loan	\$400,000	Renovate leased facility	\$481,416
Borrower funds	197,254	Purchase equipment	77,694
		Debt service reserve fund	33,144
		Financing costs	<u>5,000</u>
Total Sources	<u>\$597,254</u>	Total Uses	<u>\$597,254</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 the standard HELP II loan provisions.			

STAFF SUMMARY AND RECOMMENDATION

THE HELP II PROGRAM

Orange County ARC (“OCARC”)

January 27, 2005

Resolution Number: HII-173

POLICY ISSUE: Eligibility for HELP II financing requires that an organization provide real property or equipment collateral with a value of approximately 105% of the loan amount. OCARC is seeking this loan to renovate a *leased* property. Given OCARC’s absence of real property to secure the loan, staff recommends \$33,144 which is equal one year’s debt payments be deposited in a debt service reserve fund at loan closing. This funding of a reserve fund is consistent with prior HELP II loans to borrowers with a similar inability to pledge real property. OCARC currently has a 15-year lease with the option to renew the lease for another 15-years. Staff suggested to OCARC that a clause be included in the lease agreement giving OCARC the first opportunity to purchase the property if the owners decide to sell the facility in the future. Due to OCARC’s solid financial position, and history with the Authority, staff is recommending an exception to the standard HELP II policy.

I. PURPOSE OF FINANCING:

OCARC’s overall strategic plan is to expand its operations and open an adult day health program in order to meet the ongoing demand for non-ambulatory clients living in intensive care facilities and State’s developmental centers in Orange County. Currently, OCARC has clients on a waiting list for this new program. OCARC has identified a building ideally located across the street from OCARC’s main building.

***Renovate a leased facility* \$481,416**

OCARC plans to renovate a 6,000 square feet newly leased facility to provide a community license Adult Day Program for a minimum of thirty-six (36) non-ambulatory persons with developmental disabilities. This renovation will involve reconstruction and reconfiguration of the interior building, which will make space suitable for training rooms. Training rooms will be utilized to provide training, social and recreational opportunities for a minimum of 36 developmentally disabled adults. OCARC currently has a 15-year lease with the option to renew the lease for another 15-years.

***Purchase equipment* 77,694**

OCARC plans to purchase various equipment items to complete the project such as tables, lockers, refrigerator, dishwasher, etc.

Debt Service Reserve Fund Equal to One Year's Debt Payments ***33,144***

Since the HELP II funds will be used to improve a “leased” facility and the Authority will not obtain a security interest in the property, OCARC will pledge approximately one-year debt service payments in a Debt Service Reserve Fund at loan closing, under the Authority’s control as collateral in lieu of a lien on real property.

Authority Fee ***5,000***

Total Uses of Funds ***\$597,254***

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 \$97,212.
- Corporate gross revenue pledge.
- Borrower to fund a Debt Service Reserve fund at closing equal to one-year of debt service payments.
- UCC1 lien on equipment.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Orange County ARC
STATEMENT OF ACTIVITIES
(Unrestricted)

	11 Months		For the Year Ended December 31	
	<u>Ended Nov. 30</u>			
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
	(Unaudited)			
<u>Support and revenue</u>				
Habilitation fee	\$ 1,456,445	\$ 1,625,096	\$ 1,618,691	\$ 1,551,592
Contract income	938,539	1,231,557	1,134,596	2,414,970
Family Connections income	1,293,438	1,227,897	1,012,885	565,786
Service - DAP fees	838,396	915,999	836,205	796,195
Supported employment fees	645,163	708,164	667,215	596,933
CA support	518,822	675,634	608,502	216,947
Contributions	72,463	175,311	116,125	164,499
Community based employment fees	245,057	171,586	-	-
Transportation income	115,043	124,811	108,348	74,772
HAP client support	103,079	109,032	78,586	52,390
Independent living fees	85,922	76,079	64,848	19,811
United Way allocations	41,673	48,624	54,761	52,887
Other revenues	91,011	121,957	35,944	81,344
Total unrestricted support and revenue	<u>6,445,050</u>	<u>7,211,747</u>	<u>6,336,706</u>	<u>6,588,126</u>
<u>Expenses</u>				
Staff salaries	2,116,027	2,571,605	2,279,236	1,899,979
Temporary help-agency	772,850	835,658	712,697	551,301
Home care provider	695,369	657,327	539,608	286,796
Client wages	524,561	548,860	507,533	485,352
Temporary help-production	449,654	402,241	274,067	389,972
Insurance	268,456	298,612	241,533	193,430
Interest expense	225,835	277,324	279,552	242,095
Workers' compensation	224,231	218,514	153,479	107,698
Payroll taxes	199,462	227,866	216,294	151,178
Provision for depreciation	149,103	166,809	162,538	159,600
Transportation	109,480	88,426	657	28,177
Building and equipment maintenance	99,131	90,656	92,242	116,315
Sales commissions	79,606	94,324	84,277	132,756
Contract materials	71,009	82,243	185,967	1,052,976
Utilities	65,123	73,792	64,990	42,704
Other expenses	283,941	186,528	157,269	315,987
Total expenses	<u>6,333,836</u>	<u>6,988,099</u>	<u>6,110,715</u>	<u>6,228,502</u>
Increase in unrestricted net assets	111,214	223,648	225,991	359,624
Unrestricted net assets, beginning of year	<u>3,448,376</u>	<u>3,224,728</u>	<u>2,998,737</u>	<u>2,639,113</u>
Unrestricted net assets, end of year	<u>\$ 3,559,590</u>	<u>\$ 3,448,376</u>	<u>\$ 3,224,728</u>	<u>\$ 2,998,737</u>

Orange County ARC
Balance Sheet

	As Of	As of December 31		
	November 30, 2004 (Unaudited)	2003	2002	2001
ASSETS				
Current assets:				
Cash and equivalents	\$ 1,149,855	\$ 1,040,713	\$ 1,235,549	\$ 1,149,993
Accounts receivable	1,090,583	1,186,667	818,619	1,035,175
Prepaid expenses	48,879	31,416	23,753	39,367
Supplies and inventory	2,088	2,088	2,809	105,499
Total current assets	<u>2,291,405</u>	<u>2,260,884</u>	<u>2,080,730</u>	<u>2,330,034</u>
Property and equipment, net	5,104,127	5,052,500	5,830,895	5,116,648
Other assets	543,938	588,469	588,059	635,711
Total Assets	<u>\$ 7,939,470</u>	<u>\$ 7,901,853</u>	<u>\$ 8,499,684</u>	<u>\$ 8,082,393</u>
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable	\$ 103,605	\$ 86,063	\$ 119,666	\$ 278,848
Accrued bond interest	41,120	41,120	41,836	42,501
Accrued expenses	46,796	21,530	31,352	53,449
Accrued salaries and vacation pay	139,838	159,660	122,444	100,896
Bonds payable	100,000	100,000	100,000	95,000
Notes payable	-	-	36,012	35,201
Total current liabilities	<u>431,359</u>	<u>408,373</u>	<u>451,310</u>	<u>605,895</u>
Long-term liabilities:				
Bonds payable	3,933,416	4,030,000	4,130,000	4,230,000
Notes payable	-	-	682,580	247,761
Total long-term liabilities	<u>3,933,416</u>	<u>4,030,000</u>	<u>4,812,580</u>	<u>4,477,761</u>
Total liabilities	<u>4,364,775</u>	<u>4,438,373</u>	<u>5,263,890</u>	<u>5,083,656</u>
Net assets:				
Unrestricted	3,571,308	3,448,376	3,224,728	2,998,737
Temporarily restricted	3,387	15,104	11,066	-
Total net assets	<u>3,574,695</u>	<u>3,463,480</u>	<u>3,235,794</u>	<u>2,998,737</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,939,470</u>	<u>\$ 7,901,853</u>	<u>\$ 8,499,684</u>	<u>\$ 8,082,393</u>

Financial Ratios:

	Proforma (a) FYE 2003			
Debt Service Coverage (x)	1.70	1.62	1.63	2.08
Debt/Unrestricted Net Assets (x)	1.31	1.20	1.53	1.54
Margin (%)		3.10	3.57	5.46
Current Ratio (x)		5.54	4.61	3.85

(a) Recalculates 2003 audited results to include the impact of this proposed financing.

Financial Discussion:

OCARC's income statement exhibits solid operating results 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 even with net income decreasing from \$359,000 to \$223,000. In addition, operating margins remain solid, decreasing from 5% to 3%. The increase of expenses was the result of the start-up costs of new programs as well as the increase of new staffing to support the required staff to client ratios.

During fiscal year 2003, 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. Revenues have grown from \$6.5 million in fiscal year 2001 to \$7.2 million in fiscal year 2003, an average increase of 5% per year. However, expenses have increased from \$6.2 million in fiscal year 2001 to \$6.9 million in fiscal year 2003, an increase of 12%. The increase in expenses is primarily due to an increase in the number of staff and staff salaries. As the population of developmentally disabled ages, the clients move into a program that requires higher staffing ratios. The average number of clients served has also increased from 603 to 678 during this time period.

During fiscal year 2001, the Polaroid contract was eliminated, as Polaroid filed Chapter 11 bankruptcy. However, fiscal year 2001 also experienced strong program growth producing nearly \$1 million in revenue 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 November 2004 continues to demonstrate positive operating results, with net income of \$111,000. According to management, the three-year budget projection for OCARC's new program should result in net income ranging from (\$8,104) to \$45,837.

OCARC's balance sheet is solid with good liquidity, a strong current ratio, and significant net assets. In addition, proforma debt service coverage including the proposed debt service is adequate.

OCARC's current balance sheet is strong with good liquidity of over \$1 million in cash and cash equivalents, a strong current ratio of 5.54x, and net assets of over \$3.4 million. In addition, the proforma debt service coverage is a solid 1.70x, indicating OCARC's ability to repay the proposed loan.

BACKGROUND:

OCARC is a community based, not-for-profit organization located in Anaheim, California. It provides adult day care, developmental programs, 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. OCARC consolidated its operation into an existing facility in Anaheim and currently serves approximately 700 developmentally disabled adults per year. OCARC has added several new programs and increased the number of clients served by 17%. A list of programs currently being provided are 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. The following health facilities provide similar services to OCARC, although are not in direct competition with them:

<u>Health Facility</u>	<u>Clients</u>	<u>Market Share (%)</u>	<u>Estimated Distance Away</u>
Orange County ARC	700	29%	N/A
Goodwill Industries	700	29%	12 miles
Westview Vocational Services	1,000	42%	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 1,000 clients per year in Orange County.

IV. UTILIZATION STATISTICS:

Type of Service	Clients Served			
	Eleven months ended			
	November 30,	Year Ended December 31,		
	2004	2003	2002	2001
Workshop	353	330	325	320
CASS	25	27	25	11
CCDAP	100	99	100	68
Community employment	180	181	173	179
Family connections	48	41	30	25
Total	706	678	653	603

V. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 12/31/03	Estimated Amount Outstanding After Proposed Financing
Existing:			
CHFFA, Series 1999	\$4,500,000	\$4,130,000*	\$4,130,000
Proposed:			
CHFFA HELP II, 2005			400,000
TOTAL DEBT		\$4,130,000	\$4,530,000

*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.

OCARC 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".

OCARC has executed this certification and whether Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **Exhibit B**.

VI. 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.

VII. 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 the standard HELP II loan provisions.