

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**

**The HELP II Program**

**EXECUTIVE SUMMARY**

<b>Applicant:</b>	Phoenix Programs, Inc. ( "Phoenix" ) 1875 Willow Pass Road, #300 Concord, California Contra Costa County	<b>Amount Requested:</b>	\$500,000
		<b>Requested Loan Term:</b>	15 years
		<b>Date Requested:</b>	August 25, 2005
		<b>Resolution Number:</b>	HII-176
<b>Project Site:</b>	401 South Airport Way, Manteca, San Joaquin County, California		
<b>Facility Type:</b>	Certified Social Rehabilitation Transitional Facility		
<b>Policy Issue:</b>	Under the HELP II Loan Program guidelines, a first position lien is generally required on real 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.		
<b>Use of Loan Proceeds:</b>	Loan proceeds will be used to refinance a bank line of credit loan obtained to purchase land in October 2004. In addition, loan proceeds will be used to refinance a short-term construction loan, which was obtained to construct a custom-built manufactured home that will replace an existing leased facility.		
<b>Type of Issue:</b>	HELP II Loan		
<b>Prior HELP II Borrower:</b>	No, however Phoenix participated in 1990 Pooled Loan Program		
<b>Payments Status:</b>	Paid in full		
<b>Financial Overview:</b>	Phoenix has consistently posted positive operating results during the last three fiscal years, along with successfully expanding services to those in need. The balance sheet shows solid growth in unrestricted net assets and adequate debt service coverage.		
<b>Sources of Revenue:</b> (FYE 6-30-04)	<u>Amount</u>	<u>Percent</u>	
Government support	\$15,568,964	78%	
Contract services	3,258,823	16%	
Client fees	735,279	4%	
Other	385,285	2%	
Total Revenue	<u>\$19,948,351</u>	<u>100%</u>	
<b>Estimated Sources of Funds:</b>		<b>Estimated Uses of Funds:</b>	
HELP II loan (2 <sup>nd</sup> lien position)	\$500,000	Refinance line of credit loan	\$400,000
NCB direct loan (1 <sup>st</sup> lien position)*	260,000	Refinance construction loan	500,000
Borrower's contribution	<u>152,000</u>	Financing costs	<u>12,000</u>
Total Sources	<u>\$912,000</u>	Total Uses	<u>\$912,000</u>
* Subject to final loan approval by National Cooperative Bank Development Corporation (NCB), expected to close concurrently with the HELP II loan. This loan has received initial approval and is subject to final underwriting conditions.			
<b>Legal Review:</b>	No information was disclosed to question the financial viability or legal integrity of the Applicant.		
<b>Staff Recommendation:</b>	Staff recommends the Authority approve a resolution for a HELP II Loan in an amount not to exceed \$500,000 for a term not to exceed 15 years for Phoenix Programs, Inc., subject to final approval of the NCB loan or other acceptable lender to the Authority and the standard HELP II loan provisions.		

**STAFF SUMMARY AND RECOMMENDATION**

**Phoenix Programs, Inc. (“Phoenix”)**

**August 25, 2005**

**Resolution Number: HII-176**

**POLICY ISSUE:** Under the HELP II Loan Program guidelines, the Authority requires a first position lien on property. Phoenix is requesting that the project be financed with a NCB loan in the first lien position along with a HELP II loan in the second lien position (not in the first position). Given Phoenix’s solid financial position, successful long-term operating history and that the combined loan to value ratio of 95% meets the HELP II guidelines, staff recommends the Authority accept a second lien position on the property, subordinate to the NCB loan.

**I. PURPOSE OF FINANCING:** The new facility will allow Phoenix to meet demand for cases involving both mental disability and substance abuse by providing 24-hour support services. This new facility will replace an existing leased facility in which the City of Stockton is purchasing through eminent domain. The existing facility is approximately the same square footage as the new facility, 3,400 square feet and the lease payment of \$5,500 per month will be eliminated upon completion of the new facility.

***Refinance Current Line of Credit (LOC)*..... **\$400,000****

In October 2004, Phoenix purchased a 1.25-acre lot for \$250,000 in Manteca. The lot was originally and is currently financed with a bank LOC from Bank of the West. The LOC is secured by a property in Hemet, CA. Phoenix has made various site improvements of approximately \$150,000, thus bring the total LOC balance to \$400,000.

***Refinance Construction Loan* ..... **\$500,000****

Phoenix has recently secured a short-term (90 day) LOC from a private party to construct a 3,350 square foot, seven bedroom, two bathroom custom manufactured residential home on the above referenced lot. The project includes existing structure demolition, manufactured home set-up, new septic system installation, well repair-replacement, carpeting-cabinets, electrical, plumbing, air conditioning, garage, parking lot, paving and landscaping.

The total cost of the project (including the land acquisition costs) is expected to be approximately \$900,000 and will be financed by the proposed HELP II loan along with a loan of \$260,000 from NCB, plus funds from Phoenix. Phoenix has submitted a recent appraisal, with an “as improved” valuation of \$800,000 leading to a combined loan to value ratio of 95%.

Construction/installation is expected to begin in August 2005 and be completed in October 2005.

This home will provide a facility to accommodate 14 adults. The development of the new facility will benefit the program by being able to custom design the building to the program and staff needs.

<b>Financing Costs</b> .....	<b><u>12,000</u></b>
NCB Fees/Authority Fees .....	\$10,000
Title/escrow fees .....	2,000
<b>Total</b> .....	<b><u>\$912,000</u></b>

**Financing Structure:**

- 15-year fully amortized loan in the amount of \$500,000.
- 180 equal monthly payments of approximately \$3,453 (total annual payments of \$41,436).
- Total interest payments of approximately \$121,500.
- Second position lien on the property located at 401 South Airport Way, Manteca, California 95337 (subordinate to NCB's loan).
- First position lien on gross revenues.
- Estimated interest rate for the NCB loan of 7.5%, over a term of 15 years, with a monthly payment of approximately \$2,400.

## II. FINANCIAL STATEMENTS AND ANALYSIS:

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

	<b>For the year ended June 30</b>			
	<u>2005</u> (unaudited)	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b><u>REVENUE</u></b>				
Government support	\$ 17,353,737	\$ 15,568,964	\$15,849,212	\$ 13,396,017
Contract services	2,595,882	3,258,823	3,453,345	3,663,727
Client fees	421,628	735,279	675,886	779,480
Other	391,420	385,285	167,477	329,036
Total revenues	<u>20,762,667</u>	<u>19,948,351</u>	<u>20,145,920</u>	<u>18,168,260</u>
<b><u>EXPENSES</u></b>				
Residential treatment	9,660,805	9,101,552	8,557,023	7,823,905
Vocational	822,460	985,589	1,528,170	2,191,366
Community living	665,840	659,131	585,711	1,097,696
Homeless	2,880,352	1,732,099	2,010,368	2,049,504
Day treatment/Outpatient services	4,630,139	5,210,146	5,306,516	3,161,322
Management and general	1,923,699	2,109,857	2,015,730	1,475,986
Fund raising	25,380	1,023	26,453	24,737
Total expenses	<u>20,608,675</u>	<u>19,799,397</u>	<u>20,029,971</u>	<u>17,824,516</u>
<b>Change in unrestricted net assets</b>	<b>153,992</b>	<b>148,954</b>	<b>115,949</b>	<b>343,744</b>
Unrestricted net assets at beginning of year	2,171,293	2,022,339	1,906,390	1,689,184
Prior year adjustments	-	-	-	(126,538)
Unrestricted net assets end of year	<u>\$ 2,325,285</u>	<u>\$ 2,171,293</u>	<u>\$ 2,022,339</u>	<u>\$ 1,906,390</u>

**Phoenix Programs, Inc.**  
**Consolidated Statement of Financial Position**

	<b>As of June 30</b>			
	<b>2005</b> (Unaudited)	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Assets</b>				
Cash	\$ 221,015	\$ 1,268,776	\$ 656,962	\$ 208,971
Accounts receivable	2,753,239	1,611,010	2,092,739	2,990,937
Intangibles	300,182	334,301	367,660	393,588
Deposits	138,345	169,698	155,062	175,130
Other assets	136,602	27,369	33,779	21,633
Property and equipment, net	3,183,742	3,331,434	3,915,121	3,797,972
<b>Total Assets</b>	<b>\$ 6,733,125</b>	<b>\$ 6,742,588</b>	<b>\$ 7,221,323</b>	<b>\$ 7,588,231</b>
<b>Liabilities</b>				
Accounts payable	574,735	\$ 605,475	\$ 500,781	\$ 843,445
Accrued liabilities	878,064	1,065,511	999,481	958,544
Bank credit lines	410,749	-	-	250,000
Notes payable, current portion	233,564	233,564	225,357	241,088
<b>Total Current Liabilities</b>	<b>2,097,112</b>	<b>1,904,550</b>	<b>1,725,619</b>	<b>2,293,077</b>
Notes payable, net of current	2,310,728	2,666,745	3,473,365	3,388,764
<b>Total Liabilities</b>	<b>4,407,840</b>	<b>4,571,295</b>	<b>5,198,984</b>	<b>5,681,841</b>
<b>Net Assets</b>				
Unrestricted net assets	2,325,285	2,171,293	2,022,339	1,906,390
<b>Total Liabilities &amp; Net Assets</b>	<b>\$ 6,733,125</b>	<b>\$ 6,742,588</b>	<b>\$ 7,221,323</b>	<b>\$ 7,588,231</b>

**Financial Ratios:**

	<b>Proforma (a)</b> <b>6/30/2004</b>			
Debt Service Coverage (x)	<b>1.43x</b>	<b>1.52</b>	<b>1.36</b>	<b>1.52</b>
Debt/Unrestricted Net Assets (x)	<b>1.69</b>	<b>1.34</b>	<b>1.82</b>	<b>1.90</b>
Operating Margin (%)		<b>0.75</b>	<b>0.58</b>	<b>1.89</b>
Current Ratio (x)		<b>1.74</b>	<b>1.80</b>	<b>1.57</b>

(a) Recalculates June 2004 audited results to include the impact of the HELP II and NCB loan.

## **Financial Discussion:**

**Phoenix has consistently posted positive operating results during the last three fiscal years, along with successfully expanding its services to those in need.**

Phoenix has enjoyed a long-term successful operating history since 1973.

Phoenix's operations have been stable and consistent, with positive operating income during our review period and modest operating margins ranging from 1% to 2%. Phoenix continues to expand its services, as client visits jumped from 3,491 in fiscal year 2002 to 4,227 in fiscal year 2004 (see page 7).

Phoenix's primary source of revenues is government grant contracts, which provides a consistent stable revenue stream. These grant contracts are with various counties and consist of approximately 78% of total revenues.

The second largest source of revenues is contract services, which derive approximately 16% of total revenues. Kaiser Permanente provides psychiatric services through the Phoenix crisis treatment program. In addition, Phoenix has contracts with the State Department of Motor Vehicles and California Highway Patrol for grounds and landscaping services through Phoenix vocational program using disabled staff.

Lastly, client fees make up 4% of revenues and are mostly self-pay from residents for independent living services.

The largest increase in operating expenses was attributed to the Day Treatment Program. Day treatment includes a new outpatient program, which was established in fiscal 2003 to serve clients in the Homeless Program. Management and General expenses increased due to additional staff required to implement new program activities. Management initiated various cost cutting measures for other programs in January 2003, due to the California budget crisis. These measures have had a positive impact on total operating expenses and net income.

**The balance sheet exhibits solid growth in unrestricted net assets and adequate debt service coverage.**

Phoenix's cash position has recently declined to \$221,000 due mainly to large pending accounts receivable related to "Henry Program" and "Hillmount House" for \$500,000 and \$460,000 respectively.

With continued positive operating results, net assets have grown from \$1.9 million in fiscal 2002 to almost \$2.2 million in fiscal 2004. With this proposed loan, Phoenix will be significantly leveraged, as measured by its proforma debt-to-unrestricted net assets ratio of 1.69x. However, proforma debt service coverage is solid at 1.43x, indicating Phoenix's ability to manage the proposed debt service payments.

Phoenix's management has successfully expanded its operations by acquiring several facilities during its long operating history. Phoenix's management estimates that the total net equity of all real estate is approximately \$5 million, hence this provides additional financial stability.

### III. UTILIZATION STATISTICS:

#### Clients Served

	June 30, 2004	June 30, 2003	June 30, 2002
<b>Totals</b>	<b>4,227</b>	<b>3,695</b>	<b>3,491</b>

### IV. ORGANIZATION:

#### Background:

Phoenix was founded in 1973 and incorporated as a non-profit 501 (c) (3) 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 are limited by a history of singular or multiple disabilities, a mental, physical or substance abuse 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.

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 otherwise. For many homeless who are mentally ill, an array of services are offered such as food, shelter, healthcare access, dental care, psychiatric evaluation, medications, money management, case management and social services.

#### Licenses:

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

#### Competition:

Phoenix is the only organization in San Joaquin County that provides client services for mental disability and substance abuse treatments. With the proposed project, Phoenix will maintain 100% of the market share. The only entity that provides similar services to its target population is Gateway's Satellite Regional Program in Los Angeles.

**V. OUTSTANDING DEBT:**

<b>Lender/Date of Loan/Property Address</b>	<b>Original Amount</b>	<b>Amount Outstanding As of 6/30/05</b>	<b>Estimated Amount Outstanding After Proposed Financing</b>
<b>Existing:</b>			
HUD12/02 3720 Clayton Road Concord, CA 94520	\$616,300	\$512,581	\$512,581
National City Mortgage 12/02 731 N. Harrison St. Stockton, CA 95203	210,000	201,019	201,019
GMAC 8/01 1959 Solano Way Concord CA 94520	178,000	149,488	149,488
GMAC 5/00 2480 Tahoe Circle Hemet, CA 92543	117,300	104,465	104,465
Principle Res. Mort.1/01 512 E. St. Antioch, CA 94503	228,612	214,493	214,493
Wells Fargo 2/01 3 Cottontail Drive Pomona, CA 91766	249,000	219,753	219,753
Wells Fargo 2/01 13066 Robin Lane Chino, CA 91710	232,000	172,328	172,328
Frank Rosenmayr (private loan) 12/02 350 Brannan St. Ste #200 San Francisco, CA 94107	37,292	17,936	17,936
<b>Lender/Date of Loan/Property Address</b>	<b>Original Amount</b>	<b>Amount Outstanding As of 6/30/05</b>	<b>Estimated Amount Outstanding</b>



			<b>After Proposed Financing</b>
Community Commerce Bank 3/02 (one loan for the following three properties):			
1967 Solano Way Concord, CA 94520	714,700	354,091	354,091
3215 Nevin Avenue Richmond, CA 94804			
3221 Nevin Avenue Richmond, CA 94804			
City of Concord 3/02 3720 Clayton Road Concord, CA 94520	130,000	122,073	122,073
Bank of the West 1/04 1401 4 <sup>th</sup> St. Antioch, CA 94509	121,000	65,973	65,973
Bank of the West 4/05 28120 S. State Street Hemet, CA 92543	194,000	189,488	189,488
CEDLI Loan 7/01 Equipments	400,000	86,564	86,564
Various vehicle loans	N/A	134,003	134,003
<b>Proposed:</b>			
CHFFA HELP II Loan, 2005		-	500,000
NCB Direct Loan, 2005		-	260,000
<b>TOTAL DEBT</b>		<b>\$2,544,292</b>	<b>\$3,304,292</b>

**Note:** Bank Lines of Credit to be refinanced are NOT included above, since they are considered short-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.

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 \$500,000 for a term not to exceed 15 years for Phoenix Programs, Inc., subject to final approval of the NCB loan or other acceptable lender to the Authority and the standard HELP II loan provisions.