

**CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY**

Applicant:	Vocational Visions 26041 Pala Mission Viejo, CA 92691 Orange County	Amount Requested:	\$1,500,000
		Requested Loan Term:	20-year fixed
		Annual Interest Rate:	2%
		Authority Meeting Date:	March 28, 2019
		Resolution Number:	HII-318
Project Sites:	26041 Pala & 23612 Alambre, Mission Viejo, CA 92691		
Facility Type:	Adult Day Health Center		
Eligibility:	Government Code section 15432(d)(7)		
Prior HELP II Borrower:	No		
Background: Vocational Visions is a non-profit agency that provides vocational and life skills training and support services to adults with intellectual, developmental, and other disabilities in Mission Viejo since 1974. Vocational Visions’ mission is to enhance its community by developing the talents of adults with intellectual and developmental disabilities and create pathways to employment, life-long learning, and social inclusion.			
Use of Loan Proceeds: Loan proceeds will be used to renovate a list of needed facility repairs and improvements to comply with the current codes of the Americans with Disabilities Act. Additionally, Vocational Visions plans to install solar panels for long-term savings on utility costs.			
Financing Structure: <ul style="list-style-type: none">• 20-year, two percent (2%) fixed rate loan• 240 equal monthly payments of approximately \$7,588 (annual payments of approximately \$91,059)• Second lien position on real properties located on 26041 Pala and 23612 Alambre, Mission Viejo, CA 92691• Consent from Cal-Mortgage Insurance to incur additional debt• Current appraisals that exhibit a combined loan to value ratio not to exceed 95% (estimated combined loan to value ratio is approximately 42%)• Executed construction contract for renovations• Corporate gross revenue pledge• Verification of borrower funds to close escrow			
Financial Overview: Vocational Visions’ income statement appears to display improving results over the review period. Vocational Visions’ balance sheet appears to exhibit fluctuating trends in net assets over the review period and displays a pro forma debt service coverage ratio of 1.84x.			
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II Loan	\$ 1,500,000	Renovation	\$ 1,556,250
Borrower funds	<u>77,000</u>	Financing costs	<u>20,750</u>
Total Estimated Sources	<u>\$ 1,577,000</u>	Total Estimated Uses	<u>\$ 1,577,000</u>
Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, and Community Service Requirement documentation. All documentation satisfies the Authority’s requirements.			
Parties of Interest: Cal-Mortgage Insurance; WalCon Construction, Title company: TBD			
Staff Recommendation: Staff recommends approval of Resolution Number HII-318 for Vocational Visions in an amount not to exceed \$1,500,000 for a term not to exceed 20 years and contingent upon financing terms acceptable to the Authority. TAP International, the Authority’s financial analyst, concurs with the Authority’s staff recommendation.			

I. PURPOSE OF FINANCING:

Vocational Visions is requesting a HELP II loan to renovate a list of needed facility repairs and improvements to comply with the current codes of the Americans with Disabilities Act. The renovations will provide more efficient use of space to expand program capacity and increase office space for administrative departments that support programs. Also, Vocational Visions intends to install solar panels for long-term savings on utility costs.

Renovations ***\$1,556,250***

Vocational Visions plans to use loan proceeds to renovate its current properties located at 26041 Pala and 23612 Alambre in Mission Viejo, CA. The renovation project includes a list of needed facility repairs and improvements, which include parking lot resurfacing, roofing repairs, improvements to restrooms, flooring, internal and external painting, millwork, landscaping, and the installation of solar panels. Vocational Visions management expects the renovations will begin in June 2019 and estimates the completion of the renovations by August 2019.

The HELP II loan will be secured by a second lien position on properties located at 26041 Pala and 23612 Alambre, Mission Viejo, CA, 92691. Currently, Cal-Mortgage Insurance has first lien position in connection with the issuance of the CHFFA Series 2010A Revenue Bonds. CHFFA will receive consent from Cal-Mortgage Insurance to incur additional indebtedness prior to closing. In addition, an appraisal acceptable to the Authority will be completed prior to closing reflecting a combined loan-to-value ratio of less than 95%. Vocational Visions' management estimates the property value at \$8 million, reflecting a combined loan-to-value ratio of 42%. Prevailing wages will be paid and will be included as conditional language in the construction contract.

Financing Costs..... ***20,750***

Authority fees \$18,750

Other closing costs 2,000

Total Estimated Uses of Funds..... **\$1,577,000**

II. FINANCIAL STATEMENTS AND ANALYSIS:

Vocational Visions, Incorporated Statement of Activities (Unrestricted)

	As of June 30		
	2018	2017	2016
Support and Revenue			
Contributions	\$ 178,588	\$ 87,617	\$ -
Rehabilitation and fee income	6,998,357	6,766,417	6,658,820
Production sales	139,351	164,144	153,662
Customer fees- offsite	347,487	355,019	335,322
Transportation	92,519	87,791	76,993
Donations	-	-	113,487
United way	1,144	1,955	3,562
Program income	50,816	25,196	120,382
Membership dues	53,154	60,006	54,574
Government grants	21,855	19,808	27,575
Interest income	5,623	3,759	2,167
Other income	-	-	13,988
Special event, net of direct donor	134,303	69,212	63,111
Net assets released from restrictions	100,922	85,179	18,569
Total unrestricted support and revenues	8,124,119	7,726,103	7,642,212
EXPENSES			
Salaries and benefits	5,337,566	5,212,445	5,156,699
Amortization	5,577	5,575	5,577
Automobile	198,120	180,888	160,402
Commissions	12,057	17,710	10,042
Computer service	20,075	20,204	21,322
Contract labor	189,699	121,610	252,742
Critical skills model	21,922	19,392	17,911
Depreciation	227,838	245,375	250,382
Dues/subscriptions/licenses	22,211	20,937	22,426

(Continued)

	As of June 30		
	2018	2017	2016
Insurance- health	506,218	497,588	430,377
Insurance- fire and liability	37,639	36,226	42,138
Insurance- vehicles	75,072	75,145	85,971
Insurance- worker compensation	219,524	483,811	591,830
Interest	103,680	106,055	108,724
Marketing	7,291	21,211	27,072
Meeting and conferences	6,320	1,768	1,399
Mileage reimbursement	34,754	32,230	36,107
Miscellaneous expense	13,656	14,271	18,911
Mortgage insurance	5,565	5,565	5,565
Office administration	32,490	20,453	24,189
Payroll taxes	434,978	393,919	402,977
Postage and shipping	2,727	2,925	6,759
Professional fees	8,099	9,300	13,164
Repairs & maintenance- building	114,664	107,967	126,708
Repairs & maintenance- vehicles	78,699	64,843	75,594
Legal settlement expense	-	275,000	-
Supplies	107,780	103,150	101,843
Taxes	603	181	592
Telephone	33,170	33,100	29,969
Training	13	3,897	8,755
Travel	28,646	6,554	5,746
Utilities	79,412	71,001	84,038
Total expenses	7,968,083	8,212,313	8,127,947
Increase (decrease) in unrestricted net assets	156,036	(486,210)	(485,735)
Temporarily restricted net assets			
Support and revenue contributions	25,000	76,570	29,917
Net assets released from restriction	(100,922)	(85,179)	(18,569)
Increase (decrease) in temporarily restricted net assets	(75,922)	(8,609)	11,348
Increase (decrease) in net assets	80,114	(494,819)	(474,387)
Net assets at beginning of year	2,685,593	3,176,379	3,650,766
Net assets at end of year	\$ 2,765,707	\$ 2,681,560	\$ 3,176,379

Estimated net patient service revenues for FYE June 30

Payor Source	2018	2017
Medi-Cal	0%	0%
Medicare	50%	50%
Private pay	0%	0%
Insurance & other third party	50%	50%
Total	100%	100%

Vocational Visions, Incorporated
Statement of Financial Position
(Unrestricted)

		As of June 30		
		2018	2017	2016
ASSETS				
Current Assets				
Cash and cash equivalents	\$	697,040	\$ 815,743	\$ 1,192,006
Accounts receivable- Net of allowance for doubtful accounts		1,070,055	1,105,481	969,575
Promise to give		224	345	345
Prepaid expenses		117,811	93,359	91,465
Investments		217,744	213,860	212,376
Grants receivable		-	6,194	6,194
Total Current Assets		2,102,874	2,234,982	2,471,961
Property and Equipment				
Land, building, and equipment, net of accumulated depreciation		-	-	2,902,477
Land		998,539	998,539	-
Buildings		3,019,863	2,971,748	-
Furniture and equipment		700,986	665,965	-
Vehicles		834,116	834,116	-
Less: accumulated depreciation		(2,988,550)	(2,760,713)	-
Total property and equipment, net		2,564,954	2,709,655	2,902,477
Other Assets				
Bond issuance costs, net of accumulated amortization		94,672	100,248	105,825
Bond reserve fund		175,736	175,736	175,736
Prepaid mortgage insurance		94,616	100,181	105,747
Deposits		64,903	58,603	49,910
Total Other Assets		429,927	434,768	437,218
TOTAL ASSETS	\$	5,097,755	\$ 5,379,405	\$ 5,811,656
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable and accrued liabilities	\$	449,937	\$ 381,215	\$ 453,678
Unearned revenue		10,926	98,430	175,000
Legal settlement payable		-	275,000	-
Notes payable, current portion		70,000	70,000	65,000
Total Current Liabilities		530,863	824,645	693,678
Long-Term Liabilities				
Notes payable		1,799,167	1,869,167	1,939,583
Total Long-Term Liabilities		1,799,167	1,869,167	1,939,583
Total Liabilities		2,330,030	2,693,812	2,633,261
Net Assets				
Unrestricted		2,715,884	2,557,830	3,140,453
Temporarily restricted		45,521	121,443	31,622
Permanently restricted		6,320	6,320	6,320
Total Net Assets		2,767,725	2,685,593	3,178,395
TOTAL LIABILITIES AND NET ASSETS	\$	5,097,755	\$ 5,379,405	\$ 5,811,656
		Proforma^(a)		
		FYE June 30, 2018	2018	2017
Debt Service Coverage - Net (x)	1.84		2.81	(0.79)
Debt to Unrestricted Net Assets (x)	1.24		0.69	0.76
Margin (%)			1.92%	-6.29%
Current Ratio (x)			3.96	2.71

^(a) Recalculates FY 2018 audited results to include the impact of this proposed financing

Financial Discussion – Statement of Activities (Income Statement)

Vocational Visions’ income statement appears to display improving results over the review period.

Vocational Visions’ income statement appears to exhibit increasing unrestricted net assets growing from approximately negative \$486,000 in FY 2016 to approximately \$156,000 in FY 2018. According to Vocational Visions’ management, prior to FY 2016 Vocational Visions received financial support from the Saddleback Valley Unified School District (“SVUSD”), the local school district, to provide adult education programs for people with disabilities. Assembly Bill 86 was passed in July 2013, and went into effect in July 2015, which transferred adult education funding from the local school districts to the local community college districts. As a result, Vocational Visions lost approximately \$350,000 in funding during FY 2016. Vocational Visions implemented a two year recovery plan beginning in July 2015 which included converting its Work Activity Program (“WAP”) to a Day Training Activity Center (“DTAC”), applying for adult education funds from the South Orange County Community College District (“SOCCCD”), and reducing workforce expenses.

The conversion from WAP to DTAC in 2017 resulted in higher program reimbursement rates which contributed to the recovery from the loss of adult education funding from SVUSD. Additionally, Vocational Visions receives some funding, although much less, from SOCCCD, the local community college district. Rehabilitation and fee income revenue, which represents approximately 87% of total revenue over the review period increased from approximately \$6.6 million in FY 2016 to approximately \$7.0 million in FY 2018. According to Vocational Visions’ management, the increase in rehabilitation and fee income was primarily due to the completion of the conversion from its WAP to DTAC, which resulted in higher program reimbursement rates and led to increased revenue. Therefore, total revenue appears to have increased from approximately \$7.6 million in FY 2016 to approximately \$8.1 million in FY 2018.

Total expenses decreased from approximately \$8.1 million in FY 2016 to approximately \$8.0 million in FY 2018. Vocational Visions’ management attributes a portion of the decrease to the reduction of workers compensation insurance costs, which decreased from approximately \$592,000 in FY 2016 to approximately \$220,000 in FY 2018. A worker’s compensation audit enabled Vocational Visions to re-classify many employees under codes that were less costly. While workers compensation insurance costs decreased, health insurance costs increased, primarily due to increased rates from its insurance carrier, Kaiser Permanente, and employer contributions increased in order to comply with safe harbor guidelines of the Affordable Care Act. Vocational Visions also incurred a one-time legal settlement expense in FY 2017 of approximately \$275,000 due to a class action lawsuit filed by a former employee contributing to the operating deficit. The lawsuit claimed that the former employee and other potential class members missed rest periods during their work shifts.

Financial Discussion – Statement of Financial Position (Balance Sheet)

Vocational Visions’ balance sheet appears to exhibit fluctuating trends in net assets over the review period and displays a pro forma debt service coverage ratio of 1.84x.

Vocational Visions has demonstrated the ability to repay its debt by consistently making payments on its CHFFA Series 2010A revenue bonds. Vocational Visions’ debt service coverage ratio has improved over the review period, starting at negative 0.73x in FY 2016 primarily due to the loss of funding from SVUSD and incurring legal fees of the class action lawsuit. The completion of the conversion to DTAC in 2017, which resulted in higher program reimbursement rates increased the debt service coverage ratio to 2.81x. in FY 2018. Considering the proposed HELP II loan, the pro forma debt service coverage ratio dips to 1.84x. Vocational Visions has displayed moderate use of debt with an average debt to unrestricted net assets ratio of 0.70x over the three year review period. As would be expected from a relatively large financing, Vocational Visions debt load would greatly increase with a pro-forma FY 2018 debt to unrestricted net assets ratio of 1.24x.

Vocational Visions appears to have fluctuating total net assets, decreasing from approximately \$3.2 million in FY 2016 to approximately \$2.7 million in FY 2017, and increasing to approximately \$2.8 in FY 2018. Cash and cash equivalents sizably decreased from approximately \$1.2 million in FY 2016 to approximately \$697,000 in FY 2018. According to Vocational Visions’ management, the class action lawsuit settlement was booked in FY 2017, but the actual disbursement of the \$275,000 did not occur until FY 2018, which contributed to the decrease in cash and cash equivalents.

III. UTILIZATION STATISTICS

**Clients Served/ (Patient Visits)
for Fiscal Year End June 30**

	2018	2017	2016
Totals	488/ (103,700)	463/ (98,387)	468/(99,450)

IV. OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding As of June 30, 2018^(a)</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
-EXISTING LONG-TERM DEBT:			
CHFFA 2010 Series A Revenue Bond	\$ 2,370,000	\$ 1,869,167	\$ 1,869,167
- PROPOSED NEW DEBT:			
CHFFA HELP II Loan (2019)			1,500,000
- TOTAL DEBT		<u><u>\$ 1,869,167</u></u>	<u><u>\$ 3,369,167</u></u>

^(a) Includes current portion of long-term debt

V. BACKGROUND AND LICENSURE

Background

Vocational Visions is a non-profit agency that provides vocational and life skills training and support services to adults with intellectual, developmental, and other disabilities in Mission Viejo since 1974. Vocational Visions' mission is to enhance its community by developing the talents of adults with intellectual and developmental disabilities and create pathways to employment, life-long learning, and social inclusion. Vocational Visions' program services begin with personalized plans to help participants choose and reach their own goals. Working towards these goals sets participants on a path towards their own version of independence and personal fulfillment.

Program Services:

- Adult Development Program – Provides community based programming with a strong work component and community awareness and integration aspect.
- Clubhouse – Provides a safe and friendly place for people with developmental disabilities to enjoy the company of their friends in a comfortable social and recreational setting.
- Day Training Activity Center – Provides on-site and community activities in recreation and leisure and provides instruction in daily living skills and behavior management.
- Day Training Activity Program – Provides employment, volunteer, paid internship opportunities along with community based activities to develop communication, socialization, and leisure skills.
- Emeritus – Provides daily fine arts curriculum designed to promote personal growth and development, skill acquisition and community integration.
- Health Related Services – Provides instruction in activities of daily living while meeting the social and medical needs of those whose health is fragile.
- Supported Employment Program – Supported employment provides placement, training, supervision, job development, and ongoing support for clients at various businesses within the community with the goal of enabling work independence.
- Direct Placement – Provides placement, training and vocational rehabilitation services for clients.

Licensure, Certification, and Accreditation

Vocational Visions is licensed by the California Department of Social Services to operate as an Adult Day Health Care Program.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-318

RESOLUTION APPROVING EXECUTION AND DELIVERY OF HELP II LOAN PROGRAM AGREEMENTS WITH CERTAIN PARTICIPATING HEALTH INSTITUTIONS

WHEREAS, the California Health Facilities Financing Authority (the “Authority”), a public instrumentality of the State of California, is authorized by the provisions of the California Health Facilities Financing Authority Act (the “Act”) to provide secured or unsecured loans to participating health institutions to refinance existing debt and finance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing, or equipping of a health facility;

WHEREAS, the Authority established the HELP II Loan Program (the “Program”) to provide loans to participating health institutions as authorized by the Act;

WHEREAS, **Vocational Visions** (the “Borrower”), a California participating health institution, has applied to the Authority for a loan through the Program, and the application has been reviewed by the staff of the Authority; and

WHEREAS, approval of the loan by the Authority is now sought;

NOW THEREFORE BE IT RESOLVED by the California Health Facilities Financing Authority, as follows:

Section 1. Pursuant to the Act, the Authority approves a loan to the Borrower in an amount not to exceed **\$1,500,000** for a term not to exceed **20 years** for the purpose described in the application filed with the Authority (the “Project”), but solely to the extent there are available proceeds of the Program, as determined pursuant and subject to Section 2 hereof. This approval is further contingent upon the following conditions:

1. 20-year, three percent (2%) fixed rate loan;
2. Second lien position on real properties located at 26041 Pala and 23612 Alambre, Mission Viejo, CA 92691;
3. Consent from Cal-Mortgage Insurance to incur additional debt prior to closing;
4. Current appraisals acceptable to Authority staff exhibiting a combined loan to value ratio not to exceed 95%;
5. Executed construction contract for renovations
6. Corporate gross revenue pledge; and
7. Verification of Borrower’s funds to close escrow.

Section 2. The Executive Director is hereby authorized, for and on behalf of the Authority, to determine the final amount, terms and conditions of the loan, and to approve any changes in the Project described in the application submitted to the Authority, as said officer shall deem appropriate and authorized under the Act (provided that the amount of the loans may not be increased above the amount approved by the Authority and provided further that the loans continue to meet the Authority's guidelines for HELP II loans). Nothing in this resolution shall be construed to require the Authority to obtain any additional funding, even if more loans are approved than there is available funding. Any notice to the Borrower shall indicate that the Authority shall not be liable to the Borrower in any manner whatsoever should such funding not be completed for any reason whatsoever.

Section 3. The Executive Director is hereby authorized and directed, for and on behalf of the Authority, to draw money from the Program fund not to exceed those amounts approved by the Authority for the Borrower. The Executive Director is further authorized and directed, for and on behalf of the Authority, to execute and deliver to the Borrower any and all documents necessary to complete the transfer of funds.

Section 4. The Executive Director of the Authority is hereby authorized and directed to do any and all things and to execute and deliver any and all documents which the Executive Director deems necessary or advisable in order to effectuate the purposes of this resolution and the transactions contemplated hereby, and which have heretofore been approved as to form by the Authority.

Section 5. This resolution expires six months from the date of approval.

Date of Approval: _____