

**CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: OPARC (“OPARC”) 9029 Vernon Avenue Montclair, California, 91763 San Bernardino County</p>	<p>Amount Requested: \$822,700 Requested Loan Term: 15-year fixed Authority Meeting Date: December 4, 2014 Resolution Number: HII-288</p>
<p>Project Sites: 9160 Monte Vista Avenue, Montclair, California 91736 (San Bernardino County) 436 South Sultana Avenue, Upland, California 91786 (San Bernardino County)</p>	
<p>Facility Type: Adult Day Care</p>	
<p>Eligibility: Government Code section 15432(d)(7)</p>	
<p>Prior HELP II Borrower: Yes - outstanding balance of \$124,797 as of November 2014, and the borrower is current on payments.</p>	

Background: OPARC was established in 1950 as a California non-profit organization that provides education, services, and employment services for people with disabilities. The primary purpose of OPARC is to enable individuals with developmental disabilities to lead more independent, productive, and socially integrated lives. OPARC serves more than 800 developmentally disabled adults per year throughout San Bernardino County.

Uses of Loan Proceeds: Loan proceeds will be used to refinance a private loan through The H.N & Frances C. Berger Foundation. The loan was originated in 2003 and has a fixed 7% interest rate on a 30 year term. This refinance will allow OPARC to reduce the interest rate, term and monthly payments. OPARC will realize an annual savings of \$6,216 and an estimated total savings of \$93,240 over the life of the HELP II Loan.

Financing Structure:

- First lien on the property located at 9160 Monte Vista Avenue, Montclair, California 91736.
- First lien on the property located at 436 S. Sultana Avenue, Upland, California 91786.
- 15-year fixed rate loan: 180 equal monthly payments of approximately \$5,732 (annual payments of \$68,782).
- Corporate gross revenue pledge.
- Current appraisals of the collateralized properties acceptable to the Authority.
- Loan to value ratio not to exceed 95% (estimated loan to value ratio is 75%), with an estimated value of the combined properties totaling \$1.1 million.
- Verification of borrower funds to close escrow.

Financial Overview: OPARC’s income statement appears to exhibit positive operating results during the review period with a strong debt service coverage ratio while the balance sheet is solid with good liquidity and growing net assets. The proforma debt service coverage ratio with the proposed HELP II loan appears to be strong at 3.65x.

Estimated Sources of Funds:

HELP II loan	\$	822,700
Borrower funds		12,284

Estimated Uses of Funds:

Refinance	\$	822,700
Financing costs		12,284

Total Estimated Sources

\$ 834,984

Total Estimated Uses

\$ 834,984

Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through and Community Service Requirement documentation. All documentation satisfies the Authority’s requirements.

Parties of Interest: *(Included for the purpose of discerning conflicts of interest)*

First American Title Company National Commercial Services, The H.N & Frances C. Berger Foundation

Staff Recommendation: Staff recommends approval of Resolution Number HII-288 for OPARC in an amount not to exceed \$822,700 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority. Macias Gini & O’Connell LLP, the Authority’s financial analyst, concurs with the Authority’s staff recommendations.

I. PURPOSE OF FINANCING:

OPARC plans to refinance a private loan that was obtained in 2003 from the H.N & Frances C. Berger Foundation. The proposed refinance will allow OPARC to reduce the interest rate, loan term, and monthly payments. OPARC will have an approximate annual savings of \$6,216 and an estimated total savings of \$93,240 over the life of the 15 year term for the new HELP II Loan.

Refinance The H.N & Frances C. Berger Foundation Loan..... \$822,700

In October 2003, OPARC borrowed approximately \$922,500 from the H.N & Frances C. Berger Foundation to refinance two high interest loans of 8.5% and 10.4%. The loans were used to purchase two existing facilities located at 9160 Monte Vista Avenue, Montclair, CA 91763 and 436 South Sultana Avenue, Upland, CA 91786, payoff two vehicles and construct a facility located at 909 Vernon Avenue, Montclair, CA 91763.

The proposed refinancing through the HELP II loan will reduce the current interest rate from 7% to 3%, reduce monthly loan payments from approximately \$6,250 to approximately \$5,732, and reduce the loan term from 19 years remaining to 15 years.

The HELP II loan will be secured by a first lien position on 9160 Monte Vista Avenue, Montclair, CA 91736 and 436 South Sultana Avenue, Upland, CA 91786. According to OPARC, the properties have an estimated current market value of approximately \$500,000 and \$600,000, respectively, leading to an estimated loan to value ratio of 75%. The Authority will file a separate Deed of Trust on each property. The amount on each Deed of Trust will divided between the two properties. A full appraisal on the two properties will be required prior to closing.

<i>Financing Costs.....</i>		<u>12,284</u>
Authority Fees	\$10,284	
Title and Escrow Fees	<u>2,000</u>	
Total Uses of Funds		<u>\$834,984</u>

II. FINANCIAL STATEMENTS AND ANALYSIS

OPARC Statement of Activities (Unrestricted)

	For the year ended June 30,		
	2014	2013	2012
Revenues			
Program service fees	\$ 9,368,707	\$ 9,090,403	\$ 8,516,988
Contract income	1,457,467	1,299,787	1,117,693
Interest and dividends	41,535	4,382	4,192
Other Income	59,010	6,472	43,655
Total revenue	<u>10,926,719</u>	<u>10,401,044</u>	<u>9,682,528</u>
Public support			
Contributions and bequests	179,151	213,012	210,670
Donated goods and services	44,448	43,443	41,039
Total public support	<u>223,599</u>	<u>256,455</u>	<u>251,709</u>
Net assets released from restriction	<u>52,423</u>	<u>166,802</u>	<u>147,683</u>
Total revenues and public support	<u>11,202,741</u>	<u>10,824,301</u>	<u>10,081,920</u>
Expenses			
Salaries and wages	6,465,115	6,175,704	6,466,116
Payroll taxes & employee benefits	1,266,647	1,231,318	1,169,012
Building expense	634,589	601,345	604,435
Professional outside services	483,603	344,262	368,954
Depreciation	375,263	376,027	399,160
Vehicle	373,826	349,905	348,355
Interest	157,330	160,688	172,937
Insurance	153,349	139,827	138,137
Staff mileage	143,217	135,553	112,857
Supplies & materials	130,397	130,941	148,818
Direct program	114,538	96,694	97,619
Other business	97,708	79,983	86,915
Communication	89,548	95,286	85,730
Fundraising & special events	48,833	74,047	33,463
Donated goods & services	44,448	43,443	41,039
Equipment rent & repairs	36,592	35,574	42,462
Expandable property & equipment	24,826	54,392	19,939
recruitment & staff retention	23,170	25,031	22,312
Marketing & public relations	19,712	12,137	13,091
Staff development & training	18,317	15,921	11,087
Total expenses	<u>10,701,028</u>	<u>10,178,078</u>	<u>10,382,438</u>
Change in unrestricted net asset	501,713	646,223	(300,518)
Net assets			
Beginning of year	<u>4,585,310</u>	<u>3,939,087</u>	<u>4,239,605</u>
End of year	<u>\$ 5,087,023</u>	<u>\$ 4,585,310</u>	<u>\$ 3,939,087</u>

*Revenue for FYE June 30, 2014

<u>Payors Source</u>	<u>Percent</u>
State	82.9
Earned Income (Companies & Individuals)	14.0
Fundraising (Foundations, Corporations & Individuals)	3.1
Total	<u>100</u>

OPARC
Statement of Financial Position

	<u>2014</u>	<u>As of June 30, 2013</u>	<u>2012</u>
Assets			
Current assets			
Cash and cash equivalents	\$ 2,766,543	\$ 2,215,664	\$ 1,431,982
Investments	193,261	162,268	143,088
Accounts receivable, net of allowance	1,095,179	914,583	951,947
Grants receivable	-	10,140	108,800
Promises to give	945	900	2,292
Prepaid expenses	52,578	86,071	89,576
Total current assets	<u>4,108,506</u>	<u>3,389,626</u>	<u>2,727,685</u>
Property, plant, and equipment, net	4,222,628	4,451,842	4,713,161
Cash value of life insurance	14,145	13,492	13,316
Deposits	39,638	34,937	43,663
Total assets	<u>\$ 8,384,917</u>	<u>\$ 7,889,897</u>	<u>\$ 7,497,825</u>
Liabilities and net assets			
Current liabilities			
Accounts payable and accrued expenses	\$ 131,032	\$ 107,274	\$ 87,973
Accrued salaries and employee benefits	480,872	477,586	462,655
Unearned revenue	20,000	30,000	40,000
Client funds	3,594	4,565	27,573
Current portion of long-term debt	140,348	132,633	125,820
Total current liabilities	<u>775,846</u>	<u>752,058</u>	<u>744,021</u>
Long term debt			
Notes payable, net of current portion	2,121,851	2,259,901	2,381,467
Total liabilities	<u>2,897,697</u>	<u>3,011,959</u>	<u>3,125,488</u>
Net assets			
Unrestricted	5,087,023	4,585,310	3,939,087
Temporarily restricted	328,841	221,272	361,894
Permanently restricted	71,356	71,356	71,356
Total net assets	<u>5,487,220</u>	<u>4,877,938</u>	<u>4,372,337</u>
Total liabilities and net assets	<u>\$ 8,384,917</u>	<u>\$ 7,889,897</u>	<u>\$ 7,497,825</u>

Financial Ratios:

	Proforma ^(a)			
	FYE June 30, 2014			
Debt Service Coverage - Operating (x)	3.65	3.57	4.13	0.93
Debt to Unrestricted Net Assets (x)	0.44	0.44	0.52	0.64
Margin (%)		4.48	5.97	(2.98)
Current Ratio (x)		5.30	4.51	3.67

^(a) Recalculates FY 2014 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities

OPARC's income statement appears to exhibit an overall improving operating result during the review period from FY 2012 through FY 2014.

The change in unrestricted net assets appears to have improved over the review period from a negative \$300,518 in FY 2012 to \$646,223 in FY 2013 to \$501,713 in FY 2014. According to OPARC's management, the loss in FY 2012 was mainly due to a one-time 4.25% mandated rate reduction by the State of California Department of Developmental Services. The rate reduction caused program service fees to be lower than the normal level.

Particular Facts to Note:

- During the review period, revenue increased by approximately 10% from approximately \$9.6 million in FY 2012 to approximately \$10.9 million in FY 2014. Interest and dividends increased significantly to \$41,535 in FY 2014 due to a one-time payment of a \$35,954 dividend share from the State Compensation Fund, OPARC's workers compensation insurance carrier.
- OPARC's total expenses remained stable increasing by 3% from approximately \$10.3 million in FY 2012 to approximately \$10.7 million in FY 2014. OPARC attributes this slight increase to an adjustment made in personnel cost in July 2012. Prior to that date, all direct care staff were hired based on a 40 hour per week even though programs require 27.50 - 30 hours per week of service. Effective, July 2012, personnel hours of direct care staff were reduced to cover programming hours. Because of the increases in client attendance and enrollment, all program related expenses also increased.

Financial Discussion – Statement of Financial Position

OPARC appears to have a solid financial position with an operating debt service coverage ratio during the review period.

OPARC's balance sheet grew with total net assets increasing from approximately \$4.5 million in FY 2012 to \$5.5 million in FY 2014, an increase of approximately 22%. OPARC attributes the increase primarily to strong income from operations in FY 2013 and FY 2014. The debt to unrestricted net assets ratio appears to remain relatively stable at .44x. The operating debt service coverage ratio appears to be a solid 3.57x in FY 2014, and with the proposed refinance, the proforma operating debt service coverage ratio improves slightly to 3.65x, indicating that OPARC can likely manage the proposed debt.

Particular Facts to Note:

- OPARC s maintained a relatively stable cash balance. In FY 2014, OPARC had cash and cash equivalents of approximately \$2.7 million, representing approximately 91 days cash on hand, sufficiently above the industry standard 30-day target level for days cash on hand. OPARC's management attributes this to keeping expenses stable over the review period.
- OPARC's management states the rise in accounts payable and accrued expenses occurred due to a bi-annual audit in November 2013 by the Department of Labor. As of June 30, 2014, OPARC set up an accrual of \$25,000 to cover any Department of Labor adjustments.

EXHIBIT 1

UTILIZATION STATISTICS

Clients Served / (Patients Visits) for Fiscal Year Ended June 30,

	2014	2013	2012
Totals	865 / (192,290)	866 / (193,291)	826 / (183,620)

EXHIBIT 2
OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding ^(a) As of June 30, 2014</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
-EXISTING LONG-TERM DEBT:			
CHFFA, HELP II Loan 2003	\$ 400,000	\$ 134,607	\$ 134,607
NCB Capital Impact 2003	1,908,500	1,298,113	1,298,113
The H.N & Frances C. Berger Foundation 2003	922,500	829,479	-
- PROPOSED NEW DEBT:			
<i>CHFFA, HELP II Loan</i>			822,700
- TOTAL DEBT		<u><u>\$ 2,262,199</u></u>	<u><u>\$ 2,255,420</u></u>

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

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

Established in 1950, OPARC is a non-profit organization that provides advocacy for, and services to, individuals with developmental and vocational disabilities and their families through living skills and vocational training, employment, referral, parent training and legislative and community involvement.

OPARC operates Diversified Industries, four Adult Development Centers, and three Summit Services. A summary of the individual program services is as follows:

- The Diversified Industries Division operates a Work Activity Program in which participants with disabilities receive vocational skills training, paid work experience, and individual case management services. The related Support Employment Program provides participants with the opportunity to work in an integrated community environment and receive specialized services to overcome identified barriers to successful employment.
- Four Adult Development Centers operate day programs, Monday through Friday. Two of the facilities are located in Montclair, one is in Rancho Cucamonga, and one is in Ontario. Program activities include opportunities for paid work, functional education, and socialization. One of the centers (the Monte Vista Adult Development Center) provides specialized support and training to individuals who are considered medically fragile.
- Three Summit Services, community-based programs, serve participants with the “dual diagnosis” of developmental disabilities and mental illness. These persons need a high level of supervision and training to access community services safely, improve their social skills, and discover opportunities for paid work. Some of the participants served in this program are transitioning from state developmental centers and attempting to live in non-institutional settings successfully for the first time.
- The Board of Directors has governance responsibilities over all of the organization’s activities. The Board of Directors is comprised of a minimum of ten (10) and a maximum of twenty-two (22) Directors. Directors are elected for a term of two (2) years and Directors who have served ten (10) consecutive years shall not be eligible for re-election. Currently to Board of Directors consists of 17 members.

Licensure, Certification and Accreditation

OPARC’s facilities are licensed with the State of California Department of Social Services as an Adult Day Care.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-288

**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, **OPARC** (the “Borrower”), a California nonprofit corporation and 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 **\$822,700** for a term not to exceed **15 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. 15-year fixed rate;
2. First lien on the property located at 9160 Monte Vista Avenue, Montclair, California 91736;
3. First lien on the property located at 436 S. Sultana Avenue, Upland, California 91786;
4. Corporate gross revenue pledge;
5. Current appraisals on above referenced properties acceptable to Authority staff;
6. Loan to combined value ratio of the two properties not to exceed 95%; 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: _____