

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

Applicant: OPARC 8939 Vernon Avenue, Suite L Montclair, CA 91763 San Bernardino County		Amount Requested: \$400,000	
Project Site: 9053 Vernon Avenue, Montclair, California		Requested Loan Term: 15 years	
Facility Type: Adult Day Care		Date Requested: July 31, 2003	
		Resolution Number: HII-150	
Policy Issue: Under the HELP II Loan Program guidelines, a first position lien is generally required on property. Staff recommends approval of an exception to this guideline. Please refer to page 1 of the Executive Summary and Recommendation for more detailed information.			
Use of Loan Proceeds: Loan proceeds will be used to pay-off an existing land loan and construct a 35,000 square foot building for developmentally disabled adults that will replace a facility currently leased by OPARC.			
Type of Issue: HELP II Loan			
Prior HELP II Borrower: No			
Financial Overview: OPARC has enjoyed a strong demand for its services and wishes to expand its services to additional clients. OPARC's balance sheet continues to improve and is solid with significant financial resources and relatively minimal long-term debt.			
Sources of Revenue: (FYE 6-30-02)	<u>Amount</u>	<u>Percent</u>	
Program service fees	\$5,463,133	75.8%	
Sales	615,308	8.5%	
Contributions and bequests	534,286	7.4%	
Assets released from restrictions	268,585	3.7%	
Other	213,004	3.0%	
Donated services	131,772	1.8%	
Unrealized (loss) on investments	<u>(17,481)</u>	<u>(0.2%)</u>	
Total revenue	<u>\$7,208,607</u>	<u>100.0%</u>	
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II loan	\$400,000	Construction of building	\$2,800,000
HealthCAP loan with NCBDC*	1,000,000	Pay-off the existing land loan	225,000
NCBDC Direct loan*	908,500	Financing costs	<u>30,000</u>
Capital campaign**	665,000		
Borrower's contribution	<u>81,500</u>		
Total Sources	<u>\$3,055,000</u>	Total Uses	<u>\$3,055,000</u>
* Subject to approval by the underwriting department of the National Cooperative Bank Development Corporation.			
** Funds have been committed, but not yet received, anticipated to be received after closing.			
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 OPARC, subject to final approval of the HealthCAP loan, NCBDC's direct loan or other acceptable lender to the Authority and the standard HELP II loan provisions.			

STAFF SUMMARY AND RECOMMENDATION

**OPARC
(Ontario Pomona Association of Retarded Citizens)**

July 31, 2003

Resolution Number: HII-150

POLICY ISSUE: Under the HELP II Loan Program guidelines, the Authority requires a first position lien on the secured property and a gross revenue pledge. OPARC is financing the project using a HealthCAP loan, NCBDC direct loan, HELP II loan and capital campaign funds. Since the loan to value ratio meets the Authority's guidelines at 95% and given OPARC's solid financial condition and successful operating history, staff recommends the Authority accept a third position lien on the property and gross revenues pledge behind the HealthCAP loan and NCBDC's direct loan on the property.

I. PURPOSE OF FINANCING: As part of OPARC's overall strategic plan, OPARC is embarking in the beginning phase of its development project. OPARC is presently near capacity for its programs at its currently leased facility, which is too small and is poorly configured. The construction of the new facility will replace the existing leased facility allowing OPARC to expand its services. Upon project completion, OPARC will be able to move its equipment from the existing leased facility into the new facility and immediately begin operations.

Construction of building on Vernon Avenue in Montclair\$2,800,000

OPARC is in the beginning phase of constructing a new 35,000 square foot building on vacant land already owned by OPARC. The construction will permit OPARC to increase program services for developmental disabled adults by more than 40 additional client and officers for case management. In addition, OPARC will be able to improve client and worker conditions by providing a more efficient operating work space.

OPARC anticipates beginning construction on the new building in August 2003 and estimates completion by May 2004. The construction costs will be funded by the HealthCAP loan, NCBDC direct loan, capital campaign funds and approximately \$175,000 of HELP II funds. Some of the capital campaign donors include the Weingart Foundation, W.M. Keck Foundation, Rose Hills Foundation, and Del E. Webb Foundation. These donors exhibit further support for the proposed project.

An appraisal letter dated April 22, 2003, estimates the completed new building and land value at \$2.43 million, leading to a combined loan (HealthCAP and NCBDC direct loan and HELP II) to value ratio of 95%. The cost of the building construction exceeds the appraised value. However, the loans used to

finance this project will be secured by the building which has met the Authority's policy on loan to value ratio.

***Pay-off the existing loan*.....225,000**

The HELP II loan will be used to pay-off the existing land loan that financed the purchase of vacant land. The property was purchased in May 2001 for \$450,000 and has an outstanding balance of \$225,000. An appraisal dated April 22, 2003, estimates the "as is" value of the land at \$460,000.

***Financing Costs* 30,000**

HealthCAP/NCBDC Fees.....\$20,000

Authority Fee5,000

Title/escrow fees5,000

***Total*.....\$3,055,000**

Financing structure:

- 15-year fully amortized loan in the amount of \$400,000.
- 180 equal monthly payments of approximately \$2,762 (total annual payments of \$33,144).
- Total interest payments of approximately \$92,219.
- Third position lien on the new property located at 9053 Vernon Avenue, Montclair, California (subordinate to NCBDC HealthCAP loan and NCBDC direct loan).
- Third position lien on gross revenue pledge (subordinate to the HealthCAP loan and NCBDC direct loan).
- Estimated value of collateral securing this loan is \$2.43 million, leading to a combined loan to value ratio of 95%.
- Estimated interest rate for the HealthCAP loan of 6.25%, over a term of 15 years, with a monthly payment of approximately \$8,574.
- Estimated interest rate for the NCBDC direct loan of 6.5%, over a term of 15 years with a monthly payment of approximately \$7,914.

II. FINANCIAL STATEMENTS AND ANALYSIS:

OPARC Statement of Activities Unrestricted

	For the Year Ended June 30,			
	2003	2002	2001	2000
	(Unaudited)			
REVENUES				
Program service fees	\$ 5,619,405	\$ 5,463,133	\$ 5,203,059	\$ 4,571,295
Sales	721,009	615,308	601,278	475,669
Interest	2,395	5,066	20,256	25,388
Unrealized gain (loss) on investments	-	(17,481)	(14,887)	2,509
Other	495	207,938	239,283	162,630
Total revenues	<u>6,343,304</u>	<u>6,273,964</u>	<u>6,048,989</u>	<u>5,237,491</u>
PUBLIC SUPPORT				
Contributions and bequests	139,855	534,286	255,104	106,497
Donated services	120,890	131,772	106,521	121,728
Total public support	<u>260,745</u>	<u>666,058</u>	<u>361,625</u>	<u>228,225</u>
Net assets released from restrictions	<u>175,581</u>	<u>268,585</u>	<u>52,534</u>	<u>49,456</u>
TOTAL REVENUE AND PUBLIC SUPPORT	<u>6,779,630</u>	<u>7,208,607</u>	<u>6,463,148</u>	<u>5,515,172</u>
EXPENSES				
Salaries	4,100,244	4,188,001	3,964,567	3,256,908
Payroll taxes and employee benefits	1,076,498	1,045,784	868,430	673,177
Building	499,713	393,706	363,633	346,380
Vehicle expenses	188,501	181,866	180,486	133,511
Depreciation	169,060	167,963	144,385	119,882
Donated goods and services	120,890	128,075	104,721	121,728
Outside services	81,810	99,406	103,510	84,200
Supplies	74,698	95,567	96,391	110,738
Direct program expenses	63,030	63,541	72,390	80,773
Staff mileage	53,181	58,282	70,903	62,753
Telephone	54,711	53,478	53,052	43,873
Equipment rent	37,387	39,550	38,950	34,176
Personnel recruitment	12,717	32,152	37,504	21,627
Equipment repair	31,160	29,338	37,066	33,482
Fundraising	1,330	25,463	35,445	32,113
Interest	12,637	23,321	34,087	34,553
Dues	9,754	18,647	28,396	23,401
Staff development	29,427	17,078	28,977	18,250
Public relations	3,232	10,969	3,669	7,840
Professional fees	10,500	10,300	9,600	11,377
Other	35,290	81,988	105,516	82,709
	<u>6,665,770</u>	<u>6,764,475</u>	<u>6,381,678</u>	<u>5,333,451</u>
Increase in unrestricted net assets	113,860	444,132	81,470	181,721
Unrestricted net assets, beginning of year	<u>1,789,574</u>	<u>1,345,442</u>	<u>1,263,972</u>	<u>1,082,251</u>
Unrestricted net assets, end of year	<u>\$ 1,903,434</u>	<u>\$ 1,789,574</u>	<u>\$ 1,345,442</u>	<u>\$ 1,263,972</u>

OPARC
Balance Sheet

	As of June 30,			
	2003	2002	2001	2000
	(Unaudited)			
Assets				
Current assets:				
Cash and cash equivalent	\$ 328,390	\$ 276,553	\$ 346,492	\$ 759,242
Investments	85,903	84,703	102,992	106,813
Accounts receivable	736,853	802,445	751,594	613,205
Grants receivable	9,044	-	898	-
Insurance receivable	7,335	-	-	-
Promises to give	178,167	87,820	293,346	19,630
Prepaid expenses	53,407	72,166	61,175	40,423
Total current assets	<u>1,399,099</u>	<u>1,323,687</u>	<u>1,556,497</u>	<u>1,539,313</u>
Property, plant and equipment, net	1,727,909	1,765,897	1,250,292	665,438
Deposits	55,313	47,801	33,726	29,173
Total assets	<u>\$ 3,182,321</u>	<u>\$ 3,137,385</u>	<u>\$ 2,840,515</u>	<u>\$ 2,233,924</u>
Liabilities and net assets				
Current liabilities:				
Accounts payable	\$ 56,332	\$ 44,869	\$ 70,482	\$ 45,390
Accrued salaries and employee benefits	345,785	377,026	358,002	329,744
Accrued expenses	2,956	2,839	1,977	3,380
Current portions of notes payable	332,199 ²	330,915 ²	84,457	67,857
Total current liabilities	<u>737,272</u>	<u>755,649</u>	<u>514,918</u>	<u>446,371</u>
Long term notes payable	<u>216,741</u>	<u>303,923</u>	<u>596,830</u>	<u>390,689</u>
Total liabilities	<u>954,013</u>	<u>1,059,572</u>	<u>1,111,748</u>	<u>837,060</u>
Net assets:				
Unrestricted	1,903,434	1,789,574	1,345,442	1,263,972
Temporarily restricted	254,118	217,483	312,569	62,335
Permanently restricted	70,756	70,756	70,756	70,557
Total net assets	<u>2,228,308</u>	<u>2,077,813</u>	<u>1,728,767</u>	<u>1,396,864</u>
Total liabilities and net assets	<u>\$ 3,182,321</u>	<u>\$ 3,137,385</u>	<u>\$ 2,840,515</u>	<u>\$ 2,233,924</u>

Financial Ratios:

	Proforma (1)			
	FYE 2002			
Debt Service Coverage (x)	1.47	3.05	1.21	1.58
Debt/Unrestricted Net Assets (x)	1.47	.18	.44	.31
Margin (%)		6.16%	1.26%	3.29%
Current Ratio (x)		1.75	3.02	3.45

(1) Recalculates June 2002 audited results to include the impact of the HELP II, HealthCAP and NCBDC direct loan financings.

(2) Includes \$225,000 for the land loan to be paid off.

Financial Discussion:

OPARC has enjoyed a strong demand for its services and wishes to expand its operations to provide services to additional clients.

OPARC has experienced a strong demand for its services exhibited by client days, which have increased from 98,767 in fiscal year 2000 to 107,729 in fiscal year 2002, an increase of 9%. During our review period, program service fees have increased from \$4.5 million in fiscal year 2000 to \$5.4 million in fiscal year 2002, an increase of approximately 19%. Program service fees are projected to exceed \$5.6 million during the current fiscal year. Management expects that upon completion of the construction of the new facility, program services fees and client days per year are expected to increase by \$226,000 and 10,050, respectively. Comparing the proposed new loan payments to the existing lease payments exhibits an increase of approximately \$3,600 per month or \$43,200 per annum. However, management projects that the new facility will increase net income by \$31,000, inclusive of the higher proposed occupancy costs.

This financing will allow OPARC to lock-in relatively low interest rates and provide fixed occupancy costs as opposed to the increasing occupancy costs associated with their current lease contract. In addition, OPARC will be able to improve client and worker conditions and environment, provide a more efficient operating workspace and provide additional services to clients in need.

OPARC's balance sheet continues to improve and is solid with significant financial resources and relatively minimal long-term debt.

OPARC's long-term debt is moderate with approximately \$303,000 compared to \$1.7 million in unrestricted net assets, leading to a favorable debt to unrestricted net assets ratio of .17. OPARC's unrestricted net assets have increased over our review period from \$1.26M to \$1.789M, an increase of 42%.

The proforma debt service ratio is a solid 1.47x. This indicates that OPARC should be able handle the debt service payments for the HELP II and HeathCAP loans as well as the NCBDC direct loan.

III. UTILIZATION STATISTICS:

OPARC (Client Days)

<u>Type of Service</u>	<u>Fiscal year ending June 30,</u>			
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Diversified Industries:				
Work Activity Program	35,130	35,156	30,664	30,813
Supported Employment Program	12,712	10,705	9,110	7,918
Adult Development Centers:				
Monclair	14,350	14,459	14,472	14,110
Monte Vista	15,294	13,927	13,813	12,928
Rancho Cucamonga	11,570	13,325	13,636	12,513
Ontario	10,249	10,403	10,342	10,535
Summit Services Behavior Management	9,619	10,784	10,445	9,950
Totals	<u>108,924</u>	<u>107,729</u>	<u>102,482</u>	<u>98,767</u>

OPARC (Client Hours)

<u>Type of Service</u>	<u>Fiscal year ending June 30,</u>			
	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Passport Senior Services	7,291*	10,693	8,503	4,925

*OPARC has had difficulty filling positions, which directly impacts how many clients OPARC can serve.

IV. ORGANIZATION:

Background: OPARC has a successful long-term operating history dating back to 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, Summit Services Behavior Management and Passport Senior Services. A summary of the individual program services is as follows:

- Diversified Industries program provides employment with competitive piece rates to individuals who are vocationally disabled and, therefore, are not yet able to meet the requirement of the competitive labor market. In an industrial work setting, job skills and behavior training are provided to help prepare the client for competitive employment or

progression to other vocational programs. This program includes a supported employment program that places people with disabilities into competitive employment within the community. A job coach provides training and continuing support for the client while in the program.

- Adult Development Centers are located in Montclair, Monte Vista, Ontario, and Rancho Cucamonga. These centers offer vocational skills and community life training to adults with disabilities. Training programs are individually designed for clients to help them integrate into community adult life and/or obtain integrated employment. Activities and training are done if possible, in a natural environment, including the local community and businesses. Attainment of skills increases the person’s ability to participate more fully in their community with greater competency and a feeling of personal satisfaction.
- Summit Services Behavior Management is located in Upland and provides specialized support and training to people with developmental and behavioral challenges. Goals of the program include learning new social skills, reducing behavioral incidents, and developing the capacity to work in and enjoy the local community. Desired outcomes include increased self-respect, increase ability to interact with other people in an effective manner, and transition to other programs in which less intensive support is required.
- Passport Senior Services is a program that assists client over 50 who want to take advantage of opportunities in the community for regular social and recreational activities. This program has trained staff members that provide both transportation and assistance as required in order to facilitate community access. The program operates seven days a week, including some evening hours. Passport Senior Services maintain no separate facilities except for administrative operations. The persons served are picked up at their homes, taken to their activity of choice, then returned home. The staff to client ratio is 1:1. Services are utilized on an individually scheduled basis.

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

Contracts: OPARC contracts with the Inland and San Gabriel/Pomona Regional Services Centers.

Service Area and Competition: Pomona Valley Workshop and OPARC are the two major organizations that service the needs of individuals with developmental and vocational disabilities.

<u>Health Facility Location</u>	<u>Number of Clients</u>	<u>Market Share (%)</u>	<u>Estimated Distance Away</u>
Pomona Valley Workshop	335	30%	3 miles
OPARC	550	50%	N/A

V. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 6/30/02 (audited)	Estimated Amount Outstanding After Proposed Financing
Existing:			
Mortgage note payable, Montclair Property (2001)	\$225,000	\$225,000	\$-0 ¹
Mortgage note payable, Upland Property (1999)	204,000	178,963	178,963
Mortgage note payable, Monte Vista Property (1988)	250,000	79,820	79,820
Notes payable Vehicle loans	232,882	151,055	151,055
Proposed:			
CHFFA HELP II Loan, 2003		N/A	400,000
CHFFA HealthCAP Loan, 2003		N/A	1,000,000
NCBDC Direct Loan, 2003		N/A	908,500
TOTAL DEBT		\$634,838²	\$2,718,338

¹ To be paid off with proposed HELP II loan.

² Includes current portion.

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.

OPARC 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) and 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”.

OPARC 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 OPARC, subject to final approval of the HealthCAP loan, NCBDC’s direct loan or other acceptable lender to the Authority and the standard HELP II loan provisions.