

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

Applicant: Seneca Residential and Day Treatment Center for Children (“Seneca”) 15942 Foothill Boulevard San Leandro, CA 94578 Alameda County		Amount Requested: \$170,000	
		Requested Loan Term: 15 years	
		Date Requested: February 26, 2004	
		Resolution Number: HII-165	
Project Site: 16759 Los Reyes, San Leandro, California			
Facility Type: Group home			
Policy Issue: Seneca’s gross revenues are \$32.3 million, which are in excess of the maximum allowable under the HELP II guidelines of \$20 million. Staff recommends approval for the reasons outlined on the following page.			
Use of Loan Proceeds: Loan proceeds will be used to refinance the Authority’s 1992 STARTS Series A bonds, which will result in an annual debt service savings of approximately \$3,900 for the next 15 years or a total savings of approximately \$59,000.			
Type of Issue:		HELP II Loan	
Prior HELP II Borrower:		No, however, Seneca is a borrower under the STARTS program.	
Project Status:		Current	
Financial Overview: Seneca has successfully expanded its services over our review period. Revenues have grown sharply and Seneca has posted solid increases in unrestricted net assets. Seneca’s balance sheet is solid, with good liquidity, significant financial resources, relatively minimal long-term debt, and adequate proforma debt service coverage. Seneca’s projected debt service coverage indicates adequate cash flow to repay this loan.			
Sources of Revenue:		<u>Amount</u>	<u>Percent</u>
<i>(FYE 6-30-03)</i>			
Mental health		\$13,311,603	41.2%
Project destiny		6,696,907	20.7%
Tuition		6,388,615	19.7%
Residential services		4,203,962	13.0%
Foster care		1,169,076	3.6%
Other		<u>582,382</u>	<u>1.8%</u>
Total revenue		<u>\$32,352,545</u>	<u>100.0%</u>
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II loan	\$170,000	Refinance real property	\$163,000
		Financing costs	<u>7,000</u>
Total Sources	<u>\$170,000</u>	Total Uses	<u>\$170,000</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 \$170,000 for a term not to exceed 15 years for Seneca Residential and Day Treatment Center for Children subject to the standard HELP II loan provisions.			

STAFF SUMMARY AND RECOMMENDATION

**Seneca Residential and Day Treatment
Center for Children (“Seneca”)**

February 26, 2004

Resolution Number: HII-165

POLICY ISSUE: Seneca’s gross revenues are \$32.3 million, which are in excess of the maximum allowable under the HELP II guidelines of \$20 million. Staff recommends a waiver of the guidelines for the maximum gross revenues, since all the 1992 STARTS participants are refunding their bonds and it would not be cost effective for Seneca to participate in the new refunding pool, due to the small loan size.

I. PURPOSE OF FINANCING: Loan proceeds will be used to refund the 1992 STARTS Series A bonds issued by the Authority in order to obtain a lower interest rate and improve operating cash flow.

***Refinance real property* *\$163,000**

The HELP II loan will be used to refinance the 1992 STARTS bonds, which have a current interest rate of 6.75%. The original STARTS bonds were issued to purchase a facility located in San Leandro to be operated as a Group Home. Management estimates the current value of the property at \$400,000, leading to a loan to value ratio of 42%.

***Financing Costs* 7,000**

Authority fee2,125
Title costs1,000
Other costs3,875

***Total*..... \$170,000**

* Loan balance includes the borrower’s proportionate share of the debt service reserve deficit for existing 1992 STARTS bonds.

Financing structure:

- 15-year fully amortized loan in the amount of \$170,000.
- 180 equal monthly payments of approximately \$1,146 (total annual payments of \$13,752).
- Total interest payments of approximately \$40,346.
- First position lien on property located at 16759 Los Reyes, San Leandro, California.
- Loan to value of 42%.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Seneca Center for Children
Statement of Activities
Unrestricted

	Period ended December 31,	For the Year Ended June 30,		
	2003 (unaudited)	2003	2002	2001
PUBLIC SUPPORT				
Contributions	\$ 22,267	\$ 141,133	\$ 81,314	\$ 106,253
REVENUE				
Mental health	7,375,091	13,311,603	11,205,255	7,495,244
Tuition	3,141,469	6,388,615	5,564,984	4,767,024
Project destiny	3,486,261	6,696,907	5,014,420	3,149,690
Residential Services	2,067,874	4,203,962	3,503,363	2,457,690
Foster care	461,359	1,169,076	1,260,325	1,383,419
Department of Education	67,160	214,670	218,040	205,385
Other revenue	1,254	119,651	155,395	3,118
Nutrition	42,000	105,984	84,930	53,714
Center for living skills	-	-	15,758	124,840
Interest income	-	3,973	13,437	41,169
Family focus	-	-	-	8,298
Gain/(loss) on sale of assets	10,565	(3,029)	2,200	2,113
Total public support and revenue	<u>16,675,300</u>	<u>32,352,545</u>	<u>27,119,421</u>	<u>19,797,957</u>
EXPENSES				
Salaries	9,301,051	17,452,730	14,847,014	11,208,681
Employee benefits	1,122,728	2,133,625	1,762,380	1,220,014
Payroll taxes and workers compensation	1,993,936	3,051,887	1,740,276	1,294,458
Advertisement and recruitment	51,011	333,912	361,818	242,341
Clothing	37,837	65,457	56,394	34,195
Conferences and training	77,224	183,471	154,145	154,604
Contract services	1,757,876	3,012,809	2,484,487	1,708,272
Equipment leases	42,201	86,074	71,715	54,893
Family service fees	304,200	689,792	705,484	715,621
Food	346,428	580,851	471,386	353,359
Fundraising	10,508	24,791	-	-
Government fees	12,617	13,928	14,184	10,746
Insurance	102,034	201,396	162,873	113,903
Interest	42,710	101,460	98,463	48,611
Medical - Non Medi-cal	12,597	22,943	24,343	18,624
Occupancy	490,391	801,018	621,969	359,823
Printing	10,292	19,833	28,275	16,382
Repairs and maintenance	243,388	771,899	637,237	486,000
Special events	-	31,830	31,394	26,586
Subscription and dues	10,441	32,220	19,255	17,466
Supplies and postage	523,154	928,655	751,801	553,245
Telephone	209,819	426,073	359,984	252,383
Transportation	216,539	173,806	256,327	206,359
Utilities	132,988	234,177	205,792	160,967
Depreciation	236,139	417,418	334,915	299,084
Total expenses	<u>17,288,109</u>	<u>31,792,055</u>	<u>26,201,911</u>	<u>19,556,617</u>
Increased (decrease) in unrestricted net assets	(612,809)	560,490	917,510	241,340
Unrestricted net assets, beginning of year	<u>4,263,612</u>	<u>3,703,122</u>	<u>2,785,612</u>	<u>2,544,272</u>
Unrestricted net assets, end of year	<u>\$ 3,650,803</u>	<u>\$ 4,263,612</u>	<u>\$ 3,703,122</u>	<u>\$ 2,785,612</u>

Seneca Center for Children
Balance Sheet

	<u>December 31,</u>	<u>As of June 30,</u>		<u>2001</u>
	<u>2003</u>	<u>2003</u>	<u>2002</u>	
	<u>(unaudited)</u>			
Assets				
Current assets:				
Cash and cash equivalents	\$ 887,681	\$ 1,439,773	\$ 813,092	\$ 1,247,691
Fiscal agency funds	1,453,404	1,242,547	599,046	28,075
Account receivable	4,427,643	4,405,632	4,586,202	2,366,965
Prepaid expenses	28,533	76,876	214,779	104,003
Total current assets	<u>6,797,261</u>	<u>7,164,828</u>	<u>6,213,119</u>	<u>3,746,734</u>
Property and equipment, net	4,405,707	4,302,997	2,086,511	2,052,384
Other assets	404,470	328,045	338,231	38,565
Total assets	<u>\$ 11,607,438</u>	<u>\$ 11,795,870</u>	<u>\$ 8,637,861</u>	<u>\$ 5,837,683</u>
Liabilities and net assets				
Current liabilities:				
Accounts payable	\$ 674,347	\$ 512,334	\$ 443,846	\$ 333,299
Accrued wages	610,637	573,980	496,404	380,172
Accrued vacation	675,218	695,951	632,765	489,298
Accrued payroll taxes and benefits	285,836	247,095	214,882	181,216
Overpayments	647,457	588,196	855,774	437,580
Other accrued expenses	116,616	130,180	69,454	71,560
Deferred revenue		-	-	11,445
Fiscal agency liability	1,453,404	1,242,547	599,046	28,075
Capital lease - current portion	14,711	42,928	51,909	-
Notes payable - current portion	41,610	41,610	18,091	14,920
Total current liabilities	<u>4,519,836</u>	<u>4,074,821</u>	<u>3,382,171</u>	<u>1,947,565</u>
Long term debt				
Capital lease - long-term	-	-	42,928	-
Notes payable - long-term	1,786,798	1,807,436	1,509,639	1,104,506
Total liabilities	<u>6,306,634</u>	<u>5,882,257</u>	<u>4,934,738</u>	<u>3,052,071</u>
Net assets:				
Unrestricted	3,650,804	4,263,613	3,703,123	2,785,612
Temporarily restricted	1,650,000	1,650,000	-	-
Total net assets	<u>5,300,804</u>	<u>5,913,613</u>	<u>3,703,123</u>	<u>2,785,612</u>
Total liabilities and net assets	<u>\$ 11,607,438</u>	<u>\$ 11,795,870</u>	<u>\$ 8,637,861</u>	<u>\$ 5,837,683</u>

Financial Ratios:

	Proforma ⁽¹⁾			
	FYE 2003			
Debt Service Coverage (x)	5.88	5.80	8.02	9.27
Debt/Unrestricted Net Assets (x)	.45	.44	.44	.42
Margin (%)		1.73%	9.38%	1.22%
Current Ratio (x)		1.76	1.84	1.92

(1) Recalculates June 2003 audited results to include the impact of the HELP II loan financing.

Financial Discussion:

Seneca has successfully expanded its services over our review period. Revenues have grown sharply and Seneca has posted solid increases in unrestricted net assets.

Seneca has posted operating gains in the past three audited fiscal years. Seneca's revenue growth has been attributed to occupancy growth in programs; increase funding rates in the residential programs and mental health programs and expansion of services. Seneca's overall growth rate in services has increased 28% from fiscal year 2001 to fiscal year 2003, with the largest expansion of services in the Residential Treatment Programs and Project Destiny Program, which have grown 69% and 52% respectively. In the Project Destiny Program, Seneca increased enrollments by approximately 3 children per year. Another area of growth is increased services in contracts. The Early and Periodic Screening Diagnostics and Treatment revenue contract through Alameda County increased approximately \$594,000 for additional mental health services. In addition, Seneca acquired a new Title 4-E grant for \$362,000 along with \$100,000 for the Solano Receiving Center.

Seneca's interim income statements exhibit an operating loss of \$612,000. Management has acknowledged that due to the budget crisis in California, it did not receive any rate increases in the current fiscal year, nor are they expecting any in the near future. Operating expenses have increased due to a jump in workers compensation costs. Overall, management projects that unrestricted net assets for fiscal year 2004 will be at breakeven for operations.

Seneca's balance sheet is solid, with good liquidity, significant financial resources, relatively minimal long-term debt, and adequate proforma debt service coverage. Seneca's projected debt service coverage indicates adequate cash flow to repay this loan.

Seneca balance sheet has improved significantly over our review period. Seneca has good liquidity and significant financial resources with \$1.4 million in cash and cash equivalents and over \$4.2 million in unrestricted net assets. Seneca's long-term debt to unrestricted net assets ratio is .45x, indicating moderate leverage. Seneca's proforma debt services coverage is a solid 5.88x, indicating adequate cash flow to repay the proposed loan.

III. UTILIZATION STATISTICS:

Seneca Residential and Day Treatment Center for Children

<u>Types of Services</u>	Period ending	<u>Fiscal year ending June 30,</u>		
	December 31,	<u>2003</u>	<u>2002</u>	<u>2001</u>
Residential treatment programs	348	732	672	432
Foster care program	144	312	372	468
Project Destiny	528	768	708	504
Day Treatment Program	<u>298</u>	<u>307</u>	<u>81</u>	<u>247</u>
Total	<u>1,318</u>	<u>2,119</u>	<u>2,033</u>	<u>1,651</u>

IV. ORGANIZATION:

Background: Seneca was founded in 1985 to provide mental health, special education and family support services for severely emotionally disturbed children, adolescents and their families. From its inception, Seneca has operated on the premise that troubled young people themselves do not fail, but instead are failed by a service system unable to address the very behavior that brought them into treatment. Seneca has demonstrated that by providing a highly supportive environment, intensive treatment services and unconditional care, Seneca can help even the most seriously disturbed children and adolescents to form healthy relationships and make substantial therapeutic gains.

Throughout the 1990s and the beginning years of the 21st century, Seneca has dedicated itself to becoming a “system of care” agency able to provide a comprehensive continuum of community-based and family-focused treatment services for emotionally disturbed youth and their families. Seneca’s current service include after school therapeutic recreation series, non public school-based and public school-based day treatment services, mobile crisis responses service, therapeutic behavioral services, in-home and community-based wraparound services, intensive treatment foster family care, crisis residential services, sub-acute residential treatment and hospital alternative services.

Since its inception in 1985, Seneca has developed a range of innovative programming in order to carry out its mission of providing unconditional care for many of the Bay Area’s most disturbed youth and their families. We have determined that the service options needed to guarantee success for their young people often have been unavailable in existing systems of care. In response, Seneca has worked diligently with federal, state and local governments, with school districts, SELPA’s and county office of education, with county mental health, social services and probation departments to create more flexible community-based programs that are able to achieve better outcomes for children and families.

Seneca operates 14 different facilities in the Bay area and has over 600 employees.

Licenses: Seneca is licensed as a group home by the Department of Social Services.

Service Area and Competition: The market that Seneca Center operates in is not considered a competitive market. The Department of Social Services and Mental Health refer children to the programs. Seneca works with federal, state and local governments, school districts, and probation departments to provide unconditional care to the most seriously disturbed children and adolescents.

V. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 6/30/03 (audited)*	Estimated Amount Outstanding After Proposed Financing
Existing:			
Wells Fargo Bank, Crocket House	\$363,750	\$354,484	\$354,484
Wells Fargo Bank, Oak House	307,500	298,417	298,417
Wells Fargo Bank, Crane House	352,000	349,227	349,227
Wells Fargo Bank, Foothill Site	705,000	688,585	688,585
CHFFA, Starts 92A	320,000	158,333	-0-
Proposed:			
CHFFA HELP II Loan, 2004		N/A	**170,000
TOTAL DEBT		\$1,849,046	\$1,860,713

*Includes current portion.

** Proposed loan includes debt service reserve deficit and other closing costs.

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.

Seneca 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".

Seneca 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 \$170,000 for a term not to exceed 15 years for Seneca Residential and Day Treatment Center for Children subject to the standard HELP II loan provisions.