

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

<p>Applicant: Summitview Child Treatment Center Inc. 5036 Sunrey Road Placerville, CA 95667 El Dorado County</p> <p>Project Site: Koki Lane, El Dorado, CA 95623</p> <p>Facility Type: Group Home for children/Mental Health</p>	<p>Amount Requested: \$400,000</p> <p>Requested Loan Term: 15 years</p> <p>Date Requested: August 26, 2004</p> <p>Resolution Number: HII-170</p>																
<p>Policy Issue: Current HELP II guidelines specify that all applicants submit three years of audited financial statements to be considered for HELP II financings. Although Summitview has two years of audited financial statements, staff recommends approval for the reasons outlined on the following page.</p>																	
<p>Use of Loan Proceeds: Loan proceeds will be used to finance the construction of a new facility to expand services. The proposed facility is located on land that is owned free and clear by Summitview and was purchased in 2001 for this expansion project.</p>																	
<p>Type of Issue: HELP II Loan</p> <p>Prior HELP II Borrower: No</p>																	
<p>Financial Overview: Summitview has improved its financial operations over our review period. Summitview has posted positive earnings over the past two fiscal years. In addition, it has improved its balance sheet, with improved liquidity, minimal long-term debt and satisfactory projected debt service coverage.</p>																	
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<p>* Loan application is currently in the underwriting process, however NCB has verbally indicated loan approval.</p> <p>** HELP II loan underwriting guidelines require borrower's equity contribution of 5%, Summitview's equity contribution will consist of \$160,000 (amount of cash paid by Summitview in 2001 for the purchase of the land, which the facility will be built upon).</p>																	
<p>Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																	
<p>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 Summitview Child Treatment Center Inc., subject to the standard HELP II loan provisions and receipt of NCB HealthCAP funding or other acceptable funding source.</p>																	

STAFF SUMMARY AND RECOMMENDATION

**Summitview Child Treatment Center Inc.
("Summitview")**

August 26, 2004

Resolution Number: HII-170

POLICY ISSUE: HELP II Loan Program guidelines provide that the borrower submit three years of audited financial statements. Summitview has two years of audited financial statements for fiscal years ending June 30 2001 and 2003. Staff recommends an exception to the HELP II loan policy, given one year is a financial review, which is unaudited, but has been completed by a CPA firm for fiscal year 2002. According to Summitview management, it did NOT complete an audit during fiscal year 2002 because it was not a requirement for its government funding sources that year. In addition, Summitview will continue to provide the Authority future audited financial statements each fiscal year during the life of the HELP II loan, as required by the Loan and Security Agreement.

I. PURPOSE OF FINANCING: Summitview would like to improve and expand its services by building a new facility. This strategic plan would also provide additional administrative space for staff members. Summitview intends to move from its current 5,000 square foot leased facility to the 9,000 square foot proposed facility.

Construct a new facility.....\$1,175,000

The proceeds will be used to construct a centralized location to serve as the administrative office for both the Group Home Program and Day Treatment Services for its mental health division. In addition, the new facility will be used to operate its non-public school services to educate the clients who are enrolled in the Group Home Program. The new facility will be constructed on land that was purchased by Summitview in 2001, and currently does not have liens on it. The estimated start date of construction is September 2004 and completion is expected September 2005.

Summitview currently leases office space of approximately 5,000 square feet (SF) of which 1,500 SF is being used for Group Home services, 500 SF for Mental Health, 2,000 SF for Nonpublic School, and 1,000 SF for Administrative.

The projected square footage for the new building is 9,000 and will consist of approximately 3,000 SF for Mental Health, 3,000 SF for Nonpublic School, and 3,000 SF for Administrative. The existing leased facility will most likely provide additional group home services.

Summitview indicates that the proposed facility will eventually allow them to expand services to a greater number of mentally ill children and their families in the local community. Summitview is currently the only certified Medi-Cal provider to children and adolescents in El Dorado County. Summitview indicates that the lack of space has limited its services in the past.

Financing Costs	<u>25,000</u>
Authority Fee	\$5,000
NCB HealthCAP fees	15,000
Title/escrow fees	5,000
Total	<u>\$1,200,000</u>

Financing structure:

- HELP II – 2nd lien position, fully amortized 15 yr. loan at 3% interest rate.
- HELP II - 180 equal mo. payments of approx. \$2,762 (total annual payments of \$33,144).
- NCB HealthCAP – 1st lien, fully amortized 15 yr. loan, \$800,000 at approximately 6.75%.
- NCB HealthCAP – Mo. payments of approx. \$7,080 (total annual payments of \$84,960).
- HELP II/NCB HealthCAP - Secured by a deed of trust on real property located on Koki Lane.
- Corporate gross revenue pledge.
- Maximum combined loan to value of 95%.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Summitview Child Treatment Center Inc.
Statement of Activities
(Unrestricted)

	For the Year Ended June 30,			
	2004	2003	2002	2001
	(unaudited)	(Audited)	(Reviewed) ⁽²⁾	(Audited)
Revenue ⁽¹⁾				
Program service fees	\$3,026,136	\$2,731,466	\$2,792,571	\$2,416,988
Other	3,536	5,353	2,199	205
Total revenues	3,029,672	2,736,819	2,794,770	2,417,193
Expenses ⁽¹⁾				
Program services	2,565,303	\$ 2,345,079	2,341,234	2,211,405
Supporting services	214,481	276,944	251,986	248,611
Total expenses	2,779,784	2,622,023	2,593,220	2,460,016
<i>Increase (decrease) in unrestricted net assets</i>	249,888	114,796	201,550	(42,823)
Unrestricted net assets, beginning of year	515,859	401,063	200,352	243,175
Adjustments	-	-	(839)	-
Unrestricted net assets, end of year	<u>\$765,747</u>	<u>\$515,859</u>	<u>\$401,063</u>	<u>\$200,352</u>

(1) The breakdown of the detail for revenues and expenses was not provided in the audit report. The auditor indicates that it would take an exhorborant amount of time to provide a line item detail, consequently it is not being exhibited.

(2) A review was completed for 2002 and not an audit, as management indicates that it was not required by its governmental funding sources that year.

Summitview Child Treatment Center Inc.
Balance Sheet

	As of June 30,			
	2004	2003	2002	2001
	(unaudited)	(audited)	(reviewed) ⁽²⁾	(audited)
Assets				
Current assets:				
Cash and cash equivalents	\$ 295,640	\$ 179,572	\$ 60,062	\$ 43,960
Accounts receivable	319,285	177,968	228,036	123,062
Other	2,300	2,300	10,401	2,951
Total current assets	<u>617,225</u>	<u>359,840</u>	<u>298,499</u>	<u>169,973</u>
Property and equipment, net	261,093	287,809	263,489	124,795
Total assets	<u>\$ 878,318</u>	<u>\$ 647,649</u>	<u>\$ 561,988</u>	<u>\$ 294,768</u>
Liabilities and net assets				
Accounts payable	\$ 74,461	\$ 73,313	\$ 62,947	\$ 61,779
Notes payable	38,110	58,477	97,978	32,637
Total Liabilities	<u>112,571</u>	<u>131,790</u>	<u>160,925</u>	<u>94,416</u>
Unrestricted net assets	<u>765,747</u>	<u>515,859</u>	<u>401,063</u>	<u>200,352</u>
Total liabilities and unrestricted net assets	<u>\$ 878,318</u>	<u>\$ 647,649</u>	<u>\$ 561,988</u>	<u>\$ 294,768</u>
Financial Ratios:				
	Proforma ^{(1) (3)}			
	<u>FYE 2003/2004</u>			
Debt Service Coverage (x)	1.39/2.42	10.67	13.23	-1.21
Debt/Unrestricted Net Assets (x)	1.64	0.11	0.24	0.16
Margin (%)		4.19%	7.21%	-1.77%
Current Ratio (x)		4.91	4.74	10.86

(1) (3) Recalculates June 2003 audited and 2004 unaudited results to include the impact of the HELP II and NCB HealthCAP loans

(2) A review was completed for 2002 and not an audit, as management indicates that it was not required by its governmental funding sources that year.

Financial Discussion:

Summitview has improved its financial operations over our review period with positive earnings during the last three fiscal years.

Summitview has posted positive operating income over the past three fiscal years. This represents a reversal from the moderate loss experienced by Summitview during fiscal 2001. Summitview has posted operating income of \$200,000, \$115,000, and \$249,000 during the fiscal years 2002, 2003, and the interim period of 2004 respectively. The above operating income represents solid margins of 7%, 4%, and 8% respectively.

Summitview has experienced increasing revenue flows over our review period. Revenues have increased from \$2.4 million in 2001 to \$2.7 million in 2003, an increase of 6% per year. Summitview's revenue stream is dependent upon governmental payments, however historical revenues have shown stable or improved revenue flows. Government funding includes Foster Care, AFDC (aid for families with dependent child), non public school funding and mental health funding.

Management indicates that the proposed project should generate additional revenue flows, as some of space being vacated (moving into the new building) in the current leased facilities can be utilized for additional program services. Summitview's projected budget (post construction) estimates net income ranging from \$140,000 to \$180,000 per year.

It has improved its balance sheet, with improved liquidity, minimal long-term debt and the proforma debt service coverage for the proposed financing is satisfactory.

Summitview's cash reserve is adequate, with cash and cash equivalents of \$180,000. In addition, it has minimal long-term debt of only \$58,000. With the proposed financing, Summitview would be leveraged, with debt to unrestricted net assets of 1.64x, however proforma debt service coverage using 2003 audited and 2004 unaudited would result in 1.39x and 2.42x respectively, both acceptable levels. This indicates that Summitview should be able to handle the repayment of the proposed loans. The proforma numbers presume that Summitview will eliminate a portion of existing leased office space upon completion of the new facility, resulting in approximately \$12,000 per year savings.

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III. UTILIZATION STATISTICS:

Summitview Child Treatment Center Inc. Clients				
<u>Type of Service</u>	<u>Fiscal year ended June 30,</u>			
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Group Home (Maximum 6,500 client days/yr.)	6,480	6,450	6,440	6,420
School/Day Treatment (Maximum 5,875 client days/yr.)	5,830	4,837	5,062	3,774
Total	<u>12,310</u>	<u>11,287</u>	<u>11,502</u>	<u>10,194</u>

IV. ORGANIZATION:

Background: Summitview is a 501 (C) (3) non-profit corporation, which was founded in 1993. The organization goal includes providing group home and mental health services to mentally ill children and their families who reside in El Dorado County.

The organization delivers its services in three locations in the City of Placerville as follows:

5036 Sunrey Road – Licensed 6 bed group home for children effective 1993, mental day treatment and nonpublic school programs.

2114 Shadow Run Road – Licensed 6 bed children group home effective 1995.

200 Arroyo Vista Way – Licensed 6 bed children group home effective 1998.

Residential group homes - Twenty-four hour care and supervision are provided. The group home program has a rate classification level (RCL) of 14, the most intensive offered in California. Each house is fully staffed with experienced counselors, child-care workers, with an adult to client ratio of 1:2 during most peak awake hours. An individual therapy, family therapy, and case management services are provided.

Medi-Cal Day Treatment Intensive Program (mental health) – Four hours of mental health treatment are provided to each client Monday through Friday. Psychological and psychiatric services are also provided. Summitview is certified by the El Dorado County Mental Health Department as a Medi-Cal Organizational Provider.

Nonpublic School – Certified by the California State Department of Education to provide individualized special educational services. Placement into the nonpublic school is made by referring school districts through the individualized Education Program (EP) process. The school provides a full curriculum of academics taught by fully credentialed special education teachers. A small class size of about 10 students allows for individualized attention as needed.

Licenses:

Residential Group Homes – The State Department of Social Services has licensed Summitview’s three Group Homes for up to 18 beds.

Medi-Cal Day Treatment Intensive Program (mental health) - Certified by El Dorado County, Mental Health Department as a Medi-Cal Organizational Provider.

Nonpublic School - Certified by the California State Department of Education.

Competition: Not applicable – Summitview does not have local competition for its services.

V. OUTSTANDING DEBT:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 6/30/03</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
Notes payable	\$65,000	\$58,477	\$58,477
Proposed:			
CHFFA HELP II Loan, 2004		N/A	400,000
NCB HealthCAP loan, 2004		<u>N/A</u>	<u>800,000</u>
TOTAL DEBT		<u>\$58,477</u>	<u>\$1,258,477</u>

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.

Summitview has provided a description of its savings pass through in **Attachment 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".

Summitview has executed this certification and whether Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **Attachment 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 Summitview Child Treatment Center Inc., subject to the standard HELP II loan provisions and receipt of the NCB HealthCAP funding or other acceptable funding source.