

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY  
(CHFFA)  
THE HELP II PROGRAM**

**Executive Summary**

<b>Applicant:</b>	Nevada County Council on Alcoholism, Inc. ("NCCA") 440 Henderson Street, Suite C Grass Valley, CA 94945 Nevada County	<b>Amount Requested:</b>	\$270,000
		<b>Date Requested:</b>	January 27, 2005
		<b>Loan Term:</b>	15 years
		<b>Resolution Number:</b>	HII-174
<b>Project Site:</b>	303 Bennett Street, Grass Valley, California		
<b>Facility Type:</b>	Adult residential alcohol and drug abuse/recovery facility		
<b>Uses of Loan Proceeds:</b> Loan proceeds will be used to refinance an existing loan, which has a balloon payment due in May 2005. In addition, NCCA wishes to complete minor improvements to the facility.			
<b>Type of Issue:</b>		HELP II Loan	
<b>Prior HELP II Borrower:</b>		No.	
<b>Financial Overview:</b> NCCA's income statement exhibits solid operating results with positive net income over the past three fiscal years along with continued revenue growth from newly developed programs. NCCA's balance sheet is solid with good liquidity, a good current ratio, and significant net assets. In addition, proforma debt service coverage including the proposed debt service is adequate.			
<b>Sources of Revenues:</b> (FYE 06/30/04)		<u>Amount</u>	<u>Percent</u>
Program Service Fees		\$674,862	57%
Governmental Grants		446,560	38%
Contributions		43,878	4%
Other		<u>10,975</u>	<u>1%</u>
Total Revenues	<u>\$1,176,274</u>	<u>100%</u>	
<b><u>Estimated Sources of Funds:</u></b>		<b><u>Estimated Uses of Funds:</u></b>	
HELP II loan	\$270,000*	Refinance loan	\$234,200
		Renovate facility	30,800
		Financing costs	<u>5,000</u>
Total Sources	<u>\$270,000</u>	Total Uses	<u>\$270,000</u>
* Borrower funds are not required since this is a refinance transaction and the borrower has already contributed \$15,000 in equity through principal repayments. In addition, this loan is highly secured with a loan to value ratio of only 66%.			
<b>Legal Review:</b> No information was disclosed to question the financial viability or legal integrity of the Applicant.			
<b>Staff Recommendation:</b> Staff recommends the Authority approve a resolution for a HELP II loan in an amount not to exceed \$270,000 for a term not to exceed 15 years for Nevada County Council on Alcoholism, Inc., subject to the standard HELP II loan provisions.			

**STAFF SUMMARY AND RECOMMENDATION**

**THE HELP II PROGRAM**

Nevada County Council on Alcoholism (“NCCA”)

January 27, 2005  
Resolution Number: HII-174

**I. PURPOSE OF FINANCING:**

NCCA wishes to refinance an existing loan, which has a balloon payment due in May 2005, plus complete various minor property improvements.

***Refinance existing loan* ..... \$234,200**

NCCA plans to refinance an existing short-term loan, which was obtained from Rural Community Assistance Corporation to purchase a 3,000 square foot Victorian home (Hope House) in September 2001. The home was purchased for \$250,000 and appraised for \$407,000 in December 2004, resulting in a loan-to-value ratio of 66%.

***Renovate existing facility*..... 30,800**

NCCA plans to improve the property by replacing the sewer line, roof, minor kitchen upgrades, foundation repairs and install outside sprinklers. NCCA management has received bids for the work for the requested amount.

***Financing Costs* ..... 5,000**

Authority closing fee ..... 3,375

Title/escrow fees ..... 1,625

***Total Uses of Funds* ..... \$270,000**

**Structure of Financing:**

- 15-year term with 180 monthly payments of approximately \$1,865 (yearly payments of approximately \$22,380).
- Total interest payments of approximately \$65,623.
- Corporate gross revenue pledge.
- First (1<sup>st</sup>) lien on property located at 303 Bennett Street, Grass Valley, California.

## II. FINANCIAL STATEMENTS AND ANALYSIS:

### Nevada County Council on Alcoholism Statement of Activities (Unrestricted)

	<b>5-month period</b>	<b>For the year ended June 30,</b>		
	<b>Ending Nov. 30</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<b>2004</b>			
	<b>(Unaudited)</b>			
<b><u>REVENUES</u></b>				
Governmental grants	\$ 215,680	\$ 446,560	\$ 415,334	\$ 265,727
Program service fees	266,010	625,108	520,597	644,133
Program service fees - residential	26,001	49,754	69,542	93,132
Contributions and other support	19,815	43,879	32,516	113,837
Other revenues	1,350	10,974	2,459	21,543
Total revenue	<u>528,856</u>	<u>1,176,275</u>	<u>1,040,448</u>	<u>1,138,372</u>
<b><u>EXPENSES</u></b>				
Salaries	290,955	691,207	587,213	562,424
Payroll taxes	19,700	65,789	59,623	53,254
Employee benefits	33,199	88,171	90,345	72,541
Accounting fees	11,384	22,398	21,001	-
Supplies	13,385	19,439	30,656	61,086
Maintenance	7,550	26,575	32,101	-
Conference	16,208	15,865	7,329	-
Interest	2,814	6,535	9,232	3,952
Depreciation	6,873	16,217	16,076	12,443
Professional services	6,542	19,292	28,134	64,754
Client services	22,313	24,039	10,393	-
Other expenses	21,345	58,906	42,498	83,359
Total expenses	<u>493,454</u>	<u>1,144,130</u>	<u>1,024,647</u>	<u>1,071,424</u>
<b>Change in net assets</b>	<b>35,402</b>	<b>32,145</b>	<b>15,801</b>	<b>66,948</b>
Prior year adjustments	-	5,742	-	-
Unrestricted net assets at beginning of year	186,939	149,052	133,251	66,303
Unrestricted net assets end of year	<u>\$ 222,341</u>	<u>\$ 186,939</u>	<u>\$ 149,052</u>	<u>\$ 133,251</u>

**Nevada County Council on Alcoholism  
Statement of Financial Position**

	<u>As of Nov. 30</u>	<u>As of June 30,</u>		
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b><u>Assets</u></b>	<b>(Unaudited)</b>			
Cash	\$ 163,994	\$ 144,179	\$ 120,145	\$ 45,089
Accounts receivable	103,186	48,273	35,273	43,672
Prepaid expenses	6,468	7,584	7,618	16,281
Deposits	11,662	6,234	9,074	6,234
Total Current Assets	<u>285,310</u>	<u>206,270</u>	<u>172,110</u>	<u>111,276</u>
Fixed assets	266,199	274,299	285,249	327,371
Total Assets	<u>\$ 551,509</u>	<u>\$ 480,569</u>	<u>\$ 457,359</u>	<u>\$ 438,647</u>
<b><u>Liabilities and net assets</u></b>				
Accounts payable	\$ 71,606	\$ 20,292	\$ 29,642	\$ 36,120
Payroll taxes/benefits payable	20,250	36,026	21,956	10,454
Total Current Liabilities	<u>91,856</u>	<u>56,318</u>	<u>51,598</u>	<u>46,574</u>
Notes payable	234,200	234,200	253,597	255,710
Total liabilities	<u>326,056</u>	<u>290,518</u>	<u>305,195</u>	<u>302,284</u>
<b><u>Net Assets</u></b>				
Unrestricted	222,341	186,939	149,052	133,251
Temporarily restricted	3,112	3,112	3,112	3,112
Permanently restricted	-	-	-	-
Total Net Assets	<u>225,453</u>	<u>190,051</u>	<u>152,164</u>	<u>136,363</u>
<b>Total Liabilities &amp; Net Assets</b>	<u>\$ 551,509</u>	<u>\$ 480,569</u>	<u>\$ 457,359</u>	<u>\$ 438,647</u>
<b>Financial Ratios:</b>	<b>Proforma (a)</b>			
	<b>6/30/2004</b>			
Debt Service Coverage (x)	<u>2.45</u>	<b>6.56</b>	<b>3.66</b>	<b>2.91</b>
Debt/Unrestricted Net Assets (x)	<u>1.44</u>	<b>1.25</b>	<b>1.70</b>	<b>1.92</b>
Margin (%)		<b>2.73</b>	<b>1.52</b>	<b>5.88</b>
Current Ratio (x)		<b>3.66</b>	<b>3.33</b>	<b>2.38</b>

(a) Recalculates June 2004 audited results to include the impact of the HELP II financing.

## **Financial Discussion:**

**NCCA's income statement exhibits solid operating results with positive net income over the past three fiscal years along with continued revenue growth from newly developed programs.**

NCCA has continued to post positive operating results during fiscal years 2002 through 2004, even though net income declined slightly from \$66,000 in fiscal year 2002 to \$32,000 in fiscal year 2004. These results represent modest operating margins ranging from 5.88% in fiscal year 2002 to 2.73% in fiscal year 2004. NCCA management indicates that net income declined in fiscal year 2004 as result of higher operating expenses, specifically increased staffing costs to meet increased demand for services.

During the interim 5-month period ending November 30, 2004, NCCA continues to operate successfully with net income of \$30,000.

NCCA has a well-diversified revenue stream split predominately between government grants and program service fees. NCCA total revenues are modest, with \$1.1 million for fiscal year 2004. However, NCCA continues to expand its services to those in need. The number of clients served (see page 7) has increased substantially from calendar year 2002 (3,058 served) to 2004 (4,256 served), an increase of approximately 20% per year.

**NCCA's balance sheet is solid with good liquidity, a good current ratio, and significant net assets. In addition, proforma debt service coverage including the proposed debt service is adequate.**

NCCA's has good liquidity with over \$144,000 in cash and cash equivalents, a strong current ratio of 3.66x, and net assets of over \$190,000.

NCCA's debt to unrestricted net assets ratio is relatively high at 1.25x, however its debt service coverage (DSC) ratio is very strong at 6.56x. The proforma debt to unrestricted net assets ratio increases to 1.44x, while the DSC ratio decreases to 2.45x, indicating NCCA's ability to repay the proposed loan. The decline in the DSC ratio is a result of the proposed HELP II loan being a fully amortized loan with significantly higher debt service payments, while the existing loan structure consists of minimal principal payments (mostly interest), and significantly lower payments.

NCCA has experienced a sharp increase in accounts receivable during the interim period ending November 30, 2004 due to an increase in contract usage from both Nevada and Placer Counties for Residential and Outpatient services, primarily for Proposition 36 clients (requires drug treatment in lieu of imprisonment for 1<sup>st</sup> and 2<sup>nd</sup> time nonviolent offenders adopted). Proposition 36 was adopted by voters in the general election held November 2000 and was effective July 2001. Additionally, this accounting was taken the first week of December 2004 with the largest accounts receivable not being paid in a timely fashion. NCCA management indicates that this is typical during the holiday period and expects accounts receivables to decline in the near future to a more normalized range of \$45,000 to \$55,000.

**BACKGROUND:**

Nevada County Council on Alcoholism, Inc. was founded in August 1974 as a local public benefit corporation. Its mission is to offer a full spectrum of treatment and recovery services to individuals and families that will reduce the social, financial and health consequences to the community. The purpose is to assist adults and adolescents entering into recovery with a goal of restoring families to physical, emotional and spiritual health. Its vision is to create a world of healthy families, which leads to a world of health communities.

NCCA opened Hope House in 2001. Hope House is a Women and Women with Children Chemical Dependency Residential Program. The program is a 90-day term for women and women with up to two children under the age of 9 with them. Capacity is currently 10 women and 6 children.

During the average stay, women will participate in over 480 hours of recovery activities that include individual and group counseling, psychotherapy, self-help meetings, mind-body exercises and self-sufficiency modules. All program activities are supervised and led on-site by professional

NCCA has office locations in Grass Valley on Bennett Street and Henderson Street, along with a location in Truckee, CA.

**Licenses and Contracts:**

NCCA is licensed as an adult residential alcohol and drug treatment facility with the State Department of Alcohol and Drug Programs.

**Service Area and Competition:**

Hope House is the only provider for women with children within a 40-mile radius. In addition, Hope House provides a unique system of care, which requires a higher level of supervision and psychotherapy treatment in conjunction with traditional drug and alcohol treatment. Consequently, Hope House does not compete directly with other facilities. Listed below are other facilities that offer treatment for men and women:

<u>Health Facility</u>	<u>Beds</u>	<u>Market Share in *Nevada County (%)</u>	<u>Estimated Distance Away</u>
Progress House of Nevada County	19	66%	8 miles
South Placer Residential of Placer Co.	30	0%	30 miles
Pathways of Yuba County	12	0%	35 miles
New Leaf of Placer County	10	0%	40 miles
<b>NCCA's Hope House</b>	<b>10</b>	<b>34%</b>	<b>N/A</b>

\* Based on the number of beds in Nevada County.

**IV. UTILIZATION STATISTICS:**

**Total Clients Served  
(Calendar Year)**

<b><u>CORR – Clients Served</u></b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Outpatient (Medi-Cal, Drug Court, Prop 36, NNA, CalWorks, Peri-Natal, CPS)	341	236	157
Youth Programs (Prevention & Treatment, Mood management,)	523	455	364
Family Programs (Parenting, Anger management, Relationships, Therapy)	427	371	337
DUI Programs & Drug Diversion	751	685	617
Hope House	68	53	26
Ancillary Services (Seniors, Assessments, Walk-ins, Drug Testing)	2,146	1,893	1,557
<b>Total Served</b>	<b>4,256</b>	<b>3,693</b>	<b>3,058</b>

**V. OUTSTANDING DEBT:**

Description	Original Amount	Amount Outstanding As of 6/30/04	Estimated Amount Outstanding After Proposed Financing
<b>Existing:</b>			
Mortgage RCAC 2001	\$250,000	\$234,200	\$0
<b>Proposed:</b>			
CHFFA HELP II, 2005			270,000
<b>TOTAL DEBT</b>		<b>\$234,200</b>	<b>\$270,000</b>

**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.

NCCA 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".

NCCA has executed this certification and whether Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **Exhibit B**.

**VI. 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.

**VII. STAFF RECOMMENDATION:**

Staff recommends the Authority approve a resolution for a HELP II loan in an amount not to exceed \$270,000 for a term not to exceed 15 years for Nevada County Council on Alcoholism, Inc., subject to the standard HELP II loan provisions.