

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY  
THE HELP II PROGRAM  
EXECUTIVE SUMMARY**

<b>Applicant:</b>	The Tulare Youth Service Bureau Inc. ("Tulare") 327 South K Street Tulare, CA 93274 Tulare County	<b>Amount Requested:</b>	\$500,000
		<b>Requested Loan Term:</b>	15 years
<b>Project Site:</b>	Same as above	<b>Date Requested:</b>	August 24, 2006
<b>Facility Type:</b>	Community Mental Health	<b>Resolution Number:</b>	HII-186

**Policy Issues:** First, under the HELP II loan program guidelines, a first position lien is generally required on property, however on this transaction staff is recommending a second lien. Secondly, using HELP II loan proceeds to refinance an existing HELP II loan is generally not allowable, however staff is recommending allowing this exception. Please refer to page 2 of the Staff Summary and Recommendation for more detailed information.

**Uses of Loan Proceeds:** Loan proceeds will be used to remodel 5,000 square feet of office space from seven (7) offices and three (3) meeting rooms into sixteen (16) offices and one (1) large multi-purpose room. In addition, part of the proceeds will be used to refinance Tulare's existing HELP II loan, extending the loan term by seven (7) years, thus improving the its cash flow.

<b>Type of Issue:</b>	HELP II Loan
<b>Prior HELP II Borrower:</b>	Yes
<b>Payments Status:</b>	Current

**Financial Overview:** The income statement exhibits positive operating results for fiscal years 2003 through 2005. The loss observed in fiscal year 2004 relates to a one-time non-operational expense, thus without this expense operating results were also positive. The balance sheet has remained stable throughout the last three fiscal years.

<b>Sources of Revenues:</b> (FYE 06/30/05)	<u>Amount</u>	<u>Percent</u>
Grants	\$ 3,497,764	97.2%
Interest/ other	57,111	1.6%
Donations	32,079	0.9%
Fees & Insurance	12,410	0.3%
Total Revenue	<u>\$ 3,599,364</u>	<u>100%</u>

<u>Sources of Funds</u>		<u>Uses of Funds</u>	
HELP II Loan (2 <sup>nd</sup> lien)	\$500,000	Refinance existing HELP II loan	\$260,000
NCB Dev. Corp. Loan* (1 <sup>st</sup> lien)	585,000	Remodel existing facility	586,000
Borrower Equity	28,250	Refinance real estate loan	215,000
Total Sources	<u>\$1,113,250</u>	Purchase equipment	46,000
		Loan Fees	<u>6,250</u>
		Total Uses	<u>\$1,113,250</u>

\* Loan has received underwriting approval from National Cooperative Bank Development Corporation.

**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 \$500,000 for a term not to exceed 15 years for the Tulare Youth Service Bureau Inc., subject to the standard HELP II loan provisions and NCB loan funding (or other acceptable lender) in the amount of approximately \$585,000.

**STAFF SUMMARY AND RECOMMENDATION  
THE HELP II PROGRAM**

August 24, 2006

The Tulare Youth Service Bureau, Inc. (“Tulare”)  
Resolution Number: HII-186

**POLICY ISSUE:** There are two policy exceptions on this proposed HELP II loan.

- A first position lien is generally required on property, however on this transaction staff is recommending a second lien position. A second lien position is acceptable because the current HELP II loan is also in the second lien position on this property. In addition, the combined loan (HELP II and NCB loan) to value ratio is relatively low at 36%.
- Secondly, refinancing an existing HELP II loan is generally not an allowable use of loan funds, however staff is recommending loan proceeds be used to refinance an existing HELP II loan. This refinance will significantly improve future operating cash flow by reducing debt service payments by \$16,800 per year. This will help reduce the financial burden on Tulare and allow them to provide additional services to clients at a lower cost.

**I. PURPOSE OF FINANCING**

In order to meet increased patient demand Tulare must increase its operating capacity by remodeling its current facility. This loan will enable Tulare to remodel its existing facility to fully accommodate an increase in staff and patients. The project will provide more efficient service to patients by increasing the number of offices where patients will be treated. In addition, part of the proceeds will be used to refinance Tulare’s existing HELP II loan, thus keeping Tulare’s monthly payment down and improving future operating cash flow.

***Refinance existing HELP II loan (2<sup>nd</sup> lien) ..... \$260,000***

A portion of the CHFFA loan proceeds will be used to refinance Tulare’s existing HELP II loan, lowering their monthly payment and improving cash flow. The current HELP II loan has a monthly payment of \$3,200, while the proposed new HELP II loan for \$260,000 will be approximately \$1,800 per month, thus saving \$16,800 per year. The current HELP II loan is also secured in the second lien position on the property located at 327 South K Street, Tulare, CA.

***Construction, renovation, and remodeling real property ..... 586,000***

A portion of the CHFFA loan (\$240,000) will be used to remodel 5,000 square feet of office space located at 327 South K Street, Tulare, CA. The balance of funding will be provided by a loan from NCB at an estimated interest rate of 7.5%. The office space will be converted from seven offices and three meeting rooms into sixteen offices and one large multi-purpose room. The “as improved” appraised valuation is \$3 million per appraisal dated March 28, 2006, leading to a combined loan value ratio of 36%.

***Refinance existing private loan (1<sup>st</sup> lien) ..... 215,000***

The balance of the NCB loan will be used to pay-off the existing 1<sup>st</sup> lien on the property located at 327 South K Street, Tulare, CA. Tulare purchased this property in 1996 and the owner carried the loan as part of the purchase agreement. The current interest rate on this loan is 9% and the monthly payment is \$3,000, while the proposed loan contains an interest rate of 7.5%, resulting in moderate interest savings. However, since the new NCB loan will extend the final loan maturity (current loan matures in 2016, while NCB's loan matures in 2026), the monthly payment for \$215,000 is estimated to be \$1,590, or a savings of \$17,000 per year.

***Purchase equipment (new central heating/air conditioning and duct system) ... 46,000***

***Authority Fees ..... 6,250***

***Total Uses of Funds ..... \$1,113,250***

**Financing Structure**

- Fifteen-year term with 180 monthly payments of approximately \$3,453 (total annual payment of \$41,436).
- Total interest payments of approximately \$121,523.
- Lien on corporate gross revenues.
- A second (2<sup>nd</sup>) lien on the property located at 327 South K Street, Tulare, CA.

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## II. FINANCIAL STATEMENTS AND ANALYSIS

**Tulare Youth Service Bureau, Inc.**  
**Statement of Activities**  
(Unrestricted)

	<b>For the Year Ended June 30,</b>			
	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
	(unaudited)			
<b>Revenues and Support:</b>				
Grants	\$ 4,152,256	\$ 3,497,764	\$ 3,924,808	\$ 3,178,507
Fees & insurance	19,634	12,410	17,019	51,040
Donations	32,320	32,079	77,068	126,334
Interest/other	40,113	57,111	51,955	36,070
Total revenues	<u>4,244,323</u>	<u>3,599,364</u>	<u>4,070,850</u>	<u>3,391,951</u>
<b>Expenses:</b>				
Salaries	2,654,693	2,316,599	2,167,209	2,235,543
Fringe benefits and payroll taxes	727,571	558,422	440,243	417,796
Repairs & maintenance	4,888	3,569	3,388	5,125
Communications	97,245	68,537	62,597	49,391
Travel, conference and training	39,794	27,666	21,676	24,689
Professional and technical services	58,324	71,849	71,224	92,480
Contractual maintenance	66,889	39,355	48,159	49,704
Outside labor	40,600	27,811	6,729	63,842
Office supplies	63,342	35,643	31,309	26,549
Utilities	28,659	27,478	31,354	31,032
Printing, copying and advertising	7,599	8,814	11,531	11,275
Rents & leases	11,131	8,730	9,480	14,442
Insurance	60,627	39,054	44,434	50,703
Therapy/ program supplies	9,876	4,219	4,634	5,061
Transportation	57,325	44,739	48,255	42,860
Equipment	38,753	21,933	22,172	(4,673)
Interest	30,000	30,150	32,387	34,486
Depreciation	82,633	82,635	82,585	81,954
Youth Center/ other fundraising	-	47,201	76,453	104,492
Youth Center construction	-	-	935,120	-
other	89,352	90,905	75,585	33,909
Total expenses	<u>4,169,301</u>	<u>3,555,309</u>	<u>4,226,524</u>	<u>3,370,660</u>
<b>Changes in unrestricted net assets</b>	<b>75,022</b>	<b>44,055</b>	<b>(155,674)</b>	<b>21,291</b>
Unrestricted net assets, beginning of the period	1,332,315	1,288,260	1,308,533	1,244,966
Prior period adjustment	-	-	135,401	42,276
Net assets, end of period	<u>\$ 1,407,337</u>	<u>\$ 1,332,315</u>	<u>\$ 1,288,260</u>	<u>\$ 1,308,533</u>

**Tulare Youth Service Bureau, Inc.**  
**Financial Position**

	As of June 30,			
	2006	2005	2004	2003
<b>Assets:</b>	(Unaudited)			
Current assets:				
Cash and cash equivalents	\$ 809,416	\$ 678,945	\$ 1,088,922	\$ 981,141
Grants receivable	644,954	708,106	276,311	288,634
Current unconditional promises to give, net of discount	10,300	15,300	10,464	7,685
Prepaid expenses	27,445	27,445	15,164	-
Total current assets:	<u>1,492,115</u>	<u>1,429,796</u>	<u>1,390,861</u>	<u>1,277,460</u>
Non-current assets:				
Long-term unconditional promises to give net of discount	-	-	11,941	19,254
Fixed assets, net of accumulated depreciation	867,057	949,690	1,032,325	1,102,353
<b>Total Assets</b>	<b><u>\$ 2,359,172</u></b>	<b><u>\$ 2,379,486</u></b>	<b><u>\$ 2,435,127</u></b>	<b><u>\$ 2,399,067</u></b>
<b>Liabilities and Net Assets:</b>				
Current Liabilities:				
Accounts payable	\$ 150,000	\$ 174,765	\$ 155,172	\$ 145,362
Accrued vacation	172,684	172,684	160,373	200,000
Advances payable	165,123	188,000	272,315	141,117
Notes payable, current portion	51,650	49,672	47,285	45,047
Total current liabilities	<u>539,457</u>	<u>585,121</u>	<u>635,145</u>	<u>531,526</u>
Notes payable, net current portion	412,378	462,050	511,722	559,008
Total liabilities	<u>951,835</u>	<u>1,047,171</u>	<u>1,146,867</u>	<u>1,090,534</u>
Net Assets:				
Total unrestricted net assets	1,407,337	1,332,315	1,288,260	1,308,533
<b>Total unrestricted net assets and liabilities</b>	<b><u>\$ 2,359,172</u></b>	<b><u>\$ 2,379,486</u></b>	<b><u>\$ 2,435,127</u></b>	<b><u>\$ 2,399,067</u></b>

**Financial Ratios:**

	<b>Proforma (a)</b>			
	<b>FYE June, 2005</b>			
Debt service coverage (x)	1.68	2.03	1.22	2.32
Debt to unrestricted net assets (x)	0.81	0.38	0.43	0.46
Margin (%)		1.22%	(3.82)%	0.63%
Current Ratio (x)		2.44	2.19	2.40

(a) based on adding projected new debts (CHFFA and NCB) to the audited 2005 financial results.

## **Financial Discussion**

**The income statement exhibits positive operating results for fiscal years 2003 through fiscal year 2005. The loss observed in fiscal year 2004 relates to a one-time non-operational expense, thus without this expense operating results were also positive.**

Tulare has enjoyed a successful long-term operating history since 1971. Most recently, Tulare posted solid operating profits from fiscal year 2003 through fiscal year 2005. Revenues have grown approximately 10% during this time period, mostly due to an increase in the number of patients served from 1,225 in fiscal year 2003 to 1,391 in fiscal year 2005, a 13.5% increase. Tulare has recently increased staffing to meet higher patient volumes.

Tulare receives most of its revenues from government grants (mostly funded through Tulare County on a Medi-Cal cost reimbursement contract), which constitutes approximately 96% of its total revenues (average over our review period).

During fiscal year 2005, Tulare increased its total revenues to \$3.59 million from \$3.26 million in the previous year (after backing out one-time grant revenues of \$803,000 attributed to the construction of the new Youth Center), an increase of approximately 10%. This increase is mostly related to higher demand for services as demonstrated by additional patients served, which increased from 1,204 to 1,391 over this period. Corresponding total expenditures increased to \$3.55 million from \$3.21 million (after backing out one-time expenditures of \$1.01 million related to Youth Center). This increase is primarily related to higher salaries and fringe benefit costs. Salaries increased because Tulare hired two additional therapists to meet increased patient demand. Fringe benefits increased due to higher retirement contributions and health insurance costs.

During fiscal year 2004, Tulare posted a decrease in unrestricted net assets of \$155,000. However, Tulare's operating income was actually a positive \$53,000, after backing out one-time construction costs/other fundraising costs directly attributed to the new Youth Center of \$1.01 million and corresponding grant revenues of \$803,000.

The interim unaudited fiscal year 2006 operating results continue to exhibit further improvement, with operating income of \$75,000. In addition, revenues and the number of patients served continue to increase. Total expenditures have increased due to two additional therapists being hired during this fiscal year.

**The balance sheet has remained stable throughout the last three fiscal years.**

Tulare's balance sheet has remained stable throughout the last three fiscal years. It has a solid current ratio of 2.44x and significant cash/cash equivalents in excess of \$600,000. During fiscal year 2005 cash and equivalents declined, because of a grants receivable timing

issue. The May 2005 billings for Tulare County of \$308,000 (plus additional grant billings) were not received until July 2005, consequently the grants receivable figure is higher and the cash position is lower than the prior two years

Tulare’s current debt service coverage ratio is a strong 2.03x. With this proposed financing, proforma debt service coverage ratio will be an adequate 1.68x. The debt to unrestricted net assets ratio is currently 0.38x and with the proposed financing remains adequate at 0.81x.

### III. UTILIZATION STATISTICS

**Client Served / \* (minutes)  
Fiscal Year Ended June 30**

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Totals</b>	1,225 / (1,365,094)	1,204 / (1,392,318)	1,391 / (1,419,807)	1,627 / (1,666,000)**

\* Patient minutes

\*\* Forecasted for 2006

### IV. ORGANIZATION

#### **Background**

Tulare is a private non-profit corporation (formerly known as Operation Helping Hand). It has been in existence since 1971, providing services to youth in Tulare County. Its Board of Directors consist of 14 members, which governs Tulare’s with representatives from agencies that serve youth, including the school districts, social agencies, probation law enforcement, and general public. In 1987, Tulare was awarded a contract to provide outpatient children mental health services in Tulare County. Tulare is certified by State Department of Mental Health as a Short Doyle-Medi-Cal provider.

In 1991, the Tulare Youth Foundation (the “Foundation”) was established to help Tulare. The purpose of the Foundation is to raise funds and purchase equipment and property. The Foundation has the same Board of Directors as Tulare. In 1996, the Foundation was able to purchase the building that was being leased for the clinic, providing savings to the program. As part of this financing, the Foundation will transfer its ownership interest in the building to Tulare.

#### **Services and Programs:**

Tulare provides a comprehensive mental health program for youth and adolescents. It is totally dedicated to the treatment of children. It has a unique approach in that mental health services are provided at school sites as well as at the facility. Services include: diagnostic assessment, individual, group, family and play therapy, medication prescribing, crisis intervention, case management, and consultation with school personnel. Additionally, there is a child sexual abuse treatment program

### **Licenses**

Tulare is certified by the California Department of Mental Health to operate as a community mental health provider.

### **Contracts**

Tulare is subject to Medi-Cal contracting. It has been awarded a Medi-Cal contract by agreeing to provide community services and accept Medi-Cal and Medicare patients.

## **V. 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.

Tulare has provided a description of its savings pass through in **Exhibit A**.

## **VI. SECTION 15459 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, borrower shall agree to a number of actions, including (1) 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 (2) 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".

A copy of Tulare's certification is included as **Exhibit B**.



## VII. OUTSTANDING DEBT

Description	Original Loan Date/Amount	Amount Outstanding as of 6/30/2005	Estimated Amount Outstanding After Proposed Loan
<b>Existing:</b>			
A. J. & Olga Avila	02/02/1996 \$325,000	\$225,517*	\$0
State of California (CHFFA)	02/01/1998 500,000	286,205*	0
<b>Proposed:</b>			
State of California (CHFFA)			<b>500,000</b>
NCB Dev. Corp. Loan			585,000
<b>Total Debt</b>	N/A	<b>\$511,722*</b>	<b>\$1,085,000</b>

\* Includes current portion of long-term debt.

## VIII. RELIGIOUS AFFILIATION DUE DILIGENCE:

Staff has reviewed the Applicant's responses to the questions contained in the Religious Affiliation portion of the application. No information was disclosed in the questionnaire or discovered by staff to question the Applicant's compliance with the provisions of the Authority's Act relating to religious affiliation.

## IX. 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.

## X. STAFF RECOMMENDATION

Staff recommends the Authority approve a resolution for a HELP II loan in an amount not to exceed \$500,000 for a term not to exceed 15 years for the Tulare Youth Service Bureau Inc., subject to the standard HELP II loan provisions and NCB loan funding (or other acceptable lender) in the amount of approximately \$585,000.