

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

Applicant:	Chamberlain’s Children Center, Inc. (“CCC”) 1850 San Benito Street Hollister, CA 95023	Amount Requested:	\$400,000
		Requested Loan Term:	15 years
		Date Requested:	April 24, 2008
		Resolution Number:	HII-219
Project Site:	1850 San Benito Street, Hollister, CA 95023, San Benito County		
Facility Type:	Group Home		
Prior HELP II Borrower:	No		
Background: Established in 1969, CCC is a licensed, nonprofit organization providing social, mental health and educational services for abused children. CCC currently provides schooling and residential treatment in home-like environments for up to 24 children who have not succeeded in a normal foster care setting. CCC teaches the children to become socially competent by helping them resolve emotional problems.			
Uses of Loan Proceeds: The proceeds will be used to construct two new residential care homes for the children and fencing/landscaping around the new buildings. These new homes will replace the antiquated structures that are currently housing the children. Each home will house six children and 24-hour on-duty staff.			
Financing Structure			
<ul style="list-style-type: none"> • 15-year fixed rate loan. • 180 equal monthly payments of approximately \$2,762 (yearly payments of about \$33,144). • Gross revenues pledge. • Second lien position on the property located at 1850 San Benito Street, Hollister, CA 95023. • Loan to value ratio not to exceed 95% (estimated combined loan to value ratio of 66%). 			
Financial Overview: CCC’s income statement seems to exhibit profitable operations during the past two fiscal years, a seemingly significant improvement from FY 2005. CCC’s balance sheet appears to reflect a steady growth in net assets and a reduction in liabilities since FY 2005. CCC appears to have adequate liquidity and a strong debt service coverage ratio, which likely exhibits CCC’s ability to comfortably repay the proposed HELP II loan.			
Sources of Funds		Uses of Funds	
HELP II	\$400,000	Construction	\$435,000
Borrower Funds	<u>43,000</u>	Financing Costs	<u>8,000</u>
Total Sources	<u>\$443,000</u>	Total Uses	<u>\$443,000</u>
Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.			
Staff Recommendation: Staff recommends approval of a HELP II loan for Chamberlain’s Children Center, Inc. in an amount not to exceed \$400,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.			

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

I. PURPOSE OF FINANCING

Construction **\$ 435,000**

CCC intends to construct two residential care homes located at 1850 San Benito Street, Hollister, CA. Each home will house six children and 24-hour-on-duty staff. Permits and licensing are in place. The new homes are each designed to be approximately 1,200 sq. feet and to contain 3 bedrooms/1.5 bathrooms, each with a large centrally located kitchen. Construction will also include fencing and landscaping around the buildings.

The proposed HELP II loan will be secured by a second lien position on the real property located at 1850 San Benito Street. This property is currently secured by a \$596,000 loan (held by California Bank and Trust), which holds the first lien position superior to the proposed HELP II loan. CCC's Hollister campus consists of 4 group homes, 2 one-room classrooms, a BBQ gazebo, 2 playground areas, and two office buildings. CCC estimates the current market value of the property to be approximately \$1.5 million, leading to a combined loan to value ratio (if the Help II proposed loan is funded) of 66%. CHFFA will require a full appraisal of the property prior to closing.

Financing Costs **8,000**

Title and Escrow.....	3,000
Authority Fees.....	<u>5,000</u>

Total Uses of Funds **\$ 443000**

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II. FINANCIAL STATEMENTS AND ANALYSIS

Chamberlain's Children Center, Inc.

Statement of Activities

Unrestricted

	For the Year Ended December 31,		
	<u>2,007</u>	<u>2006</u>	<u>2005</u>
Revenue and support:			
Residential Revenue	\$ 1,751,349	\$ 1,875,874	\$ 1,568,576
Community Service Revenue	190,964	231,387	246,187
Educational Revenue	340,912	322,205	254,309
Auxiliary Charges-Affiliate	243,525	265,717	281,293
Net assets released from restrictions	78,288	68,250	-
Total revenue and support	<u>\$ 2,605,038</u>	<u>\$ 2,763,433</u>	<u>\$ 2,350,365</u>
Expenses:			
Direct payroll, salaries, payroll costs	\$1,603,492	\$1,542,873	\$1,713,012
Occupancy and utilities	180,938	177,151	178,883
Organizational expenses	163,273	179,715	138,762
Supplies	119,885	67,654	57,445
Contracts	78,018	164,049	175,967
Depreciation and amortization	45,950	51,311	56,867
Insurance	45,560	132,184	117,028
Vehicle expense	22,302	28,418	24,200
Telephone	15,017	18,148	21,439
Advertising, training and travel	12,356	5,163	2,778
Office & postage	5,271	4,517	3,723
Interest	3,335	2,174	2,615
Other operating expense	93,437	52,107	59,768
Total expenses	<u>2,388,834</u>	<u>2,425,464</u>	<u>2,552,487</u>
Change in unrestricted net assets	216,204	337,969	(202,122)
Unrestricted net assets, beginning of year	<u>811,322</u>	<u>473,353</u>	<u>675,475</u>
Unrestricted net assets, end of year	<u>\$1,027,526</u>	<u>\$811,322</u>	<u>\$473,353</u>

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Chamberlain's Children Center, Inc.

Financial Position

	<u>As of June 30,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets:			
Current assets:			
Cash and investments	\$ 296,215	\$ 106,398	\$ 11,703
Accounts receivable-Residential-net	135,095	117,381	31,011
Accounts receivable-Community Service	43,393	51,562	39,783
Accounts receivable-School	24,969	26,810	25,505
Contributions receivable	7,552	19,648	22,312
Prepaid expenses	14,246	51,046	66,942
Due from Chamberlain's Day Center, Inc.	131,905	74,368	21,004
Due from CSC	-	4,993	-
Total Current Assets	<u>653,375</u>	<u>452,206</u>	<u>218,260</u>
Fixed assets:			
Land and buildings	1,307,191	1,307,191	1,257,189
Furniture and equipment	393,656	347,382	335,115
Vehicles	132,367	109,558	103,130
	1,833,214	1,764,131	1,695,434
Less: accumulated depreciation	(566,504)	(520,555)	(470,179)
Total fixed assets	<u>1,266,710</u>	<u>1,243,576</u>	<u>1,225,255</u>
Other assets:			
Loans costs net of amortization	5,533	6,467	7,402
Total other assets	<u>5,533</u>	<u>6,467</u>	<u>7,402</u>
 Total assets	 <u>\$ 1,925,618</u>	 <u>\$ 1,702,249</u>	 <u>\$ 1,450,917</u>
Liabilities and net assets:			
Current liabilities:			
Accounts payable	\$ 177	\$ 41,665	\$ 36,485
Accrued liabilities	107,038	99,521	136,959
Overpayments	20,952	81,830	60,606
Current portion of notes payable	20,274	24,354	55,505
Total current liabilities	<u>148,441</u>	<u>247,370</u>	<u>289,555</u>
 Notes payable, less current portion	 594,339	 609,198	 664,420
Total liabilities	<u>742,780</u>	<u>856,568</u>	<u>953,975</u>
Net assets:			
Unrestricted net assets:	1,027,526	811,322	473,353
Temporarily Restricted	155,312	34,359	23,589
Total net assets	<u>1,182,838</u>	<u>845,681</u>	<u>496,942</u>
 Total liabilities and unrestricted net assets	 <u>\$ 1,925,618</u>	 <u>\$ 1,702,249</u>	 <u>\$ 1,450,917</u>

Financial Ratios:

**Proforma (a)
FYE June, 2007**

Debt service coverage (x)	4.36	9.59	6.79	(2.45)
Debt/Unrestricted Net Assets (x)	0.84	0.50	0.72	1.34
Margin (%)		8.30	12.23	(8.60)
Current Ratio (x)		4.40	1.83	0.75

(a) Recalculates 2007 audited results to include the impact of this proposed financing.

Financial Discussion – Income Statement

CCC's income statement appears to exhibit profitable operations during the past two fiscal years, a seemingly significant improvement from FY 2005.

CCC appears to have shown improved operations during FY 2006 and FY 2007, mostly due to increases in Non-Public School funding, maintenance of high (100%) Residential occupancy levels, and increases in Grants and Public Support. CCC's revenues stem mainly from Residential (67%), Community Service (7%), Educational (13%) and Auxiliary (9%) services. Residential revenue refers to the proceeds from the 24-bed shelter that is maintained for abused children (which are filled the majority of the time.) The Community Service revenue is the proceeds from six emergency shelter beds in this program; this service is billed by the hour. Educational revenue refers to the proceeds obtained from the specialized schooling CCC provides for abused children. Auxiliary Charges refer to the revenues obtained through the administrative services supplied by CCC to its affiliate, Chamberlain's Day Center (an outpatient mental clinic in Gilroy that serves children and families).

Revenues have increased in FY 2006 by 20%, but dropped in FY 2007 by nearly 7%, which CCC attributes to normal fluctuations in the number of children served. It should be noted that CCC suffered losses in FY 2005 due to the change in the State's funding for non-public schools, which resulted in a decrease in the student enrollment numbers at CCC's school.

During the review period, CCC's expenses have consistently decreased. CCC management attributes this decrease to "strong" conservative fiscal management. Given the nature of its government-based funding, CCC management anticipates operations to remain near the break-even level.

Particular Facts to Note:

- In FY 2005, CCC's school occupancy dropped due to a change in the State's funding for non-public schools, yielding to a loss in revenue for the year. In FY 2006, CCC worked with both the San Benito County Office of Education and the Hollister School District to increase their census and community awareness of the need for their school. CCC's efforts were successful and they now operate at 90 to 95 % capacity.
- Community service revenue tends to fluctuate as CCC cannot control the number of emergency bed placements or the period of time the children stay in the shelter.
- Insurance costs decreased, due to market decreases for CCC's type of service and CCC's decision to change insurance agents and carriers.
- Other Operating Expenses increased due to an increase in PG&E costs, an increase in facility maintenance costs (used to rehabilitate the then poor-existing condition of their buildings), and a general increase in food, clothing and basic necessities.

Financial Discussion – Balance Sheet

CCC’s balance sheet appears to reflect a steady growth in net assets and a reduction in liabilities since FY 2005. CCC has adequate liquidity and a strong debt service coverage, which suggests CCC should be able to comfortably repay the proposed HELP II loan.

CCC’s balance sheet reflects a steady growth in net assets and a reduction in liabilities since FY 2005, due to a plan by CCC management to reduce debt and an overall increase in the non-public school census. CCC’s only long-term debt is a bank loan with California Bank and Trust in the amount of \$596,000. CCC is liquid with approximately \$300,000 in cash and \$653,000 in current assets and its current ratio is a very solid 4.40x.

CCC has adequate liquidity and a strong 9.59x debt service coverage. The proforma debt service coverage remains solid at 4.36x, which suggests CCC should be able to comfortably repay the proposed HELP II loan. .

III. UTILIZATION STATISTICS

Children Served Fiscal Year Ended January 31

	2005	2006	2007
Totals	24	24	24

IV. ORGANIZATION

Background and Licensing

In 1965, Clara Chamberlain started a home for special-needs infants in the city of Santa Clara. Over the years, the need for foster care for behaviorally disturbed children increased. Many children were not succeeding in a normal foster care setting, having experienced multiple placements prior to coming to her home. Soon it appeared that the residential care program needed to be complemented with a unique scholastic program. Seeking special education, Mrs. Chamberlain created a school for the children in her care. As a result, in 1969, Chamberlain’s Children Center (CCC) was formed as a 501(c)(3) nonprofit corporation targeting improved social, mental health, and educational services for victims of child abuse.

The mission of CCC is to provide schooling and residential treatment in home-like environments for up to 24 children who have not succeeded in a normal foster care setting. CCC strives to teach the children in its care (who often have severe behavioral problems) to become socially competent by helping them to resolve emotional problems. A principal goal is for each child to return to its family or a foster home in the shortest time possible.

Chamberlain’s Children Center is headquartered in Hollister, California, and is a member of the Gilroy Community Collaborative and the San Benito County Health and Human Services Network. Residential treatment is provided by CCC in four cottages, each sheltering six children. The Division of Community Care Licensing of the State Department of Social Services licenses each cottage.

V. OUTSTANDING DEBT

<u>Date Issue:</u>	<u>Original Amount</u>	<u>Amount Outstanding as of 6/30/2007*</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
California Bank and Trust, 1998	\$ 697,500	\$ 609,219	\$ 596,102
Proposed:			
CHFFA HELP II, 2008			400,000
Total		<u>\$ 609,219</u>	<u>\$ 996,102</u>

* Includes current portion of long-term debt.

VI. DUE DILIGENCE

Due diligence has been completed with regard to the following items:

- Savings Pass Through: (Borrower) has provided a description of its savings pass through in **Exhibit A**.
- Section 15459.1 of the Act (Community Service Requirement): CCC has executed this certification indicating that the facility is not of a type which provides services for which Medi-Cal payments are available. A copy of the certification is provided as **Exhibit B**.
- Religious Due Diligence
- Legal Review

VII. STAFF RECOMMENDATION

Staff recommends approval of a HELP II loan for Chamberlain’s Children Center, Inc. in an amount not to exceed \$400,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.