

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

Applicant: Valley Village (“VV”) 20830 Sherman Way Winnetka, CA 91306 Los Angeles County		Amount Requested: \$485,000 Requested Loan Term: 15 years Date Requested: May 31, 2007 Resolution Number: HII-194	
Project Site: 8727 Fenwick, Sunland, California 91040, Los Angeles County		Facility Type: Adult Day Health Center	
Use of Loan Proceeds: Loan proceeds will be used to renovate the Sunland Adult Health Care Center to accommodate the increased demand for services.			
Type of Issue: HELP II Loan		Prior HELP II Borrower: Yes	
Payments up to date: Yes (As of May 1, 2007, current loan balance is \$255,714.)			
Financial Overview: During our review period, VV has shown increased revenues as services have expanded to meet growing demand. VV’s balance sheet has fluctuated slightly but has remained steady over the review period.			
Sources of Revenue: (FYE 6-30-06)		<u>Amount</u>	<u>Percent</u>
Program income		\$12,074,181	96.04%
Net assets released from restriction		269,917	2.15%
Donations and membership		146,856	1.17%
Grants		79,486	0.63%
Interest income		<u>1,754</u>	<u>0.01%</u>
Total Revenue and Support		<u>\$12,572,194</u>	<u>100.00%</u>
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II Loan	\$485,000	Construction/renovation	\$1,225,255
Grants/fundraising/Prop K Funds	560,000	Financing Costs	<u>8,063</u>
Equity Contribution	<u>188,318</u>	Total Uses	<u>\$1,233,318</u>
Total Sources	<u>\$1,233,318</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 for Valley Village in an amount not to exceed \$485,000 for a term of 15 years and financing terms acceptable to the Authority.			

STAFF SUMMARY AND RECOMMENDATION

VALLEY VILLAGE

May 31, 2007

Resolution Number: HII-194

I. PURPOSE OF FINANCING: Loan proceeds will be used to renovate the Sunland Adult Health Care Center to accommodate the increased demand for services. VV provides therapeutic, physical, educational and recreational activities for developmentally and medically fragile clients.

Construction/Renovation ***\$1,225,255***

VV plans to renovate and reconfigure the Sunland Adult Health Care Center to improve serves for their clients. VV currently serves 60 clients and with the renovations they will be able to serve an additional 20 clients.

Financing Costs ***8,063***

Authority Closing Fee *\$6,063*

Title/Escrow/Other *2,000*

Total ***\$1,233,318***

Financing Structure and Terms:

- 15-year fully amortized loan term in the amount of \$485,000.
- 180 equal monthly payments of approximately \$5,179 (total annual payments of \$62,148).
- Total interest payments of approximately \$182,285.
- 2nd lien position in the amount of \$485,000 for the property located at 8727 Fenwick Street, Sunland, CA 91040.
- Appraisal dated April 12, 2007 valued the property at nearly \$1.2 million, leading to a combined loan to value ratio of 85%.
- Corporate gross revenue pledge.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Valley Village and Affiliates Statement of Activities (Unrestricted)

	Fiscal Year Ended June 30,		
	2006	2005	2004
<u>REVENUE</u>			
Program income	\$ 12,074,181	\$ 11,436,800	\$ 10,945,580
Grants	79,486	58,438	56,518
Donations and membership	146,856	135,226	167,662
Interest income	1,754	1,947	1,293
Net assets released from restrictions	269,917	53,640	165,382
Total revenue	<u>12,572,194</u>	<u>11,686,051</u>	<u>11,336,435</u>
<u>EXPENSES</u>			
Residential care	6,417,790	6,241,560	5,816,528
Day care	4,222,207	4,115,440	3,585,632
Program administration	1,459,647	1,342,630	1,283,220
Fundraising	66,848	77,317	53,009
Total expenses	<u>12,166,492</u>	<u>11,776,947</u>	<u>10,738,389</u>
<i>Increase in unrestricted net assets</i>	<i>405,702</i>	<i>(90,896)</i>	<i>598,046</i>
Unrestricted net assets, beginning of year	2,930,090	3,020,986	2,422,940
Prior period adjustment	(335,236)	-	-
Unrestricted net assets, end of year	<u>\$ 3,000,556</u>	<u>\$ 2,930,090</u>	<u>\$ 3,020,986</u>

**Valley Village and Affiliates
Balance Sheet**

	As of June 30,		
	2006	2005	2004
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 710,064	\$ 603,492	\$ 990,511
Program funding receivable	1,232,705	1,684,547	1,026,779
Grants receivable	30,421	22,225	12,700
Other receivables	54,007	44,316	512,168
Prepaid expenses	127,307	159,418	164,290
Total current assets	2,154,504	2,513,998	2,706,448
Property and equipment, net	11,252,267	11,517,411	11,518,403
Unconditional promise to give	150,000	150,000	150,000
Other assets	28,694	26,575	34,539
Total assets	\$13,585,465	\$ 14,207,984	\$ 14,409,390
<u>LIABILITIES AND NET ASSETS</u>			
Current liabilities:			
Accounts payable	\$ 402,564	\$ 318,346	\$ 257,489
Accrued liabilities	559,859	933,282	1,074,725
Current portion long-term debt	159,239	182,402	221,372
Total current liabilities	1,121,662	1,434,030	1,553,586
Long term debt, net	2,010,321	2,121,021	2,229,996
Total liabilities	3,131,983	3,555,051	3,783,582
Net assets:			
Unrestricted	3,000,556	2,930,090	3,020,986
Temporarily restricted	7,452,926	7,722,843	7,604,822
Total net assets	10,453,482	10,652,933	10,625,808
Total liabilities and net assets	\$13,585,465	\$ 14,207,984	\$ 14,409,390

Financial Ratios:

	Proforma (a)	<u>2006</u>	<u>2005</u>	<u>2004</u>
Debt Service Coverage (x)	1.70	1.90	1.16	3.03
Debt/Unrestricted Net Assets (x)	0.88	0.72	0.79	1.33
Margin (%)		3.23	-0.78	5.28
Current Ratio (x)		1.92	1.75	1.74

(a) Recalculates 2006 audited results to include the impact of this proposed financing.

Financial Discussion:

During our review period, VV has shown increased revenues as services have expanded to meet growing demand.

Over the review period, VV's revenues have increased 11% or \$1.2 million, due to a rate increase of 9% from Medi-Cal and the addition of clients to the Day programs. In FY 2006, program income was at \$12.1 million compared to \$10.9 million in FY 2004. Net assets released from restrictions increased significantly over our review period due to VV entering into service agreements with several outside entities. With the hiring of marketing personnel, grant revenue increased a noticeable 40%.

With the Medi-Cal rate increase in 2004, VV approved a corresponding wage increase of 6% for their employees. Due to strict licensing requirements and to meet the demand for services, ten additional staff was hired.

VV's balance sheet has fluctuated slightly but has remained steady over the review period.

VV has a solid current ratio of 1.92x and significant cash/cash equivalents in excess of \$700,000. VV is moderately leveraged with .72x debt to unrestricted net assets and with this financing debt to unrestricted net assets will increase to .88x. However, proforma debt service coverage is an adequate 1.70x, indicating that VV should be able to handle the proposed additional payment.

Other receivables have decreased 89% over our review period. This was the result of an agreement made between the long-term care providers and the Department of Health Services. Medi-Cal agreed to increase pay rates to the care providers by 9% as long as the Department of Health Services agreed to this change. At the end of 2004, VV received a lump sum payment from Medi-Cal for the 9% increase, thus reducing receivables.

III. ORGANIZATION:

Background:

VV has a thirty-five year history of providing programs and services for the developmentally disabled in the San Fernando Valley. The organization was founded in 1971 by parents who were seeking services for their developmentally disabled children. VV is a 501(c) 3 and is committed to improving the quality of life for people with developmental disabilities in the San Fernando Valley.

VV currently serves more than 300 low-income developmentally disabled adults in more than 17 group homes, a 24-hour nursing facility and an independent living program. The Residential Programs serve more than 100 men and women with developmental disabilities. In the early 1990's, VV broadened its scope of services realizing the need for day programs for the disabled. In addition to the Residential Program the organization currently operates 3 Day Programs: one in Sunland currently serving 65 developmentally disabled and medically fragile young adults and two centers in Winnetka for more medically fragile clients who need a level of nursing assistance. In addition, there are two after-school programs serving 50 children and adults in the West San Fernando Valley. As a result of providing these intensive programs, VV has developed strong project and on-going management expertise. The organization operates a yearly budget of over \$13 million and has managed over \$25 million dollars in capital development over the past quarter of a century.

Clients of VV have developmental disabilities such as autism, Down syndrome, epilepsy, cerebral palsy in addition too many levels of significant mental retardation.

Licenses:

VV is licensed through the Department of Health Services and is certified with the California Department of Aging.

IV. UTILIZATION STATISTICS:

The below table include only the Valley Village Adult Day Health Center at Sunland and provides services at its capacity of 60 clients.

	Valley Village Clients Served		
	Fiscal year ended June 30,		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Totals	60	60	60

V. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 6/30/06*	Estimated Amount Outstanding After Proposed Financing
Existing:			
HELP II Loan CHFFA, 1999	\$500,000	\$286,211	\$258,521
Mortgages to various banks		1,730,755	1,730,755
Notes payable – Auto loans to various lenders		152,594	152,594
Proposed:			
HELP II Loan CHFFA 2007			485,000
TOTAL DEBT		<u>\$2,169,560</u>	<u>\$2,626,870</u>

*Include current portion.

VI. DUE DILIGENCE:

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

- Section 15438.5 of the Act (Savings Pass Through): VV has provided a description of its savings pass through in Exhibit A.
- Section 15459.1 of the Act (Community Service Requirement): VV has executed this certification indicating that Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as Exhibit B.
- Religious Due Diligence
- Legal Review

VII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan for Valley Village in an amount not to exceed \$485,000 for a term of 15 years and financing terms acceptable to the Authority.