

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

<b>Applicant:</b>	Momentum for Mental Health (MFMH) 2001 The Alameda San Jose, CA 95126 Santa Clara County	<b>Amount Requested:</b> \$440,000	<b>Requested Loan Term:</b> 5 years <b>Date Requested:</b> May 28, 2009 <b>Resolution Number:</b> HII-240
<b>Project Site:</b>	2001 The Alameda, San Jose, CA 95126, Santa Clara County		
<b>Facility Type:</b>	Community Mental Health Clinic		
<b>Prior HELP II Borrower:</b>	No		
<b>Background:</b> Established in 1997, MFMH is a licensed, non-profit health agency dedicated to the underserved population of Santa Clara County through the direct provision of comprehensive health programs and services for adults and transitional youth who have a severe mental illness. MFMH's services include: outpatient care, day rehabilitation programs, residential care, housing support, and employment services. MFMH maintains 25 clinics throughout Santa Clara County.			
<b>Uses of Loan Proceeds:</b> Loan proceeds will be used to purchase and install electronic health record (EHR) software along with computer server equipment. In addition, new accounting software will be purchased through Geneva. This accounting software will be fully integrated with the electronic health record software.			
<b>Financing Structure</b>			
<ul style="list-style-type: none"> <li>• 5-year fixed rate loan.</li> <li>• 60 equal monthly payments of approximately \$7,906 (yearly payments of about \$94,872).</li> <li>• UCC-1 lien on the equipment purchased.</li> <li>• Gross revenue pledge.</li> </ul>			
<b>Financial Overview:</b> MFMH's income statement appears to exhibit moderately profitable results, with significant improvements from FY 2007. MFMH's balance sheet appears with seemingly strong liquidity, a strong current ratio, and significant net assets. In addition, proforma debt service coverage is an adequate 1.41x.			
<b>Sources of Funds</b>		<b>Uses of Funds</b>	
HELP II Loan	\$440,000	Purchase EHR equipment	\$482,500
Borrower funds	<u>48,000</u>	Financing costs	<u>5,500</u>
Total Sources	<u>\$488,000</u>	Total Uses	<u>\$488,000</u>
<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 approval of a HELP II loan for Momentum for Mental Health in an amount not to exceed \$440,000 for a term not to exceed 5 years, and contingent upon financing terms acceptable to the Authority.			

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

May 28, 2009

Momentum for Mental Health (“MFMH”)

Resolution Number: HII-240

**I. PURPOSE OF FINANCING**

***Purchase and install health software and equipment* ..... \$ 482,500**

MFMH intends to purchase (EHR) software and a computer server to be used in conjunction with the software. The vendor for this purchase is Netsmart Technologies, Inc, using their Avatar product. In addition, a new accounting software solution will be purchased from Geneva and will be fully integrated with the EHR software and equipment. The EHR equipment will meet the EHR mandate imposed on all California health care providers. The system will enhance provider ability to provide more comprehensive treatment to low income mentally ill clients within Santa Clara County. The EHR will be installed at MFMH’s centralized IT location at 2001 The Alameda and will provide service throughout the organization at all locations. Included in the initial purchase will be a module allowing for remote access by clinical staff who will travel to client homes and other settings. The software will also allow for monitoring and controlling the use of prescription drugs and any contra indicators which will enhance client stabilization. This financing is contingent upon the receipt of a consent letter from Cal-Mortgage due to MFMH’s existing long-term Cal-Mortgage debt.

***Financing Costs* ..... 5,500**

Authority Fees..... 5,500

***Total Uses of Funds* ..... \$ 488,000**

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## II. FINANCIAL STATEMENTS AND ANALYSIS

### Momentum for Mental Health

#### Statement of Activities

Unrestricted

	For the Year Ended June 30,		
	2008	2007	2006
<b>Revenue and support:</b>			
Support			
Contributions	\$ 66,187	\$ 43,198	\$ 91,535
Contributions in-kind	5,529	11,183	29,910
Special events, net	120,375	109,829	126,781
Self-forgiving debt	74,604	61,810	51,110
United Way	6,708	8,920	6,353
Total support	<u>273,403</u>	<u>234,940</u>	<u>305,689</u>
Revenue			
Government grants & fees	20,642,072	20,077,596	20,746,752
Interest & dividend income	81,561	127,074	186,620
Net gain (loss) on investments	(16,843)	11,392	(126,136)
Fees for services	2,516,559	2,751,812	2,886,151
Miscellaneous income	90,674	48,427	301,191
Total Revenue	<u>23,314,023</u>	<u>23,016,301</u>	<u>23,994,578</u>
Net assets released from restrictions	-	111,570	199,882
Total Support & Revenue	<u>23,587,426</u>	<u>23,362,811</u>	<u>24,500,149</u>
<b>Expenses:</b>			
Salaries, Benefits, Payroll Taxes	18,571,784	19,262,418	19,234,233
Professional fees	699,553	462,146	650,560
Supplies, Telephone, Postage & Shipping	847,392	803,973	862,795
Occupancy	741,861	867,031	977,231
Equipment rent & maintenance	120,693	107,189	118,761
Printing, subscriptions, & publications	3,278	14,126	16,278
Travel, conferences, conventions, & meetings	283,692	322,897	238,413
Specific assistance	218,594	150,714	162,884
Memberships, dues, & licenses	23,843	27,045	28,504
Interest expense	413,743	413,745	420,650
Amortization of bond costs	68,668	68,667	68,667
Advertising & recruitment	41,374	41,749	26,203
Insurance	518,889	500,159	385,601
Bad debts	79,286	548,303	337,711
Depreciation	568,291	546,767	571,854
Miscellaneous	11,341	22,275	32,898
Total Expenses	<u>23,212,282</u>	<u>24,159,204</u>	<u>24,133,243</u>
<b>Change in unrestricted net assets</b>	<b>375,144</b>	<b>(796,393)</b>	<b>366,906</b>
Unrestricted net assets, beginning of year	7,856,983	8,653,376	8,286,470
Unrestricted net assets, end of year	<u>\$ 8,232,127</u>	<u>\$ 7,856,983</u>	<u>\$ 8,653,470</u>

**Momentum for Mental Health**  
**Financial Position**

	As of June 30,		
	2008	2007	2006
<b>Assets:</b>			
Cash	\$ 2,342,368	\$ 369,811	\$ 2,255,260
Investments	392,132	1,074,060	2,638,887
Accounts receivable, net	1,148,830	944,776	1,073,677
Grants receivable	2,299,074	3,600,504	770,409
Pledges receivable	-	25,250	111,570
Prepaid expenses	166,188	289,110	293,722
Total current assets	<u>6,348,592</u>	<u>6,303,511</u>	<u>7,143,525</u>
Fixed assets, net	13,485,598	13,900,902	14,124,529
Deposits	129,288	88,362	142,711
Deposits relating to bonds	1,672,226	1,628,875	1,578,277
Intangible assets, net	961,340	1,030,008	1,098,675
Total assets	<u><u>22,597,044</u></u>	<u><u>22,951,658</u></u>	<u><u>24,087,717</u></u>
<b>Liabilities and net assets:</b>			
Accounts Payable	\$ 313,782	\$ 525,805	\$ 279,047
Accrued salaries & vacation	1,744,765	1,792,067	1,776,006
Client deposits	52,128	48,378	80,278
Accrued interest, current portion	192,617	188,568	220,179
Bonds payable, current portion	455,000	440,000	430,000
Notes payable, current portion	-	-	142,870
Total current liabilities	<u>2,758,292</u>	<u>2,994,818</u>	<u>2,928,380</u>
Accrued interest, net	315,292	278,920	214,513
Bonds payable, net	8,285,000	8,740,000	9,180,000
Notes payable, net	1,379,843	1,454,447	1,373,388
Total long term liabilities	<u>9,980,135</u>	<u>10,473,367</u>	<u>10,767,901</u>
Total liabilities	<u>12,738,427</u>	<u>13,468,185</u>	<u>13,696,281</u>
Net assets:			
Unrestricted	8,232,127	7,856,983	8,653,376
Temporarily restricted	1,626,490	1,626,490	1,738,060
Total net assets	<u>9,858,617</u>	<u>9,483,473</u>	<u>10,391,436</u>
Total liabilities and net assets	<u><u>\$ 22,597,044</u></u>	<u><u>\$ 22,951,658</u></u>	<u><u>\$ 24,087,717</u></u>

**Financial Ratios:**

**Proforma (a)**  
**FYE June, 2008**

Debt service coverage (x)	1.41	1.59	0.19	1.63
Debt/Unrestricted Net Assets (x)	0.38	0.36	0.36	0.43
Margin (%)		1.59	(3.41)	1.50
Current Ratio (x)		2.59	2.10	2.44

(a) Recalculates 2008 audited results to include the impact of this proposed financing.

## **Financial Discussion:**

**MFMH's income statement appears to exhibit moderately profitable results, with seemingly significant improvements from FY 2007.**

Since FY 2007, MFMH has posted an increase in unrestricted net assets during the review period, mostly due to a reduction in expenses during the same period and the receipt of delayed claim payments from Santa Clara County in FY 2008.

### **Particular Facts to Note:**

- MFMH's primary funding sources are government grants and fees, which account for approximately 87% of total revenues in FY 2008. Remaining revenues are mainly generated from contributions and fees for its services. Contributions decreased from FY 2006 to FY 2007 due to the end of a donation campaign in FY 2006, which helped to raise funds for EHR equipment and additional psychiatrists.
- Revenue decreased from \$23.9 million in FY 2006 to \$23.3 million in FY 2007 due to the reduction of a Santa Clara County Mental Health Department contract and the discontinuation of a 3-year grant. Revenues have grown slightly from \$23 million in FY 2007 to \$23.3 million in fiscal year 2008, as a result of an increase in government grants and fees.
- Expenses have slightly decreased from \$24.2 million in FY 2007 to \$23.2 million in FY 2008, a decrease of 4%. The decrease in expenses is primarily due to a decrease in salaries, benefits, and payroll taxes which was caused by a reduction in County funding, which forced MFMH to lay off several employees in order to meet lowered expectations, as their primary source of revenue is the Santa Clara County Mental Health Department.
- Insurance expenses increased from \$385,601 in FY 2006 to \$518,889 due to the addition of Earthquake insurance, as required by HUD/HCD regulations.
- Bad debts decreased from \$548,303 in FY 2007 to \$79,286 in FY 2008, a decrease of 86%. This decrease can be attributed to MFMH's write-off of older, uncollectible accounts receivable. With the transfer of billing/collections responsibilities to an outside agency, MFMH expects to reduce the amounts written off in the future.

**MFMH's balance sheet appears strong with seemingly strong liquidity, a strong current ratio, and significant net assets. In addition, proforma debt service coverage is adequate.**

MFMH's current balance sheet is solid with good liquidity of over \$2.3 million in cash, net assets in excess of \$8.2 million as of fiscal year ending 2008, and a strong current ratio of 2.59x. MFMH's only long-term debt is a 2003 CHFFA Bond in the amount of \$8.3 million. MFMH also has a \$1.4 million obligation with the California Department of Housing and

Community Development. Portions of this obligation are forgivable over time, while other portions contain nominal interest payment requirements. MFMH's balance sheet reflects a decrease in cash in FY 2007 primarily due to a later than usual payment from the Santa Clara County Mental Health Department for MFMH's services. The payment of \$1.66 million was not received until after the end of FY 2007.

MFMH's long-term debt to unrestricted net assets is a low 0.38x. In addition, the proforma debt service coverage ratio is an adequate 1.41x, indicating MFMH should comfortably be able to repay the proposed loan.

### III. UTILIZATION STATISTICS

**Clients Served/(Patient Visits)  
Fiscal Year Ended June 30**

	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Totals</b>	3,302/(317,377)	3,102/(299,652)	2,490/(238,152)

### IV. ORGANIZATION

#### **Background and Licensing**

MFMH is an independent, non-profit health agency that was established as the Alliance for Community Care, which first opened its doors in 1997. This beginning was predicated on the merger of 3 preexisting organizations: Community Companions, Miramonte Mental Health Services, and Avenues to Mental Health, with a history of service to the community that dates back to 1975. After much consideration, the Board and staff made the decision to re-brand the organization in 2007 to more closely describe its mission.

MFMH provides comprehensive programs and services for adults and transitional youth who have a severe mental illness and live in Santa Clara County. The mission of MFMH is to help individuals achieve mental and emotional health, discover and reach their potential, and fully participate in life. Their work is based on the knowledge that individuals who have a mental illness can, and do recover through available, effective, culturally competent services that encourage self direction and hope.

This mission is being accomplished through a variety a variety of programs and activities, such as: residential treatment programs, supported housing programs, day rehabilitation programs, outpatient mental health and psychiatric treatment, case management and rehabilitation services, employment services, and family support services.

MFMH is the largest private nonprofit agency providing mental health services to adults in Santa Clara County. They have a staff of over 340 employees and 200 volunteers representing 17 languages who serve clients at MFMH throughout their 25 sites in Santa

Clara County. In addition, MFMH provides 24-hour availability to provide easy client access.

## V. OUTSTANDING DEBT

<u>Date Issue:</u>	<u>Original Amount</u>	<u>Amount Outstanding as of 6/30/2009</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing Long-Term Debt:			
CHFFA/Cal Mortgage	\$10,500,000	\$8,285,000	\$ 8,216,786
HUD/HCD	1,626,490	1,379,843	1,379,843
Proposed:			
<b>CHFFA HELP II, 2008</b>		<u>N/A</u>	<u>440,000</u>
Total Debt		<u>\$ 9,664,843</u>	<u>\$ 10,036,629</u>

## VI. DUE DILIGENCE

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

- Savings Pass Through: MFMH has provided a description of its savings pass through in **Exhibit A**.
- Section 15459.1 of the Act (Community Service Requirement): MFMH 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 approval of a HELP II loan for MFMH in an amount not to exceed \$440,000 for a term not to exceed 5 years, and contingent upon financing terms acceptable to the Authority.