

**CHFFA HELP II PROGRAM  
EXECUTIVE SUMMARY**

**Applicant:** Victor Treatment Centers, Inc. (“VTC”)      **Amount Requested:** \$517,000  
 2561 California Park Drive      **Requested Loan Term:** 15 years  
 Chico, California 95928      **Date Requested:** October 28, 2010  
 Butte County      **Resolution Number:** HII-258

**Project Site:** 565 Piezzi Road, Santa Rosa, California 95401 (Sonoma County)  
**Facility Type:** Group Home  
**Prior HELP II Borrower:** Yes (current on payments and loan balance is \$231,000)

**Background:** VTC is a 24 hour treatment facility for severely emotionally disturbed and mentally ill minors. Licensed in 1968, VTC has programs established in Shasta, San Joaquin, Sonoma, San Bernardino, and Riverside Counties. VTC receives most of its funding from County and State agencies, with certain portions of its funding originating from the Federal government.

**Uses of Loan Proceeds:** Loan proceeds will be used to purchase an existing single family property to be used as a group home for six minors.

**Financing Structure**

- 15-year fixed rate loan.
- 180 equal monthly payments of approximately \$3,571 (yearly payments of approximately \$42,852).
- Corporate gross revenue pledge.
- First (1st) lien position on property located at 565 Piezzi Road, Santa Rosa, California 95401
- Loan to value ratio not to exceed 95% (estimated loan to value ratio of 91%).

**Financial Overview:** VTC’s income statement appears to exhibit steady positive operating results during the review period. VTC appears to have good liquidity and minimal long-term debt. The proforma debt service coverage ratio is a solid 46.36x, indicating VTC should comfortably be able to repay this proposed HELP II loan.

<b><u>Estimated Sources of Funds:</u></b>		<b><u>Estimated Uses of Funds:</u></b>	
HELP II Loan	\$517,000	Purchase real estate	\$560,000
Borrower Funds	<u>51,463</u>	Financing costs	<u>8,463</u>
Total Sources	<u>\$568,463</u>	Total Uses	<u>\$568,463</u>

**Due Diligence:** Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through, Community Service Obligation, Seismic and CEQA documentation. All documentation satisfies the Authority’s requirements.

**Parties of Interest:** *(Included for the purpose of discerning conflicts of interest)*  
 Mid Valley Title  
 Tri Counties Bank  
 Butte Community Bank

**Staff Recommendation:** Staff recommends approval of Resolution Number HII-258 for Victor Treatment Centers, Inc. in an amount not to exceed \$517,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority. Macias Gini & O’Connell, LLP,. the Authority’s financial analyst concurs with the Authority’s staff recommendations.

**I. PURPOSE OF FINANCING:**

***Purchase Existing Property*..... **\$517,000****

VTC seeks to purchase an existing residential care home located at 565 Piezzi Road in Santa Rosa, California. The existing home will house six minors. The home is approximately 2,629 square feet with 4 bedrooms, 2.5 bathrooms, a centrally located kitchen, and located on .42 acres.

Built in 1969, this property is currently being leased by VTC. The estimated new monthly mortgage payment will be \$3,571 compared to the current lease payment of approximately \$7,000 a month.

The proposed HELP II loan will be secured by a first (1<sup>st</sup>) lien position on the real property located at 565 Piezzi Road, Santa Rosa, California 95401. CHFFA has received an appraisal of the property, indicating a value of \$560,000 (same as purchase price), leading to a loan to value ratio of 91%.

***Financing Costs* ..... **8,463****

Authority Fees..... \$6,463

Title and Escrow ..... 2,000

***Estimated Uses of Funds* ..... **\$ 568,463****

## II. FINANCIAL STATEMENTS AND ANALYSIS

### Victor Treatment Center, Inc. Statement of Activities

	For the Year Ended June 30,		
	2009	2008	2007
<b>Revenue and Support:</b>			
Fees from government agencies	\$25,916,881	\$26,044,102	\$24,642,914
Management fees revenue	-	-	899,173
Transportation revenue	573,555	542,391	440,955
Interest income	358,270	718,791	576,618
Other income	161,413	88,824	10,733
Gain (loss) on investments	-	-	430,214
Gain on sale of property and equipment	15,317	10,362	24,365
Contributions	104	12,270	9,962
Total revenue and support	<u>27,025,540</u>	<u>27,416,740</u>	<u>27,034,934</u>
<b>Expenses:</b>			
Staff compensation	15,908,697	15,420,580	15,123,789
Taxes and benefits	5,063,494	5,138,212	5,274,490
Occupancy	1,762,123	2,014,701	2,045,428
Transportation	884,573	960,658	842,956
Supplies	867,301	910,603	840,500
Professional Fees	795,268	918,873	806,614
Specific assistance	450,972	467,040	434,938
Other operating expenses	350,789	361,827	295,092
Telephone and postage	259,122	305,787	308,022
Equipment rental and maintenance	246,534	495,667	403,859
Conferences and meetings	197,474	284,818	333,285
Subscriptions	6,199	9,762	6,336
* Management and accounting revenue	<u>(1,449,069)</u>	<u>(1,468,274)</u>	<u>(2,011,710)</u>
Total expenses	<u>25,343,477</u>	<u>25,820,254</u>	<u>24,703,599</u>
<b>Change in net assets before loss on investment</b>	<b>1,682,063</b>	<b>1,596,486</b>	<b>2,331,335</b>
Loss on investments	(928,647)	(677,290)	-
<b>Change in net assets</b>	<b>753,416</b>	<b>919,196</b>	<b>2,331,335</b>
Net assets, beginning of year	<u>24,473,916</u>	<u>23,554,720</u>	<u>21,223,385</u>
Net assets, end of year	<u><u>\$25,227,332</u></u>	<u><u>\$24,473,916</u></u>	<u><u>\$23,554,720</u></u>

*\*Represents costs of management and accounting services that VTC shares with 2 other entities*

**Victor Treatment Center, Inc.**

**Financial Position**

	As of June 30,		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>ASSETS:</b>			
Cash and cash equivalents	\$6,938,767	\$4,862,851	\$3,709,827
Accounts receivable	3,104,336	3,297,110	3,306,125
Note receivables	700,000	700,000	700,000
Prepaid expenses	923,175	647,377	569,207
Other assets	-	-	135,740
Investments	8,034,861	8,718,314	8,851,257
Property and equipment	8,235,155	8,231,193	7,294,608
Due from related company	1,159,123	2,337,361	2,523,759
Total assets	<u>\$29,095,417</u>	<u>\$28,794,206</u>	<u>\$27,090,523</u>
<b>LIABILITIES AND NET ASSETS:</b>			
Liabilities:			
Accounts payable	\$794,596	\$1,136,101	\$1,056,774
Accrued liabilities	2,322,807	2,310,444	1,710,396
Accrued unemployment benefits	409,700	528,109	326,421
Note payable	315,778	322,204	418,780
Unearned revenue	25,204	23,432	23,432
Total liabilities	<u>3,868,085</u>	<u>4,320,290</u>	<u>3,535,803</u>
Net assets:			
Unrestricted	23,427,332	22,673,916	21,754,720
Unrestricted-board designated	1,800,000	1,800,000	1,800,000
Total net assets	<u>25,227,332</u>	<u>24,473,916</u>	<u>23,554,720</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$29,095,417</u>	<u>\$28,794,206</u>	<u>\$27,090,523</u>

Financial Ratios:	Proforma (a)			
	<u>FYE June 30, 2009</u>			
Debt service coverage (x)	46.36	77.53	73.86	150.27
Debt/Unrestricted Net Assets (x)	0.02	0.01	0.01	0.01
Margin (%)	6.22	6.22	5.82	8.62
Current Ratio (x)	3.05	3.05	2.23	2.49

(a) Recalculates FY 2009 audited results to include the impact of this proposed financing.

## **Financial Discussion – Statement of Activities (Income Statement)**

**VTC's income statement appears to exhibit steady positive operating results.**

During the review period, VTC posted positive operating results ranging from \$2.3 million to \$1.5 million, representing very healthy operating margins.

Revenues include fees from government agencies, which represent all of VTC's contract income. VTC's occupancy level has been consistent, which has led to steady revenue from fees throughout the review period. Expenses appear to have been stable during the review period.

The loss on investments was a result of unrealized gains/losses in investments due to normal market fluctuations in the financial markets. VTC's management and its Board have been working closely with its financial advisors to more effectively manage their investment portfolio in the more recent challenging economic environment.

## **Financial Discussion – Statements of Financial Position (Balance Sheet)**

**VTC's balance sheet appears to indicate that total assets and liquidity have increased each FY during our review period.**

VTC's cash position has increased to \$6.9 million in FY 09 and a healthy 100 days cash on hand (see comment below on cash reserves) which provides a solid cash reserve. In addition, VTC has minimal leverage with the only long-term debt from one loan with an outstanding balance of approximately \$316,000 as of FY 09. The proforma debt to unrestricted net assets ratio is a very modest .02x. The proforma debt service coverage ratio is a very solid 46.36x, indicating VTC should likely comfortably be able to repay the HELP II loan.

VTC's management specifically discussed their business plan for maintaining healthy cash reserves to take advantage of the declining real estate market and possibly purchase several additional group homes to further expand its services in the future (thus explaining VTC's current motivation behind applying for the instant HELP II loan.) In addition, VTC leases approximately 10 group homes that it may wish to purchase in the future. Finally, VTC management indicates that Continuing Care Licensing recommends a minimum reserve of 3 to 4 months cash on hand.

**EXHIBIT 1**

**UTILIZATION STATISTICS**

**Clients Served  
Fiscal Year Ended June 30,**

	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Totals</b>	362	327	327

**EXHIBIT 2**  
**OUTSTANDING DEBT**

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding* As of June 30, 2009</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
<b>Existing Long-Term Debt:</b>			
Tri Counties Bank, 2006	329,000	\$320,000	\$320,000
CHFFA, 2009	237,500	232,000	232,000
<b>Proposed:</b>			
CHFFA, HELP II 2010			<b>\$517,000</b>
<b>TOTAL DEBT</b>		<u><b>\$552,000</b></u>	<u><b>\$1,069,000</b></u>

\* Includes current portion of long-term debt.

## **EXHIBIT 3**

### **BACKGROUND AND LICENSURE**

#### **Background**

VTC was licensed in 1968, established itself as a non-profit corporation in 1974 and settled on its current corporate name in 1992. At the core of VTC's treatment philosophy is the belief that mental health clients should be treated in the least restrictive community-based setting as possible. VTC clients are children and adolescents who have experienced multiple placement failures and are the most resistive to treatment. As a result of the success with these youngsters, VTC is considered to be an alternative to state hospitalization and locked settings.

Services include residential and Medi-Cal reimbursable services. It is VTC's belief that a program's success is contingent upon being a full partner in a continuum of care.

#### **Licensing:**

VTC will be licensed by the California Department of Social Services to operate and maintain the proposed group home located at 565 Piezzi Road, Santa Rosa, CA 95401.