

**CHFFA HELP II PROGRAM  
EXECUTIVE SUMMARY**

**Applicant:** Lomi School Foundation (“Lomi”)  
dba Lomi Psychotherapy Clinic  
534 B Street  
Santa Rosa, California 95401  
Sonoma County

**Amount Requested:** \$750,000  
**Requested Loan Term:** 15 year fixed  
**Authority Meeting Date:** June 24, 2010  
**Resolution Number:** HII-251

**Project Site:** Same as above  
**Facility Type:** Community Mental Health Center  
**Prior HELP II Borrower:** No

**Issue to Note:** The application for the HELP II loan program asks applicants to submit three years of audited financial statements for review by the Authority. Although Lomi has only one year of audited financial statements (and two years of reviews), staff recommends allowing Lomi to proceed with this more limited documentation for the reasons more particularly explained on the next page.

**Background:** Established in 1987, Lomi is a licensed, non-profit community mental health clinic dedicated to providing high quality, affordable mental health services in Sonoma, Marin and Napa Counties. Lomi offers individual and/or group counseling services for children, teens, adults, couples, and families.

**Uses of Loan Proceeds:** Loan proceeds will be used to finance the purchase of a currently leased facility located in Santa Rosa, California.

**Financing Structure:**

- 180 equal monthly payments of approximately \$5,179 (yearly payments of approximately \$62,148).
- First (1st) lien position on the property located at 534 B Street, Santa Rosa, California 95401.
- Loan to value ratio not to exceed 95% (estimated loan to value ratio of 74%, based on purchase price).
- Corporate gross revenue pledge.

**Financial Overview:** Lomi’s income statement appears to exhibit positive net income during the review period. Lomi’s balance sheet appears to reflect adequate liquidity and an adequate proforma debt service coverage of 1.88x, indicating Lomi should be able to repay the proposed HELP II loan.

**Estimated Sources of Funds:**

HELP II Loan, (1st Lien)	\$750,000
Private Loan*, (2nd Lien)	250,000
Borrower Funds**	<u>61,875</u>
Total Sources	<u>\$1,061,875</u>

**Estimated Uses of Funds:**

Purchase property	\$1,050,000
Financing costs	11,875
Total Uses	<u>\$1,061,875</u>

\*The lender has provided staff with a letter of commitment from the private lender.

\*\*The borrower has already deposited approximately \$30,000 into escrow for this purchase.

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

**Parties of Interest:** *(Included for the purpose of discerning conflicts of interest)*  
Fidelity National Title Company

**Staff Recommendation:** Staff recommends approval of Resolution Number HII-251 for Lomi School Foundation in an amount not to exceed \$750,000 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 recommendation.

**I. NOTE REGARDING AUDITED FINANCIALS:** As mentioned on the cover page of this staff report, the application for the HELP II Loan Program asks prospective borrowers to submit three years of audited financial statements. Lomi offers only one year of audited financials and two years of reviews (the review procedures include making inquiries concerning all relevant information, comparisons to financial data for the current and prior periods, and discussion covering the information received). Lomi requested an allowance from our usual methodology to save them the significant cost associated with preparing audited financials. Staff recommends this allowance in view of Lomi's relatively small organizational size (gross revenues less than \$1 million per year) and the often significant expense associated with preparing audited financials. Lomi will provide the Authority with audited financial statements every fiscal year throughout the life of the proposed HELP II loan as required by the Authority's loan and security agreements. The Authority has previously approved a similar request for several other borrowers.

**II. PURPOSE OF FINANCING:** Lomi intends to purchase the property it currently leases at 534 B Street, Santa Rosa, California. The project will allow Lomi the potential benefits associated with owning real property and will save Lomi approximately \$4,000 a month (the combined HELP II and private loan payments total roughly \$4,000 less per month than Lomi's current rental obligation).

***Purchase property* ..... \$1,050,000**

Lomi is purchasing a two-story office building located at 534 B Street, Santa Rosa, California for \$1.05 million. The existing 11,200 square feet building is situated on .26 acres. The building is equipped with 20 private offices, a reception area, a file room and a group activity room. Lomi has previously (2006 and 2007) invested approximately \$300,000 into leasehold improvements to accommodate the increase in demand for mental health services.

The proposed HELP II loan will be secured by a first (1<sup>st</sup>) lien position on the real property located at 534 B Street. Lomi estimates the current market value of the property to be approximately \$1.05 million, leading to a loan to value ratio of 74%. CHFFA will require a full appraisal of the property as a condition of closing.

As part of this transaction, a private lender will hold a second (2<sup>nd</sup>) lien position for the balance of the purchase price (approximately \$265,000), with the expected terms to include a fixed interest rate (estimated at 8%) and a monthly payment of approximately \$1,800 per month (interest only). The loan is due to mature August, 2015. Lomi has a detailed plan for timely servicing this obligation.

***Financing Costs* ..... 11,875**

Authority Fees.....	\$9,375
Title and Escrow .....	<u>2,500</u>

***Estimated Uses of Funds* ..... \$1,061,875**

### III. FINANCIAL STATEMENTS AND ANALYSIS

#### Lomi School Foundation

#### Statement of Activities

(Unrestricted)

	For the Year Ended December 31,		
	2009	2008	2007
	(audited)	(reviewed)	(reviewed)
<b>Revenues, gains, and other support:</b>			
Contributions	\$ 93,487	\$ 204,071	\$ 104,313
Program service fees*	426,596	352,319	340,622
Grants	111,830	108,157	96,270
Other	12,361	9,064	12,698
Total revenues, gains and support	644,274	673,611	553,903
Net assets released from restriction	3,900	31,000	-
	648,174	704,611	553,903
<b>Expenses:</b>			
Compensation	\$ 364,085	\$ 299,734	\$ 274,539
Occupancy costs	95,184	88,382	90,044
Therapists and contractors	53,203	51,475	30,925
Payroll taxes	34,392	27,907	35,794
Depreciation	21,689	20,113	17,067
Other expenses	13,876	17,811	48,946
Employee Benefits	10,944	9,654	7,806
Insurance	10,104	10,187	10,382
Utilities	7,477	10,916	1,307
Telephone	7,399	6,791	8,439
Workers compensation	6,201	4,326	6,995
Supplies	6,100	6,662	6,478
Interest	5,529	8,875	2,444
Total expenses	636,183	562,833	541,166
<b>Increase in unrestricted net assets</b>	<b>11,991</b>	<b>141,778</b>	<b>12,737</b>
Increase/decrease in temporarily restricted net assets	(3,900)	(21,000)	31,000
Increase in net assets	8,091	120,778	43,737
Unrestricted net assets, beginning of year	484,567	363,789	320,052
Unrestricted net assets, end of year	\$ 492,658	\$ 484,567	\$ 363,789

\*Program Service Fees Revenue (FYE December 31, 2009):

<u>Payor Source</u>	<u>Percent</u>
Client Fees	64%
Santa Rosa Junior College Contract	36%
Total	100%

**Lomi School Foundation**  
**Financial Position**

	As of December 31,		
	2009	2008	2007
	(audited)	(reviewed)	(reviewed)
<b>ASSETS:</b>			
Current assets:			
Cash and cash equivalents	\$ 47,288	\$ 47,010	\$ 61,763
Investments	25,385	-	-
Promise to give	-	10,000	-
Total current assets	72,673	57,010	61,763
Property and equipment, net	506,811	528,500	516,813
Other assets	30,225	29,375	29,375
Total assets	\$ 609,709	\$ 614,885	\$ 607,951
<b>LIABILITIES AND NET ASSETS:</b>			
Current liabilities:			
Accounts payable	\$ 6,817	\$ 7,792	\$ 10,362
Deferred contract revenue	12,708	-	-
Current portion of long-term debt	35,000	20,000	81,500
Total current liabilities	54,525	27,792	91,862
Notes payable, net of current portion	62,526	102,526	152,298
Total liabilities	117,051	130,318	244,160
Net assets:			
Temporarily restricted	6,100	10,000	31,000
Unrestricted			
Board designated	14,235	9,375	9,375
Undesignated	472,323	465,192	323,414
Total net assets	492,658	484,567	363,789
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 609,709</b>	<b>\$ 614,885</b>	<b>\$ 607,949</b>

**Financial Ratios:**

**Proforma <sup>(a)</sup>**  
**FYE June, 2009**

Debt service coverage (x)	1.88 <sup>(b)</sup>	0.97	5.91	0.38
Debt/Unrestricted Net Assets (x)	1.67	0.20	0.26	0.98
Margin (%)	1.85	30.12	2.30	
Current Ratio (x)	1.33	2.05	0.67	

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

(b) Debt service coverage improves since the proposed mortgage payments are approximately \$4,000 less than the current lease payments.

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

### **Lomi's income statement appears to exhibit positive net income during the review period.**

Lomi continues to experience positive operating results, with modest increases in unrestricted net assets during the review period. Lomi has recently experienced an increase in patient revenues which Lomi attributes to an increase in patient visits. Lomi's revenues are derived primarily from three sources: program service fees (66%), grants and contracts (17%), and contributions (15%). Lomi's income statement appears to reflect increasing revenues and Lomi's apparently ability to keep operational expenses to a minimum.

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

- Contributions decreased from \$204,000 in FY 2008 to \$93,000 in FY 2009. Lomi's management reports that it has been difficult to raise funds during the current economic downturn. Donations have increased recently in the interim period through January 2010. Specifically, Lomi reports that it expects approximately \$10,000 in donations from a recent Human Race community fundraiser and \$15,000 from the Shaheen Foundation.
- Lomi's total patient visits increased from 6,994 in FY 2007 to 8,585 in FY 2009, while program service revenue also increased 25% as a result of a contract increase from Santa Rosa Junior College. The contract provides funding for interns who assist in the treatment of patients.
- Compensation increased nearly 21% in FY 2009, as Lomi increased the number of therapist hours and supervisory services due to the expansion of some of its programs, an expansion which resulted in program revenue increases of 21%.
- In FY 2008, Lomi experienced an increase of unrestricted net assets of approximately \$142,000 which Lomi attributes to a donation in excess of \$100,000 and an increase in therapy fees charged to clients.

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

**Lomi's balance sheet appears to reflect adequate liquidity and an adequate proforma debt service coverage of 1.88x, indicating Lomi should be able to repay the proposed HELP II loan.**

Lomi reported total net assets increased 35% from \$364,000 in FY 2007 to \$493,000 in FY 2008 as a result of improved operating results. Lomi appears to exhibit adequate liquidity with a 1.33x current ratio. The existing debt service coverage is .97x, while the proforma debt service coverage ratio improves Lomi's position to a stronger 1.88x, with the expected \$4,000 rent savings.

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

- Notes payable have decreased significantly over the review period as management paid down several long-term notes with cash and grants.
- In FY 2007, Lomi received funds that were designated for building improvements which Lomi subsequently used in 2008.
- In FY 2009, Lomi's cash on hand was \$47,000, which translates to an adequate 43 days cash on hand.

**EXHIBIT 1**

**UTILIZATION STATISTICS**

**Clients Served (Patient Visits)  
for Fiscal Year Ended December 31,**

	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Totals</b>	896 (8,585)	793 (7,080)	701 (6,994)

**EXHIBIT 2**

**OUTSTANDING DEBT**

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding* As of Dec. 31, 2009</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
<b>Existing Long-Term Debt:</b>			
Private Loan #1, 2006**	\$106,000	\$46,026	\$46,026
Private Loan #2, 2006***	57,500	36,500	36,500
Private Loan #3, 2006****	100,000	15,000	15,000
<b>Proposed</b>			
CHFFA HELP II, 2010		N/A	<b>750,000</b>
Private Loan, 2010		N/A	<b>265,000</b>
<b>TOTAL DEBT</b>		<u><b>\$97,526</b></u>	<u><b>\$1,112,526</b></u>

\* Includes current portion of long-term debt.

\*\* Lomi intends to pay off the loan balance with internal funds. The current balance on this loan is \$26,000.

\*\*\*Lomi intends to pay off this note in the spring of 2011 (utilizing the monies saved by virtue of the proposed HELP II loan.

\*\*\*\*The lender on this loan is folding the balance of this loan into the new 2010 private loan (from the same lender) in the amount of \$250,000 to create a new principal balance of \$265,000.



## **EXHIBIT 3**

### **BACKGROUND AND LICENSURE**

#### **Background**

Lomi Psychotherapy Clinic is one of only a few community mental health centers remaining in Sonoma, Marin, and Napa counties. Its mission is to provide high quality, affordable, and accessible mental health care in the community. For 23 years, Lomi has provided individual, family and group therapy. Lomi relies on its program service fees and the generosity of community support.

#### **Licensure, Certification and Accreditation**

Lomi is licensed by the State of California Department of Public Health to operate and maintain a Psychology Clinic, which is located at 534 B Street, Santa Rosa, CA 95401.