

**CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY**

Applicant: Creative Alternative for Learning & Living, Inc.
("CALL")
11700 Viejo Camino
Atascadero, CA 93422
San Luis Obispo County

Amount Requested: \$385,000
Requested Loan Term: 15-year fixed
Authority Meeting Date: December 7, 2017
Resolution Number: HII- 311

Project Site: Atascadero, CA 93422

Facility Type: Residential Facility for Persons with Developmental Disabilities

Eligibility: Government Code section 15432(d)(19)

Prior HELP II Borrower: Yes (The payments have been timely and the outstanding balance is \$186,700 as of November 1, 2017.)

Background: CALL is a non-profit organization serving adults with developmental disabilities in San Luis Obispo County. CALL operates four residential homes and a day program, which serves individuals ranging in age from 18 to 59+ who are diagnosed as having severe behavioral challenges as well as other developmental disabilities that place them at risk of having State developmental centers as their only living option. Clients served are diagnosed with cerebral palsy, autism, downs syndrome, seizure disorders, and mental health issues.

Use of Loan Proceeds: Loan proceeds will be used to refinance two loans issued by Heritage Oaks Bank that were used to purchase land and a residential home that provides support services for adults with developmental disabilities.

Financing Structure:

- First lien on real property located in Atascadero, CA 93422
- 15-year, three percent (3%) fixed rate loan
- 240 equal monthly payments of approximately \$2,650 (annual payments of approximately \$31,904.87)
- A current appraisal that is acceptable to the Authority staff
- Corporate gross revenue pledge
- Loan to value ratio not to exceed 95% (estimated loan to value ratio is approximately 91%)
- Verification of borrower funds to close escrow

Financial Overview: CALL's income statement appears to exhibit solid results during the review period. CALL's balance sheet appears solid with a FY 2016 debt service coverage ratio of 2.88x.

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II loan	\$ 385,000	Refinance loans	\$ 385,000
Borrower funds	4,813	Financing Costs	4,813
Total Estimated Sources	\$ 389,813	Total Estimated Uses	\$ 389,813

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

Parties of Interest: First American Title Company

Staff Recommendation: Staff recommends approval of Resolution Number HII-311 for Creative Alternative for Learning & Living, Inc. in an amount not to exceed \$385,000 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, concur with the Authority's staff recommendation.

I. PURPOSE OF FINANCING:

CALL intends to use the proposed HELP II loan to refinance a home that provides support to adults with developmental disabilities who require 24 hour care and supervision.

This HELP II loan would allow CALL to be able to enhance service provision by reducing its annual debt payments. This reduction in debt service would be accomplished through refinancing and consolidating two loans with identical terms--5.6% interest and ten year maturities into one HELP II loan with a 3% interest rate and a fifteen year maturity. Both loans were issued by Heritage Oaks Bank in October 2016.

***Refinance Real Estate* \$385,000**

CALL plans to use loan proceeds to refinance two loans used to purchase a home in Atascadero, CA 93422 that currently houses and provides services for four adult individuals with developmental disabilities. The property is a single family, ranch-style residence with three bedrooms and two bathrooms. It is 1,486 square feet on a 7,900 square foot lot. CALL provides supportive services to its tenants. These services include training for living skills, job training, community integration, and self-help skills with the ultimate goal of improving the quality of life.

The HELP II loan will be secured by a first (1st) lien position on the home. An appraisal dated July 19, 2017 values the property at \$425,000, resulting in a loan-to-value ratio of 91%.

***Financing Costs* 4,813**

Authority Loan Fee \$4,813

Total Uses of Funds \$389,813

II. FINANCIAL STATEMENTS AND ANALYSIS:

Creative Alternative for Learning and Living, Inc.
Statement of Activities
(Unrestricted)

	As of June 30,		
	2016	2015	2014
Unrestricted revenues and other support			
Client fees	\$ 1,733,194	\$ 1,616,640	\$ 1,515,921
Social security income	292,032	280,100	262,996
Donations	811	2,550	1,800
Other income	455	208	423
Gain on disposal of fixed assets	5,000	-	2,500
Total unrestricted revenues and other support	<u>2,031,492</u>	<u>1,899,498</u>	<u>1,783,640</u>
Functional Expenses			
Salaries	1,306,290	1,216,253	1,164,374
Worker's compensation	145,052	115,871	160,240
Payroll taxes	104,700	97,358	88,269
Employee benefits	76,978	79,863	67,108
Food	60,159	54,844	54,365
Depreciation	39,831	38,275	38,421
Repairs and maintenance	36,845	31,575	55,847
Consultants	38,935	38,020	40,586
Automobile and transportation	25,040	27,129	35,479
Insurance	31,979	28,833	29,304
Utilities	27,817	26,005	25,767
Supplies	27,905	26,469	25,879
Interest	7,017	14,411	18,689
Telephone	11,028	10,788	15,113
Professional fees	10,700	12,137	9,945
Landscaping	-	-	9,672
Education and training	4,209	3,679	5,503
Equipment and furniture	6,123	4,381	8,060
Employee expenses	5,104	4,683	5,240
Taxes and licenses	3,398	3,462	3,099
Physicals/vaccines	5,317	6,720	5,225
Dues and subscriptions	1,527	1,429	2,510
Leases	-	-	3,536
Advertising	375	1,176	1,608
Reinforcers	1,123	1,158	1,065
Pest Control	1,083	1,000	917
Miscellaneous	787	1,607	2,250
Travel	-	-	2,060
Bank fees	487	1,592	-
Rents	4,977	3,585	-
Bad debt	-	3,469	-
Total functional expenses	<u>1,984,786</u>	<u>1,855,772</u>	<u>1,880,131</u>
Change in unrestricted net assets	46,706	43,726	(96,491)
Net assets - beginning of year	<u>1,068,428</u>	<u>1,024,702</u>	<u>1,121,193</u>
Net assets - end of year	<u>\$ 1,115,134</u>	<u>\$ 1,068,428</u>	<u>\$ 1,024,702</u>

Creative Alternative for Learning and Living, Inc.
Statement of Financial Position

	As of June 30,			
	2016	2015	2014	
Assets				
Current assets:				
Cash and cash equivalents	\$ 242,437	\$ 226,272	\$ 239,002	
Accounts receivable	146,211	147,538	133,150	
Prepaid Expenses	30,837	38,039	5,700	
Total current assets	<u>419,485</u>	<u>411,849</u>	<u>377,852</u>	
Fixed Assets				
Land	460,608	460,608	460,608	
Buildings and improvements	933,767	923,145	923,145	
Equipment	17,586	15,891	14,687	
Vehicles	113,967	95,456	95,456	
Accumulated depreciation	(512,126)	(503,032)	(464,850)	
Total fixed assets, net of accumulated depreciation	<u>1,013,802</u>	<u>992,068</u>	<u>1,029,046</u>	
Other assets				
Intangibles, net of accumulated amortization	3,035	3,258	-	
Funds held in trust	5,836	5,671	8,079	
Total other assets	<u>8,871</u>	<u>8,929</u>	<u>8,079</u>	
Total assets	<u>\$ 1,442,158</u>	<u>\$ 1,412,846</u>	<u>\$ 1,414,977</u>	
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	\$ 28,116	\$ 25,936	\$ 24,747	
Accrued payroll and payroll taxes	62,465	55,635	61,249	
Accrued vacation	26,410	25,049	25,540	
Accrued expenses	-	451	1,257	
Current portion of long-term debt	12,273	27,478	38,562	
Funds held in trust	5,836	5,671	8,079	
Total current liabilities	<u>135,100</u>	<u>140,220</u>	<u>159,434</u>	
Long-term liabilities				
Long-term debt, net of current portion	<u>191,924</u>	<u>204,198</u>	<u>230,841</u>	
Total liabilities	327,024	344,418	390,275	
Net assets, unrestricted	<u>1,115,134</u>	<u>1,068,428</u>	<u>1,024,702</u>	
Total liabilities and net assets	<u>\$ 1,442,158</u>	<u>\$ 1,412,846</u>	<u>\$ 1,414,977</u>	
	Proforma			
	FYE June 30, 2017	2016	2015	2014
Debt Service Coverage - Operating	2.88	1.39	2.30	(0.69)
Debt to Unrestricted Net Assets (x)	0.21	0.21	0.24	0.29
Margin (%)		2.30	2.30	(5.41)
Current Ratio (x)		3.10	2.94	2.37

Financial Discussion – Statement of Activities (Income Statement)

CALL's income statement appears to exhibit solid operating results during the review period.

CALL's income statement exhibited solid operating results throughout the three year review period. After experiencing an operating loss of approximately \$96,000 in FY 2014, CALL improved to have operating gains of roughly \$43,000 and \$46,000 in FY 2015 and FY 2016, respectively. According to CALL's management, performance in FY 2014 was attributed to lower client fees, which improved in the years following. Additionally, revenues have experienced annual increases, driven by increased client fees and an increase in income from residents' social security payments.

Particular Facts to Note:

- Expenses for worker's compensation fluctuated from approximately \$160,000 in FY 2014 to approximately \$115,000 in FY 2015, and then to approximately \$145,000 in FY 2016. According to CALL's management, a more extensive pre-employment physical was instituted as well as a safety rewards program. This program helped to decrease CALL's work injuries, which in turn decreased CALL's worker's compensation premium.
- Salaries increased from roughly \$1.1 million in FY 2014 to about \$1.3 million in FY 2016. During this period, client fees increased as well, so increased salaries were linked to increased provision of services. According to CALL's management, all staff received wage rate increases whenever the state's minimum wage increased.
- CALL experienced an operating loss of roughly \$96,000 in FY 2014 but rebounded with operating gains of approximately \$43,000 in FY 2015 and approximately \$46,000 in FY 2016. According to CALL's management, in FY 2014 the worker's compensation premium increased as well as landscaping, gas, vehicle maintenance, and loan interest costs. CALL's management has made several changes to reduce expenses as well as filled all the beds to increase the income.

Financial Discussion – Statement of Financial Position (Balance Sheet)

CALL's balance sheet appears to exhibit minimal leverage with a debt to unrestricted net assets ratio of 0.21x, and a solid proforma debt service coverage ratio of 2.88x.

CALL has maintained low levels of debt while also consistently lowering its overall amount of debt throughout the review period. CALL's debt-to-unrestricted net assets dropped from 0.29x in FY 2014 to 0.24x in FY 2015 and to 0.21x in FY 2016. While CALL's total debt will remain at its current level with the refinancing, annual payments will decrease, helping improve financial results. CALL has a fluctuating debt service coverage ratio, moving from -.69x in FY 2014 to 2.30x in FY 2015 to 1.39x in FY 2016—this ratio will improve to 2.88x with the proposed financing as a result of lower debt payments.

Particular Facts to Note:

- In FY 2016, CALL had accounts payable of approximately \$28,000 and accounts receivable of approximately \$146,000. This discrepancy demonstrates that CALL typically repays its vendors quickly with payables outstanding for approximately two days, while it takes about 27 days to be reimbursed for its services. According to CALL's management, CALL prefers to pay vendors early in order to maintain better working relationships with its local vendors, but its ability to collect receivables is determined by the billing process from State of California via Tri-Counties Regional Center.

EXHIBIT 1

UTILIZATION STATISTICS

**Clients Served
Fiscal Year Ended June 30**

	2016	2015	2014
Totals	28	28	28

EXHIBIT 2
OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding As of November 30, 2017</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
<i>-EXISTING LONG-TERM DEBT:</i>			
Heritage Oaks Bank (2016)	\$ 185,000	\$ 182,984	\$ -
Heritage Oaks Bank (2016)	204,500	202,278	-
CHFFA HELP II (2015) ¹	220,000	186,700	186,700
<i>PROPOSED NEW DEBT</i>			
<i>CHFFA HELP II Loan (2017)</i>		-	385,000
<i>TOTAL DEBT</i>		<u>\$ 571,962</u>	<u>\$ 571,700</u>

¹ CHFFA HELP II balance is as of November 1, 2017

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

Creative Alternative For Learning And Living, Inc. is a non-profit organization serving adults with developmental disabilities in San Luis Obispo County. CALL's mission is to provide quality services that have a positive impact on the lives of adult individuals with developmental disabilities and their families. CALL's program is based on the belief that when provided with the proper learning environment, all individuals can learn and lead productive lives in the community, regardless of their disability. CALL serves individuals ranging in age from 18 to 59+ who are diagnosed as having severe behavioral challenges as well as other developmental disabilities that place them at risk of having State developmental centers as their only living option. Typically, CALL clients have cerebral palsy, autism, downs syndrome, seizure disorders, and mental health issues. CALL teaches independent living skills, self-help skills, and community integration. CALL currently operates four residential homes as well as a day program, all located in the City of Atascadero. The focus of the day program is to provide meaningful activities, job training if desired, as well as community integration.

It is CALL's goal to care for those who are unable to care for themselves without support through fairness, dignity, and respect. CALL is dedicated to the improvement of the quality of life for its clients, which also enhances the quality of life for the community.

Licensure, Certification and Accreditation

Creative Alternative For Learning And Living, Inc. is licensed by the State of California Department of Social Services as an adult residential facility serving individuals with developmental disabilities.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-311

**RESOLUTION APPROVING EXECUTION AND DELIVERY OF
HELP II LOAN PROGRAM AGREEMENTS WITH CERTAIN
PARTICIPATING HEALTH INSTITUTIONS**

WHEREAS, the California Health Facilities Financing Authority (the “Authority”), a public instrumentality of the State of California, is authorized by the provisions of the California Health Facilities Financing Authority Act (the “Act”) to provide secured or unsecured loans to participating health institutions to refinance existing debt and finance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing, or equipping of a health facility;

WHEREAS, the Authority established the HELP II Loan Program (the “Program”) to provide loans to participating health institutions as authorized by the Act;

WHEREAS, **Creative Alternative for Learning & Living, Inc.** (the “Borrower”), a California participating health institution, has applied to the Authority for a loan through the Program, and the application has been reviewed by the staff of the Authority; and

WHEREAS, approval of the loan by the Authority is now sought;

NOW THEREFORE BE IT RESOLVED by the California Health Facilities Financing Authority, as follows:

Section 1. Pursuant to the Act, the Authority approves a loan to the Borrower in an amount not to exceed **\$385,000** for a term not to exceed **15 years** for the purpose described in the application filed with the Authority (the “Project”), but solely to the extent there are available proceeds of the Program, as determined pursuant and subject to Section 2 hereof. This approval is further contingent upon the following conditions:

1. 15-year, three percent (3%) fixed rate loan
2. First lien position on real property located in Atascadero, CA 93422
3. A current appraisal that is acceptable to Authority staff;
4. Corporate gross revenue pledge;
5. Loan to value ratio not to exceed 95%; and
6. Verification of Borrower’s funds to close escrow.

Section 2. The Executive Director is hereby authorized, for and on behalf of the Authority, to determine the final amount, terms and conditions of the loan, and to approve any changes in the Project described in the application submitted to the Authority, as said officer shall deem appropriate and authorized under the Act (provided that the amount of the loans may not be increased above the amount approved by the Authority and provided further that the loans continue to meet the Authority's guidelines for HELP II loans). Nothing in this resolution shall be construed to require the Authority to obtain any additional funding, even if more loans are approved than there is available funding. Any notice to the Borrower shall indicate that the Authority shall not be liable to the Borrower in any manner whatsoever should such funding not be completed for any reason whatsoever.

Section 3. The Executive Director is hereby authorized and directed, for and on behalf of the Authority, to draw money from the Program fund not to exceed those amounts approved by the Authority for the Borrower. The Executive Director is further authorized and directed, for and on behalf of the Authority, to execute and deliver to the Borrower any and all documents necessary to complete the transfer of funds.

Section 4. The Executive Director of the Authority is hereby authorized and directed to do any and all things and to execute and deliver any and all documents which the Executive Director deems necessary or advisable in order to effectuate the purposes of this resolution and the transactions contemplated hereby, and which have heretofore been approved as to form by the Authority.

Section 5. This resolution expires 6 months from the date of approval.

Date of Approval: _____