

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
HEALTHCARE EXPANSION LOAN PROGRAM (HELP II)
EXECUTIVE SUMMARY**

<p>Applicant: CRI-HELP, Inc. (CRI-HELP) 11027 Burbank Boulevard North Hollywood, CA 91601 Los Angeles County</p> <p>Project Site: 5643 – 5643½, 5645, & 5647 – 5647½ Case Avenue, North Hollywood, CA 91601</p> <p>Facility Type: Alcoholism and drug abuse recovery or treatment facility</p> <p>Eligibility: Government Code Section 15432(d)(13)</p> <p>Prior HELP II Borrower: No</p>	<p>Loan Amount: \$2,000,000</p> <p>Loan Term: 20 years</p> <p>Annual Interest Rate: 2% fixed</p> <p>Authority Meeting Date: April 25, 2024</p> <p>Resolution No.: HII-352</p>																			
<p>Background: CRI-HELP is a 501(c)(3) non-profit, community-based organization that was founded in 1971 to increase access to quality addiction and behavioral health services for underserved individuals in Los Angeles County. CRI-HELP established residential and outpatient treatment and peer support programs with the goal of improving the quality of life for individuals living in the San Fernando Valley and East Los Angeles through increased access and linkage to the health care system.</p>																				
<p>Use of Proceeds: Loan proceeds will be used to purchase property located in Los Angeles County to be used for a Recovery Bridge Housing program.</p>																				
<p>Financing Structure:</p> <ul style="list-style-type: none"> • First lien on the real property at 5643 – 5643 ½, 5645, & 5647 – 5647 ½ Case Avenue, North Hollywood, CA 91601, or the project as contemplated, if the addresses are modified prior to purchase • 20-year, two percent (2%) fixed rate loan • A current appraisal that exhibits a loan-to-value ratio not to exceed 95% • 240 equal monthly payments of approximately \$10,118 (annual payments of approximately \$121,412) • Executed purchase contract • Corporate gross revenue pledge • Verification of borrower’s funds to close 																				
<p>Financial Overview: CRI-HELP’s income statement appears to exhibit fluctuating operating results throughout the review period. CRI-HELP’s balance sheet continues to grow and exhibits a strong pro-forma FY 2023 net debt service coverage ratio of 12.9x.</p>																				
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: left;"><u>Estimated Sources of Funds:</u></th> <th colspan="2" style="text-align: left;"><u>Estimated Uses of Funds:</u></th> </tr> </thead> <tbody> <tr> <td style="width: 50%;">HELP II loans</td> <td style="width: 10%; text-align: right;">\$</td> <td style="width: 20%; text-align: right;">2,000,000</td> <td style="width: 10%; text-align: right;">\$</td> <td style="width: 10%; text-align: right;">3,400,000</td> </tr> <tr> <td>Applicant funds</td> <td></td> <td style="text-align: right;">1,430,000</td> <td></td> <td style="text-align: right;">30,000</td> </tr> <tr> <td>Total Estimated Sources</td> <td></td> <td style="text-align: right; border-top: 1px solid black;">\$ 3,430,000</td> <td></td> <td style="text-align: right; border-top: 1px solid black;">\$ 3,430,000</td> </tr> </tbody> </table>		<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>		HELP II loans	\$	2,000,000	\$	3,400,000	Applicant funds		1,430,000		30,000	Total Estimated Sources		\$ 3,430,000		\$ 3,430,000
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<p>Due Diligence: Staff has confirmed the following documentation provided by CRI-HELP satisfies the California Health Facilities Financing Authority’s (Authority) requirements: Eligibility, Legal Review, and Religious Affiliation Due Diligence.</p>																				
<p>Staff Recommendation: Staff recommends the Authority approve Resolution No. HII-352 in an amount not to exceed \$2,000,000 for CRI-HELP, Inc., subject to the terms and conditions in the resolution. TAP International, Inc., the Authority’s financial analyst, concurs with the Authority’s staff recommendation.</p>																				

STAFF SUMMARY, ANALYSIS, AND RECOMMENDATION

I. PURPOSE OF FINANCING

CRI-HELP is requesting a HELP II loan to purchase property to be used as a Recovery Bridge Housing (RBH) location, allowing CRI-HELP to expand services and offer more community resources for its clients. RBH is a component of the substance use disorder care continuum that offers individuals a substance-free, structured, transitional living environment to bridge their transition from inpatient treatment to community living. CRI-HELP currently operates three RBH locations in North Hollywood and is contracted with the Los Angeles County Department of Public Health (LACDPH) to provide RBH services. LACDPH also recently engaged CRI-HELP to expand its bed capacity. CRI-HELP estimates the property is valued at about \$3.4 million and will fund the remainder of the purchase from its cash reserves.

***Purchase Real Property*..... 3,400,000**

The property CRI-HELP plans to purchase is currently under construction and comprised of three buildings: one three-story duplex, one three-story single-family dwelling, and one three-story single-family dwelling with an additional dwelling unit. The property offers a total of 7,564 square feet of living space and eight parking spaces. The front duplex is 3,072 square feet, the middle single-family dwelling is 1,952 square feet, and the rear single-family dwelling and additional dwelling unit is 2,540 square feet. The buildings have a total of 18 bedrooms, 18 full bathrooms, and two half bathrooms. The project is 95% complete with the Certificate of Occupancy expected to be delivered by May 2024. CRI-HELP will purchase the property once the project is completed.

The HELP II loan will be secured by a first (1st) lien position on the property located at 5643 – 5643 ½, 5645, & 5647 – 5647 ½ Case Avenue in North Hollywood. Additionally, CRI-HELP will provide an appraisal for the property, exhibiting a loan-to-value ratio not to exceed 95% before the time of closing as well as an assurance of meeting the other security terms and conditions set forth in the resolution. CRI-HELP will use its own cash reserves to fund remainder of the property purchase.

***Financing Costs*..... 30,000**

Authority Fee	\$25,000
Estimated Escrow/Title Fee	<u>5,000</u>

Total Uses of Funds \$3,430,000

II. FINANCIAL STATEMENTS AND ANALYSIS

CRI-HELP, Inc. Statement of Activities (Income Statement)

	For the Years Ended June 30,		
	2023	2022	2021
Operating activities			
Public support			
Contributions	\$ 31,195	\$ 48,766	\$ 206,519
In-kind Contributions	39,598	400,000	-
Fundraising, net of direct costs	791,569	634,243	80,389
Government contracts	15,271,583	9,461,048	11,071,340
Client fees			
Residential	428,579	180,630	176,875
Detox	32,600	44,257	50,734
Outpatient	-	3,000	6,885
Alcohol drug-free living centers	18,942	12,370	8,172
Investment income, net	123,081	6,810	3,239
Other income	113,153	445,089	148,442
Gain on sale of assets	762,293	-	-
Total support and revenue	<u>17,612,593</u>	<u>11,236,213</u>	<u>11,752,595</u>
Expenses			
Salaries	7,979,148	6,131,121	6,127,108
Payroll taxes	590,008	498,300	492,924
Employee benefits	1,100,854	909,644	875,486
Accounting and audit	62,381	60,599	68,357
Advertising and marketing	-	-	17,284
Auto and mileage	95,060	51,211	35,146
Bad debt and private client fee adjustments	-	-	3,681
Bank charges and merchant fees	95,478	83,304	66,837
Client expenses - medical	1,015,258	677,647	703,997
Client expenses - food	473,454	286,241	279,332
Client expenses - other	51,530	26,392	99,550
Consulting and professional services	371,413	351,496	325,148
Depreciation and amortization	519,350	511,748	535,010
Dues and subscriptions	14,821	16,755	10,255
Equipment lease	68,109	68,420	66,477
Equipment repairs and maintenance	178,402	149,202	151,468
Facilities - repairs and maintenance	389,606	309,680	296,812
Facilities - supplies	406,360	234,991	223,494
Grants expense	-	152,000	-
Insurance - general	334,281	304,148	270,761
Insurance - worker's compensation	226,601	202,781	251,285
Interest	-	-	2,815
Kitchen supplies	111,426	94,654	92,429
Legal	280,005	105,246	8,792
Office expense and supplies	178,212	103,471	93,286
Other expense	59,066	32,117	-
Postage	-	-	19,021
Rent	489,012	502,815	382,815
Substance abuse tests	104,734	78,922	67,118
Taxes and licenses	58,624	46,368	43,355
Telephone	122,148	94,615	138,139
Training	-	-	17,915
Utilities	366,116	312,603	278,269
Total expenses	<u>15,741,457</u>	<u>12,396,491</u>	<u>12,044,366</u>
Change in net assets	1,871,136	(1,160,278)	(291,771)
Net assets, beginning of the year	<u>11,121,124</u>	<u>12,281,402</u>	<u>12,573,173</u>
Net assets, end of the year	<u>\$ 12,992,260</u>	<u>\$ 11,121,124</u>	<u>\$ 12,281,402</u>

CRI-HELP, Inc.
Statement of Financial Position
(Balance Sheet)

	As of June 30,		
	2023	2022	2021
Assets			
Current assets			
Cash and cash equivalents	\$ 9,387,757	\$ 7,874,829	\$ 8,901,689
Cash held in trust for clients	38,567	38,053	37,385
Government contracts receivable	2,424,314	1,860,527	1,198,565
Accounts receivable	55,910	3,461	42,304
Prepaid expenses and other current assets	660,836	701,938	350,592
Other receivables	-	-	18,062
Total current assets	<u>12,567,384</u>	<u>10,478,808</u>	<u>10,548,597</u>
Long-term assets:			
Property and equipment, net	9,012,853	5,515,331	5,914,249
Right-of-use - operating leases	1,402,428	-	-
Right-of-use - finance leases	23,660	-	-
Deposits and other assets	130,390	132,890	104,752
Total long-term assets	<u>10,569,331</u>	<u>5,648,221</u>	<u>6,019,001</u>
Total assets	<u>\$ 23,136,715</u>	<u>\$ 16,127,029</u>	<u>\$ 16,567,598</u>
Liabilities and Net Assets			
Current liabilities			
Current portion of operating lease liabilities	\$ 549,830	\$ -	\$ -
Current portion of finance lease liabilities	8,385	-	-
Accounts payable	411,253	309,868	233,190
Accrued expenses and other current liabilities	1,065,794	553,212	752,533
Funds held in trust for clients	38,567	38,053	37,385
Contract liability	4,512,580	4,104,772	-
Deferred revenue	-	-	3,263,088
Total current liabilities	<u>6,586,409</u>	<u>5,005,905</u>	<u>4,286,196</u>
Long-term liabilities			
Operating lease liability	885,677	-	-
Finance lease liability	15,686	-	-
Total long-term liabilities	<u>901,363</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>7,487,772</u>	<u>5,005,905</u>	<u>4,286,196</u>
Net assets			
Without donor restrictions undesignated	12,952,839	11,121,124	12,281,402
With donor restrictions	2,696,104	-	-
Total net assets	<u>15,648,943</u>	<u>11,121,124</u>	<u>12,281,402</u>
Total liabilities and net deficit	<u>\$ 23,136,715</u>	<u>\$ 16,127,029</u>	<u>\$ 16,567,598</u>

	Proforma^(a)			
	FYE 6/30/2023	2023	2022	2021
Debt Service Coverage - Net (x)	12.9	444.9	(166.7)	1.6
Debt to Unrestricted Net Assets (x)	0.2	0.0	0.0	0.0
Margin (%)		10.6	(10.3)	(2.5)
Current Ratio (x)		1.9	2.1	2.5

^(a) Recalculates FY 2023 audited results to include the impact of this proposed financing.

Financial Discussion

CRI-HELP's income statement appears to exhibit fluctuating operating results throughout the review period.

CRI-HELP demonstrates fluctuating operating results with operating margins decreasing from negative 2.5% in FY 2021 to negative 10.3% in FY 2022, before rebounding to 10.6% in FY 2023. CRI-HELP's primary source of revenue comes from government contracts, which fluctuated from nearly \$11.1 million in FY 2021 to nearly \$9.5 million in FY 2022, and then to approximately \$15.3 million in FY 2023. CRI-HELP's management states that the fluctuations were a direct result of the COVID-19 pandemic as CRI-HELP operates residential treatment programs where clients live together in a congregate setting. In FY 2021, the Los Angeles County Department of Public Health Substance Abuse Prevention and Control modified its reimbursement structure to effectively increase provider rates to account for the increased costs of providing services during COVID. However, the modified reimbursement rate was not carried forward into FY 2022, and CRI-HELP's client admissions did not significantly increase until the last two quarters of FY 2022. As California's Governor rescinded the majority of the COVID-19 executive orders that impacted providers like CRI-HELP in 2022, CRI-HELP's admissions continued to increase, leading to the large jump in government contract revenue in FY 2023. Also contributing to the increase in admissions, in June 2022, CRI-HELP expanded its licensed 41-bed residential program to a licensed 75-bed residential and detoxification program.

Total expenses for CRI-HELP increased from approximately \$12.0 million in FY 2021 to nearly \$15.7 million in FY 2023, with salaries being the main contributor to the increased expenses. While salaries remained flat at approximately \$6.1 million in FY 2021 and FY 2022, it increased to nearly \$8.0 million in FY 2023, a 30% increase. According to CRI-HELP's management, salaries were flat from FY 2021 to FY 2022 as CRI-HELP paused hiring as well as increases to salaries and benefits during the pandemic due to a decrease in its client census. As the COVID-19 pandemic subsided, CRI-HELP's census and treatment capacity increased, which required the need to hire more staff and leading to the increase in salary expense for FY 2023.

To offset the financial impact of the COVID-19 pandemic, CRI-HELP received grant funding from the Coronavirus Aid, Relief, and Economic Security Act Provider Relief Fund for \$170,079 and met all grant reporting requirements associated with the funding.

CRI-HELP's balance sheet continues to grow and exhibits a strong pro-forma FY 2023 net debt service coverage ratio of 12.9x.

CRI-HELP did not have any principal debt payments in FY 2023 but did have minimal interest payments, which accounts for the large net debt service coverage ratio of 444.9x in FY 2023. CRI-HELP's proforma FY 2023 net debt service coverage ratio of 12.9x appears to show a strong ability to repay the HELP II loan. The debt to unrestricted net assets ratio of 0x throughout all three fiscal years also demonstrates CRI-HELP's minimal usage of debt throughout the review period. With the new HELP II loan, CRI-HELP's proforma FY 2023 debt to unrestricted net assets ratio increases slightly to 0.2x.

CRI-HELP's total assets have increased by approximately 40% over the review period, from nearly \$16.6 million in FY 2021 to nearly \$23.1 million in FY 2023. The primary contributor to the increase in total assets was property and equipment, which increased from \$5.9 million in FY 2021 to approximately \$9.0 million in FY 2023. According to CRI-HELP, this increase is due to the acquisition of two properties in FY 2023, one Recovery Bridge Housing site and another site to be used as a women's only, licensed substance use disorder treatment center.

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III. UTILIZATION STATISTICS

Clients Served
Fiscal Year Ending June 30, 2023

	2023	2022	2021
Totals	2,473	1,572	1,348

IV. OUTSTANDING DEBT

	Original Amount	Amount Outstanding as of June 30, 2023	Estimated Amount Outstanding after Proposed Financing
EXISTING LONG-TERM DEBT			
No existing long term debt	N/A	N/A	N/A
PROPOSED NEW DEBT			
HELP II loan (2024)			\$2,000,000
TOTAL DEBT		\$0	\$2,000,000

V. BACKGROUND AND LICENSURE

Background

CRI-HELP is a 501(c)(3) non-profit, community-based organization that was founded in 1971 to increase access to quality addiction and behavioral health services for underserved individuals in Los Angeles County's San Fernando Valley. CRI-HELP's mission is to improve the welfare of the community by providing first-class substance use disorder treatment for adults and families seeking freedom from the bondage of addiction. CRI-HELP has established residential and outpatient treatment and peer support programs with the goal to improve the quality of life for individuals living in Los Angeles County's San Fernando Valley and East Los Angeles through increased access and linkages to the health care system.

CRI-HELP operates seven locations in Los Angeles County, is contracted with the Los Angeles County Department of Public Health Substance Abuse Prevention and Control, and offers services to other counties across California, including Orange, Ventura, and Mono. CRI-HELP's programs include over 200 licensed residential and detoxification beds, intensive outpatient and outpatient services, and over 40 recovery bridge housing beds.

Licensure, Certification and Accreditation

CRI-HELP's programs are licensed by the Department of Health Care Services to operate and maintain non-medical residential alcohol and/or drug abuse recovery or treatment facilities. Additionally, CRI-HELP's residential detoxification, residential treatment, intensive outpatient treatment, and outpatient treatment programs are accredited by the Commission on Accreditation of Rehabilitation Facilities.

VI. STAFF RECOMMENDATION:

Staff recommends the Authority approve Resolution No. HII-352 in an amount not to exceed \$2,000,000 for CRI-HELP, Inc., subject to the terms and conditions in the resolution. TAP International, Inc., the Authority's financial analyst, concurs with the Authority's staff recommendation.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
HEALTHCARE EXPANSION LOAN PROGRAM II (HELP II)

Resolution No. HII-352

RESOLUTION APPROVING EXECUTION AND DELIVERY OF
HELP II 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 (Gov. Code, §15430 et seq.) (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; and

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

WHEREAS, **CRI-HELP, 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 **\$2,000,000** for a term not to exceed **20 years** for the purposes described in Exhibit A of this resolution (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. First lien on real property located at 5643 – 5643½, 5645, & 5647 – 5647½ Case Avenue, North Hollywood, CA 91601, or the project as contemplated, if the addresses are modified prior to purchase
2. 20-year, two percent (2%) fixed rate loan
3. A current appraisal that exhibits a loan-to-value ratio not to exceed 95%
4. Executed purchase contract
5. Corporate gross revenue pledge
6. Verification of Borrower’s funds to close escrow

Section 2. The Executive Director and the Deputy Executive Director are 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 that officer shall deem appropriate and authorized under the Act, provided that the amount of the loan shall not be increased above the amount approved by the Authority and provided further that the loan continues to meet the Authority's guidelines for HELP II loans. This resolution shall not 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 and the Deputy Executive Director are 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 and the Deputy Executive Director are 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 those amounts.

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

Section 5. This resolution is repealed on October 31, 2024.

Date of Approval: _____

EXHIBIT A

USE OF HELP II LOAN PROCEEDS FOR RESOLUTION NO. HII-352

- Purchase real property located at 5643 – 5643 ½, 5645, & 5647 – 5647 ½ Case Avenue, North Hollywood, CA 91601, or the project as contemplated, if the addresses are modified prior to purchase